



PENSION COMMITTEE

MINUTES of the meeting of the Pension Committee held on Thursday 15 June 2023 commencing at 10.30 am.

PRESENT MEMBERSHIP:

Julia Atkinson	Cllr Lynden Stowe (Chair)
Cllr Dr Andrew Miller	Cllr David Brown
Cllr Matt Babbage	Peter Clark
Cllr Mark Mackenzie-Charrington	Cllr David Gray
Cllr Colin Hay	Cllr John Bloxsom

Apologies: Cllr Chloe Turner

15. APPOINTMENT OF CHAIR

Councillor Stowe was duly elected as Chairperson for the ensuing civic year.

16. APPOINTMENT OF VICE CHAIR

Councillor Hay was duly elected as Vice Chairperson for the ensuing civic year.

17. DECLARATIONS OF INTEREST -

Councillor Bloxsom declared he was a fellow of the Institute of Chartered Housing and was previously a board member of a local housing association.

18. PUBLIC QUESTIONS -

No public questions were received.

19. MEMBERS' QUESTIONS -

No member questions were received.

20. PENSION COMMITTEE MINUTES

Resolved

That the Committee approved the minutes of the meeting held on the 2nd March 2023.

21. DRAFT MINUTES OF PENSION BOARD

Resolved

That the Committee noted the draft Pension Board minutes of the meeting held on the 26th April 2023.

22. GLOUCESTERSHIRE PENSION FUND QUARTERLY UPDATE - PART 1

- 22.1 The Head of Pensions presented the report which detailed the Fund's funding position, market value, asset allocation, investment performance for the quarter ending 31 March 2023.
- 22.2 Members noted that by the end of the quarter to 31 March 2023, the Fund's total market value had increased by £103.5m to £3,051.4m and over the quarter, total Fund assets produced a positive return of 3.4%, compared to a target of 2.8%, outperforming the strategic benchmark by 0.6%. It was reported that performance over the 3 years to 31 March 2023 was 9.9% annualised which is 0.8% ahead of benchmark. The fund was still regarded to be in a healthy position.
- 22.3 In response to a question, members were advised that the average carbon intensity was a complex issues and would be addressed in a training session. It was summarised that it considered the gases produced and weighted the average in relation to carbon, as defined in the Kyoto protocol.
- 22.4 The Independent Adviser (IA) drew the committee's attention to page 29 of the report, which detailed the performance summary. In the IA opinion, in terms of investment returns he felt it had been a positive quarter and the market had moved through peak inflation. He added that energy prices were falling and the cost of food would decrease over time. It was recognised that during Covid the majority of the population had saved money but he was cautious of a hard recession. The IA recognised that inflation was a tax on the less well off, both in global and social terms and it needed to be brought under control as it could result in a polarised society.
- 22.5 The IA continued to give a detailed presentation of his report and advised the committee that he expected interest rates to remain high. It was noted that the long term assumptions would be updated in time for the Autumn meeting, overall he felt there were relatively good returns.
- 22.6 The Committee remarked that it appeared to be a positive quarter for Brunel and discussed the chart on page 79 of the report, it was noted that UK equities performance was mediocre. The IA would continue to monitor its performance. In response to a question, it was explained there was no intention to engage a third manager within the portfolio.

- 22.7 A member wished to know if private debt/equity was a viable opportunity to consider. The IA explained that was an interesting area and it was currently in a strong position but would require careful manoeuvres through choppy waters as the returns would be low for possibly two years
- 22.8 During the discussion it was noted that low interest rates by the banks had created a false environment and the situation could potentially get worse. Members recognised that a potential government change in the next few years could have political ramifications. It was suggested if there were any benefits in the fund looking at investments in UK assets, in an effort to get ahead of the curve. The IA explained that rarely would Government direction add to investments and all political parties were looking at UK asset funds. As an example, it was recognised that social housing would be less impacted by a recession as the demand would increase.
- 22.9 Alex Walling, Key Audit Partner, Grant Thornton presented the external audit plan in detail. Members were advised that materiality for the Pension Fund was £45m and any additional work would increase the fee. A discussion ensued regarding materiality and triviality levels, the Head of Pensions explained that Internal Audit looked at the control mechanisms and External Audit may take that into consideration when compiling the audit plan. Members agreed that a report distinguishing the roles of Internal & External Audit should be brought back to the September meeting. (Action MT)
- 22.10 The current audit plan fee was £40,580 and this figure was set by the PSAA. It was explained that value for money (VfM) was not produced specifically for the Pension Fund.
- 22.11 The Committee requested that in the future of the report items should be tabled as separate agenda items.
- 22.12 **Resolved**

That the Committee notes in accordance with the regulations, the Fund's position and governance activities as at the 31 March 2023 and requests such clarifications and further information from officers as may be required.

That the Committee noted the performance of the investments as detailed in report and associated appendices.

That Committee noted the Audit Plan for the financial year ending 31 March 2023

23. PENSION FUND FINANCIAL STATEMENTS 2022/23

- 23.1 The Head of Pensions advised the Committee that the report provided the opportunity to consider the draft year-end financial statements of the Gloucestershire Pension Fund. It was explained once the audit had concluded they

Minutes subject to their acceptance as a correct record at the next meeting

would be presented to the Audit Committee for approval as part of Gloucestershire County Council's Accounts.

- 23.2 It was noted that the Pension Fund Annual Report would be published on or before the 1st December, the Committee noted the process for the approval of GCC Accounts and the publication of the Pension Fund Annual Report.
- 23.3 In response to a question, the Pensions, Investment & Accounting Manager explained that further management fees were now being included as they were previously deemed to not be material. This will be an area of focus for the external auditor in relation to good governance. The Chair requested that the reconciliation of management fees were circulated to committee by email for information. **(Action MT)**
- 23.4 Members also requested that further information on each of the asset classes be presented at the next meeting. **(Action MT)**
- 23.5 In response to a question, the Head of Pensions advised the committee that management fees were monitored closely to ensure there were no hidden costs.

23.6 Resolved

That the Committee noted the Fund's draft financial statements for 2022-23, which had been prepared in accordance with accounting regulations and subject to external audit review.

24. CASH MANAGEMENT STRATEGY

- 24.1 The Head of Pension presented the report which provided the opportunity for the Pensions Committee to consider and approve the proposed Cash Management Strategy for the Pension Fund for 2023-24.
- 24.2 It was noted the Gloucestershire Pension Fund maintained a balance of cash arising from the receipt of employer and employee contributions, income received back from the Fund's investments, and capital distributions from the Fund's private market commitments. This cash balance was used to pay member benefits, private market capital calls, and other outgoings.
- 24.3 The main purpose of this strategy was to provide a framework that ensured that the Pension Fund had an effective process in managing its cash balances and that these were maintained at the appropriate levels to meet future financial obligations and commitments both for the payment of pension benefits and external investments.
- 24.4 The Head of Pensions explained the cash balance was regularly monitored and reviewed as part of a quarterly fund rebalancing exercise undertaken by officers and the Independent Financial Adviser. As set out in the strategy, it was proposed

Minutes subject to their acceptance as a correct record at the next meeting

that a target balance of approximately £30 million would be retained in money market funds, to meet cash flow requirements and investment commitments.

24.5 Resolved

That the Committee note and approve the Fund's Cash Management Strategy for 2023-24.

25. PENSION ADMINISTRATION REVIEW

- 25.1 Daniel Kanaris, AON, explained they had been commissioned to undertake a review of the current administration service and Key Performance Indicators (KPIs) of the Fund, as part of the agreed governance review. Additionally, in response to the challenge from Committee at their recent meetings in relation to the performance against the current Key Performance Indicators (KPIs) of the Fund which had not been achieved constantly for a long period of time and Committee wished to understand the drivers behind this.
- 25.2 AON's full report provided detailed observations, the committee proceeded to discuss and debate the findings. Members were interested in the staffing levels as detailed on page 204 of the report.
- 25.3 A member questioned why proactive steps hadn't been taken years ago. The Head of Pensions explained that a fully formed induction programme had now been devised for new starters, as this wasn't previously in place. It was noted that historically there had been no investment in the Pension Team in Gloucestershire for a considerable time, compared to other authorities. Members were advised that in the past, the scheme was much simpler to administer and a number of factors, including academisation, regulation changes, the rule of 85, etc. had changed, which had increased the complexities and demands on the service..
- 25.4 It was reported that it had also taken nearly two years to recruit new resources agreed by Committee in 2021, however the membership of the fund had continued to increase as it now involved over 60k members and 200 employers. Management were now trying to overcome historical issues due to the lack of investment in the administration team and it would take time to train staff and fully resource the team.
- 25.5 The lack of staffing resources had impacted on development work, which meant that Gloucestershire was behind in its peers in terms of the system development. It was noted that the majority of other Funds were already utilising the software and that had been beneficial for their members. It was noted that Gloucestershire's full time equivalent (fte) was currently 22.5 posts, compared to Cornwall at 31fte posts and other comparable Funds who had even more resources. It was necessary to be pragmatic to ensure an improved journey.
- 25.6 Members were advised that out of the 66 funds who use the same software, there were only 6 that weren't operating member self service, and Gloucestershire was one of them and officers were seeking support from the committee to make the service more proactive, in order to deliver communications, direct to its members.

- 25.7 The Head of Finance explained that the new Head of Pensions didn't commence at GCC until 2021 and it was clear the performance issues had been inherited. He agreed there had been no investment in the service for a number of years and since the new Head of Pensions had started the service journey was beginning to improve. He recognised that the team needed to be resourced effectively to bring about a positive change. It was noted that the current team were under resourced and were trying to do everything. This was supported by the fact that AON were clear in their report that Gloucestershire had fallen behind and needed a direction of travel.
- 25.8 It was noted that Pension Dashboard was a huge national platform and it will generate more more work for the service. Some members recognised the need for investment and had repeatedly made the request and they accepted that it was necessary to future proof the service as it would become more complicated going forward.
- 25.9 AON recommended that the staffing levels should be significantly increased, the committee were advised that some funds had used consultants to undertake the increased work but this was at a considerably higher cost.
- 25.10 The employer representative felt the report was concerning given how far Gloucestershire was behind it peers and the impact this would have on employers and employees within the fund. It was noted that teaching staff had an automated system that was quick and efficient to use and linked to payroll which enabled users to have real time information.
- 25.11 It was recognised the members of the Gloucestershire LGPS only received a paper based annual statement and as a member and an employer she could see the difference in the way the respective funds operate. It was also noted that many funds no longer operated on a paper basis as it was time consuming and took longer to process, the automated systems were far quicker and efficient as the information was uploaded instantly. By being automated it would give staff ownership of their pension..
- 25.12 This was further supported by the fact that year end data process for teaching staff could be completed within 30mins by using an automated system and the Gloucestershire fund took days to collate and submit the paper based returns. It was noted that both were public sector schemes, but that one was considerably behind the other in terms of functionality.
- 25.13 During the discussion, the majority of members felt it was necessary to support the report recommendation in order to progress the service for the benefit of its members. Members of the committee accepted that the benchmarks had not been achieved for a number of years due to the lack of resources and investment was required.
- 25.14 Members accepted that a modern pension service would ensure engagement with its members, and the increase in staff and the new systems would enable this to be

achieved. Some members recognised the need to modernise the service to bring about a positive change, whereas some members were sceptical, but in general felt that a balance needed to be struck in order to be proactive.

25.15 During the discussion it was agreed that rigorous key performance indicators needed to be set on a yearly basis, in order to hold management to account. The Head of Pensions explained if approved a plan would be devised and monitored closely.

25.16 The Pension Board representative agreed to relay the issues raised at the next Board meeting, and requested the information be made available to the Pension Board.

25.17 Resolved

That Committee accepted the recommendations of the AON report.

That Committee approved the additional resourcing as outlined in the main body of the report and the associated budget.

That Committee approved the inclusion into the formal specification to be procured in 2023/24 the additional system functionality, as set out in the main body of the report.

That Committee approved the revised temporary Key Performance Indicators, as set out in the main body of the report.

26. RISK REGISTER

26.1 The Head of Pensions explained that in accordance with the Risk Management policy, progress and activity in managing risks would be monitored and recorded on a risk register and key information would be provided on a quarterly basis to the Pension Committee and the Pension Board, as part of the regular update reports on governance, investments and funding, and administration and communications.

26.2 The Committee were advised that two risks had returned to target and will remain to be tracked through the dashboard. The risk register was a live document and would continue to evolve and be reviewed by Committee and Board each quarter.

26.3 Resolved

That the Committee noted the risk register and the current elevated risks and the risk that have moved back to target, as outlined in this report.

27. EXCLUSION OF THE PRESS AND PUBLIC

Resolved

Minutes subject to their acceptance as a correct record at the next meeting

That in accordance with Section 100 A (4) of the Local Government Act 1972 the public be excluded from the meeting for the following agenda items, because it is likely that if members of the public were present there would be disclosure to them of exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A to the Act and the public interest in withholding the information outweighs the public interest in disclosing the information to the public.

28. PENSION COMMITTEE EXEMPT MINUTES

Resolved

That the Committee approved the exempt minutes of the meeting held on the 2nd March 2023

29. PENSION BOARD DRAFT EXEMPT MINUTES

Resolved

That the Committee noted the draft Pension Board exempt minutes of the meeting held on the 26th April 2023.

30. SOCIAL & AFFORDABLE HOUSING PORTFOLIO CONSTRUCTION REVIEW

30.1 The Committee received a detailed presentation on Social/Affordable Housing.

30.2 **Resolved**

That the Committee considered and approved the report recommendations.

31. GLOUCESTERSHIRE PENSION FUND QUARTERLY UPDATE - PART 2

31.1 The Head of Pensions presented the report in conjunction with the Independent Adviser and explained that the report was designed to be read in conjunction with the Part 1 report, which provided more detailed analysis and commentary on the Fund's asset allocation, investment performance for the quarter ending 31 March 2023.

31.2 **Resolved**

That the Committee noted the detailed performance reports for the quarter ending 31 March 2023 and the employer, Brunel and future investment activities of the Fund.

The Committee approved the additional 2% allocation to Infrastructure, approved as part of the revised Strategic Asset Allocation, be allocated to the Schroders-greencoat, Local Impact Fund, subject to appropriate due diligence of the investment capability of Schroders-greencoat and the legal

Minutes subject to their acceptance as a correct record at the next meeting

structure of the proposed investment vehicle to be undertaken by officers and overseen by the Independent Advisor.

CHAIRMAN

Meeting concluded at 2.00 pm