

Pensions Committee

Friday 9 June 2017

2.00 pm Luttrell Room - County Hall,
Taunton



To: The Members of the Pensions Committee

Cllr G Noel (Chairman), Cllr James Hunt, Cllr S Coles, Cllr G Frascini, Mr Richard Parrish, Mrs Sarah Payne and Mr Mark Simmonds

Issued By Julian Gale, Strategic Manager - Governance and Risk - 1 June 2017

For further information about the meeting, please contact Neil Milne 01823 359045 or NDMilne@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers



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AGENDA

Item Pensions Committee - 2.00 pm Friday, 9 June 2017

*** Public Guidance notes contained in agenda annexe ***

1 **Apologies for absence**

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

3 **Minutes from the previous meeting** (Pages 7 - 12)

The Committee is asked to confirm these minutes are accurate.

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **LGPS Pooling of Investments** (Pages 13 - 16)

To consider this report from the Funds and Investments Manager.

6 **Independent Advisor's Report**

The Chairman will invite the Fund's Independent Advisor to provide a verbal update on developments in financial markets and other matters.

7 **Analysis of Performance** (Pages 17 - 34)

To consider this report.

8 **Business Plan Update** (Pages 35 - 44)

To consider this report.

9 **Budget and Membership Statistics Update** (Pages 45 - 50)

To consider this report.

10 **Employer Body Update** (Pages 51 - 52)

To consider this report from the Head of Peninsula Pensions.

11 **Review of Pension Fund Risk Register** (Pages 53 - 58)

To consider this report.

Item Pensions Committee - 2.00 pm Friday, 9 June 2017

12 **Voting and Engagement report** (Pages 59 - 62)

To consider this report.

13 **Policies and Statements** (Pages 63 - 156)

To consider this report.

14 **Any other urgent items of business**

The Chairman may raise any items of urgent business.

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Guidance notes for the Pension Committee meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Neil Milne on Tel (01823) 359045 or 357628; Fax (01823) 355529 or Email: ndmilne@somerset.gov.uk
They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: <http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

4. Public Question Time

If you wish to speak, please tell Neil Milne, the Committee's Administrator, by 12 noon the (working) day before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

5. Exclusion of Press & Public

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

6. Committee Rooms & Council Chamber and hearing aid users

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

7. Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

PENSIONS COMMITTEE

Minutes of a Meeting of the Pensions Committee held in the Luttrell Room - County Hall, Taunton, on Friday, 3 March 2017 at 9.30am

Present: Cllr G Noel (Chairman), Cllr S Crabb, Cllr James Hunt, Mr Richard Parrish, Mrs Sarah Payne and Mr Mark Simmonds.

Other Members present:

Apologies for absence: Cllr D Hill

227 **Declarations of Interest** - Agenda Item 2

Cllr Crabb, Cllr Hunt, Mrs Moore, and Mrs Payne declared personal interests as members of the Local Government Pensions Scheme in respect of agenda item 6.

Mr Parrish declared a personal interest as his wife was an SCC employee and a member of the fund in respect of agenda item 6. Mrs Payne also declared a personal interest as investments she held were managed by Jupiter Asset Management in respect of agenda item 6.

228 **Minutes from the previous meeting** - Agenda Item 3

The minutes of the meeting held on 2 December 2016 were received and approved as an accurate record.

229 **Public Question Time** - Agenda Item 4

The Committee heard a question from Mr Reimers, a Somerset resident, and he noted that in item 14 section 5 (Social, environmental and corporate governance ESG policy) of the draft Policies and Statements paper being considered at the meeting, the Pension Fund describes its policy of “engagement with companies to effect change, rather than disinvestment”.

He then asked 3 questions beginning by asking had there been any recent occasions when the Committee, via its Investment Manager, has “engag[ed] with oil companies on how they are assessing their business strategy”, not least when it comes to the long term security of these investments for our future pensions, never mind a safe climate for our grandchildren’s generation.

He also asked if the Committee could confirm that at the AGMs of the companies in which it invests will “vote in accordance with the Fund’s interest on investment grounds” on ESG matters, and never on ethical grounds?

Finally he noted that when he submitted a public question on the Committee’s investment policy last year, we were informed that the Committee does not have the details about the ESG basis for its complex portfolio. Did the Fund’s Investment Manager now have confidence that he was able to “recognise the

risks associated with ESG issues,” when these arise, as stated in your draft paper?

The Chairman thanked Mr Reimers for his questions and he asked the Funds and Investments Manager to reply on behalf of the Committee. In response it was stated that the Committee has not directly instructed fund managers or others to engage with any company specifically on the Fund’s behalf although we reserve the right to do so in future. We know that Standard Life Investments, as our UK fund manager, regularly engages with a wide variety of companies on a wide spectrum of ESG issues and we are happy to support their efforts. Similarly the Fund is a member of the Local Authority Pension Fund Forum, which has a specific work stream on “Carbon and Environmental Risk Management” and is engaging regularly with oil companies and other carbon intensive industries. Again we are happy to support these efforts.

Secondly it was noted that this is the Fund’s stated policy and we stand by it. It is relatively rare for ESG issues to have a specific resolution at an AGM and we also believe that in many instances the Fund’s interests on investment grounds would complement rather than conflict with an ethical stance.

Finally it was explained that when asked last year it was stated that there was no dataset on our Fund’s exposure to carbon extraction companies, that such a dataset would be open to interpretation and that we did not have the resources to undertake such work. This is still the case and the investments manager has previously provided a full list of holdings to allow anybody who wishes to undertake this work to do so. The Committee and its officers are confident that they have the necessary ability to “recognise the risks associated with ESG issues”, and we recognise that there are risks associated with the possible stranding of carbon assets and climate change, however this needs to be balanced with all of the risks that the Fund faces, alongside how best to respond to these risks and the level of constrained resources we should dedicate to mitigate these risks.

230 **LGPS Pooling of Investments** - Agenda Item 5

The Committee received a verbal update on the LGPS Regulation and Structure Review from the Funds and Investment Manager.

The Committee were advised that the submission was signed and submitted to DCLG on 17 February 2016, with 4 areas part of the submission; that following meetings with civil servants it appears they are not interested in size or cost of the pool, but very keen to talk about infrastructure, with an expectation of at least 10% of allocations allotted to it. Committee noted that the majority of the time before the July submission would be spent on the detail of the governance structure.

Committee discussed that the Government is in the process of producing legislation to force funds and noted that the expected timelines post July include a period of 9-18 months to set up the pool, with transfers to take place from April 2018.

Committee were advised that the pool is to set up a shadow board as part of the transition, for which there will be one Committee member. Sam Crabb and Mark Simmonds agreed to share this responsibility on behalf of the Somerset Pension Fund, with attendance vital at a meeting on 22nd March

231 Independent Advisor's Report - Agenda Item 6

The Committee's Independent Advisor Caroline Burton provided a verbal overview of the financial situation in the United Kingdom (UK) and Over-seas

Members briefly discussed the points raised during the overview, including evidence that businesses are deferring big decisions post the EU referendum, the Saudi Arabian oil production strategy, the global shortage of oil storage facility, the difficulties in the Far Eastern markets and the possibility of interest rate rises positively affecting the banking industries.

232 Analysis of Performance - Agenda Item 7

233 Business Plan update - Agenda Item 8

The Committee considered this report that provided Members with a business plan of topics, to ensure the Committee met its responsibilities and considered all necessary issues, and also a meeting workplan of proposed items of business.

The Committee discussed the need at the end of June or early July to sign off two submissions, one on behalf of the fund, one of behalf of the pool. The Committee agreed to accept the reports

234 Budget and Membership Statistics update - Agenda Item 9

The Committee considered this report about the position of the pension fund budget at 31 December 2016; the projected outturn position for the full year; and full year budget were shown in Appendix A of the report.

There was a brief discussion of the report and the information it contained, including that there had been a small increase of transfers in and a greater number of transfers out and as a result there was a little less investment income. It was also noted that fund managers had carried out less trading than usual.

The Committee agreed to accept the reports

235 Employer Body update - Agenda Item 10

Members considered this report that provided the Committee with information about the current status of employing bodies within the Fund.

It was noted that there were 116 employers with active members in the Fund – 61 scheduled bodies, 25 resolution bodies and 30 admitted bodies, 6 of which are open to new members.

There was a brief discussion of the report, including the recent passing of a resolution by the Parrett Drainage Board to join the fund, which includes approximately 5 employees and the possibility of a further reduction of the annual allowance to 25%

The Committee agreed to accept the reports

236 Review of Pension Fund Risk Register - Agenda Item 11

The Committee considered and discussed the Pension Fund's risk register. Members reiterated the importance of considering the register at every meeting to review and monitor each risk and approve changes as necessary.

There was a discussion of the risk register and the Committee noted that there had not been any changes to the register. The Committee sought and received assurances from Officers that plans were in place to address all of the 9 identified risks and the report was accepted.

237 Cash Management Strategy - Agenda Item 12

The Committee considered this report that sought approval for the management of the Fund's cash and the strategy and counter party strategy. It was noted that since 1 April 2010 the pension fund cash had been managed by the Council's investments team on a completely segregated basis.

During the discussion Members considered the Cash Management Strategy attached as Appendix A to the report and the revised Counterparty criteria for the investment of sterling cash balances attached as Appendix B to the report.

There was a discussion about the Cash Management Strategy and the Committee agreed to approve the Cash Management Strategy; the Counter party strategy; to re-appoint the in-house team to manage the cash balances on a segregated basis and to appoint an external cash manager.

238 Resources Review, Budget Setting and Committee Objective setting - Agenda Item 13

The Committee considered a report that asked Members to consider the set objectives for the fund, the resources necessary to attain those objectives and a definition or measurement mechanism for success.

There was a discussion of the report and the Committee agreed the proposed budget and to maintain the absolute return target for the fund, and that resource were adequate. The report was accepted.

239 Policies and Statements - Agenda Item 14

The Committee considered a report that advised Members the Pension Fund is required to maintain a significant number of policies and statements in accordance with LGPS regulations.

The Funding Strategy was considered in draft form in June 2014 and following a 6 week consultation period earlier this year, no changes have been made.

Following a brief discussion the Committee approved the strategy.

240 Review of Administration Performance - Agenda Item 15

The Committee considered this report that provided progress on the performance of Peninsula Pensions, the shared service that provides benefits administration to the Somerset and Devon Pension Funds.

It was noted that the team for 2014/15 issued 88% of work within target, though backlogs of work in some areas were building up. In 2015/16 the team issued 71% of work within target seeing a reduction; however, there was a backlog of 11,000 Deferred Benefit calculations which were cleared during this period.

There was a discussion of the table within the report (Annexe A) that showed performance relating to the Somerset Fund only for this financial year. The report was accepted.

241 2018 Meeting Dates - Agenda Item 16

The Committee considered this report that proposed meeting dates for the following calendar year, Officers believe that this course aids all stakeholders to ensure the dates are kept clear and therefore propose to continue with these arrangements.

The Committee agreed to approve the following proposed dates for 2018:-

- Friday 2nd March 2018 at 10.00 am at County Hall, Taunton
- Friday 8th June 2018 at 10.00 am at County Hall, Taunton
- Thursday 20th September 2018 at 2 pm at County Hall, Taunton
- Annual Meeting, Morning of Friday 21st September 2018, arrangements TBC
- Friday 7th December 2018 at 10.00 am at County Hall, Taunton.

242 Any other urgent items of business - Agenda Item 17

There being no other business of urgency the Chairman thanked all those present for attending and for their hard work and throughout the quadrennium.

(The meeting ended at 11.10 am)

CHAIRMAN

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LGPS Pooling of Investments

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 asweet@somerset.gov.uk
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

1. Summary

- 1.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.
- 1.2 For the purposes of pooling SCC has aligned itself with 9 other funds in South West England and is working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).

2. Issues for consideration

- 2.1 To note that under the delegations provided to officers as part of the approval of the business plan for BPP at the December 2016 Pensions Committee meeting officers will be executing various legal documents on behalf of the Fund that will formally establish BPP as a Company with SCC owning shares.
- 2.2 The Committee is asked to formally confirm who will hold SCC Pension Fund’s Shareholder rights and who will be our nominated representative on the Shareholder Oversight Board and the Client Group.
- 2.3 At the time of writing officers have not been provided with a definitive list of issues which may need committee approval by the Brunel project. As a result it may be necessary for officers to table other issues relating to pooling or the establishment of BPP for consideration at the meeting.

3. Introduction

- 3.1 At the Pensions Committee meeting on 2nd December 2016 the Committee approved the full business case for the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.) on behalf of the Somerset Fund.
- 3.2 In addition to Somerset's approval, the full business case had also been approved by all of the other 9 participating administering authorities.
- 3.3 This report outlines the further work that is now underway to form the company, and the decisions that will be required over the next three months.

4. Recruitment of BPP Ltd board

- 4.1 The process for the appointment of a non-executive Chair was successfully concluded in mid-April with the announcement of the appointment of Denise Le Gal. The processes for the appointment of 2 further NEDs and a shareholder NED are well advanced and should be completed shortly.
- 4.2 The process for the recruitment of the 4 most senior executive positions, the Chief Executive Officer, Chief Investment Officer, Chief Compliance and Risk Officer and the Chief Operations Officer is being supported by Moon Consulting in Bristol. All of these positions have been advertised and the closing date for applications is 9th June.

5. Legal agreements

- 5.1 A key part of setting up the company will be the agreement of various legal agreements between the ten administering authorities, as shareholders, that govern the operations of BPP Ltd. These documents have been worked on by a Legal Services group comprising representatives of Osborne Clark, who have been providing legal support to the project, and legal officers from four of the ten authorities. Following the drafting the key documents have been the subject of review and revision by the 3 key groups that are overseeing the project. The required documents include the following.
- 5.2 The **Articles of Association** of the BPP Ltd. (the "Articles"). This document is required by company law, and will set out the constitution of the company. It sets out the powers and procedures of the BPP Ltd., and will be filed at Companies House and be publicly available.
- 5.3 The **Shareholders' Agreement** between the Administering Authorities. This regulates the relationship between the Funds as shareholders of BPP Ltd. It will define contractually the manner in which the shareholders will run BPP Ltd., rather than limiting the power of the company itself. They will include details of reserved matters that cannot be changed without the agreement of shareholders, and for each reserved matter what level of agreement (e.g. simple majority or 75% of shareholders) is required for a change to be made. Reserved matters would include significant issues such as the admission of a new shareholder or a move to internal management of assets.

- 5.4 The pooling and asset management services agreement (the "**Services Agreement**"). There will be one agreement between the Funds and BPP Ltd. setting out the pooling and other services BPP Ltd. will perform and the relevant terms.
- 5.5 These documents will need to be agreed by each of the ten administering authorities under the delegation arrangements in place, to enable BPP Ltd. to become operational. It is currently anticipated that this will happen in late June or early July.
- 5.6 **Other documents**. There will be various other documents of importance to the structure and governance arrangements. These include terms of reference, the terms of appointment of key personnel, BPP Ltd.'s internal policies and agreements with third party providers of back office support. This will include the terms of reference of the Oversight Board.

6 Appointments to be made by SCC

- 6.1 Once the Shadow Oversight Board loses its shadow status and becomes a formal body, the Somerset Fund will need to formally appoint a representative to serve on it. In addition, while the Pensions Committee will continue to have a key role in monitoring the performance and activities of BPP Ltd. for practical purposes an individual will need to take responsibility to make shareholder decisions for Somerset County Council.
- 6.2 At the March 2017 meeting of Pensions Committee it was recommend to full Council that these powers be formally attached to the Chair of Pensions Committee but this was not taken further by full Council.
- 6.3 With respect to the exercise of shareholder responsibilities there are considerations that would indicate that these may be more practically delegated to the SCC Section 151 Officer, namely that it is unusual within SCC for delegated powers to be placed directly with a Councillor as opposed to officers and that formal arrangements for deputising the Section 151 officer's powers are already in place to cover absence etc.. Irrespective of who is appointed to carry these powers on behalf of SCC it is advised that they be required to consult Pensions Committee members as far as is reasonably possible.
- 6.4 Whilst not a requirement it has been envisioned that the SCC representative of the Oversight Board would be a member of the Pensions Committee.
- 6.5 The client group is anticipated to be a more technical group dealing with day to day matters of detail and as such it is expected that an officer would be appointed to this group. It is recommended that for SCC that this is the Funds and Investments Manager.

7. Appointment of investment administrator

- 7.1 Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Somerset Fund currently uses JP Morgan as their custodian bank. Going forward BPP Ltd. will need to appoint a custodian, however, the nature of the business they will be undertaking and the requirement for FCA regulation will mean that the role will be wider than our custodian's current role. As a result, the role is defined by the FCA as an "administrator" rather than a custodian, as it encompasses other tasks beyond the custodian role.
- 7.2 The administrator will need to be in place before the FCA will authorise BPP Ltd to operate, therefore the administrator needs to be appointed before the application for authorisation is made to the FCA. The tender process is underway with the deadline for bids having expired.

8. Consultations undertaken

- 8.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point
- 8.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.
- 8.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30th November 2016.

9. Financial Implications

- 9.1 It is anticipated that the Brunel Pensions Partnership will allow the fund to make significant saving over time with the Somerset County Council Pension Fund estimated to make savings of £27.8m in the period to 2036 after costs. A significant portion of the likely costs are front loaded and it is anticipated that the Somerset Fund will breakeven in 2024.
- 9.2 By definition these are forecasts and there are significant risk to their timing and delivery. They are based on a core set of assumptions and actual savings could be significantly greater or smaller over time.

10. Background Papers

- 10.1 None

Note For sight of individual background papers please contact the report author.

Analysis of Performance

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 asweet@somerset.gov.uk
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

1. Summary

- 1.1 The report attached as appendix A is to inform the committee about the performance of the Pension Fund's investments for the quarter ended 31 March 2017 and related matters.

2. Issues for consideration

- 2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

3. Background

None

4. Consultations undertaken

None

5. Financial Implications

- 5.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

6. Background Papers

None

Note For sight of individual background papers please contact the report author.

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Analysis of Investment Performance for the Quarter to 31st March 2017

1. Somerset County Council (Global Equity)

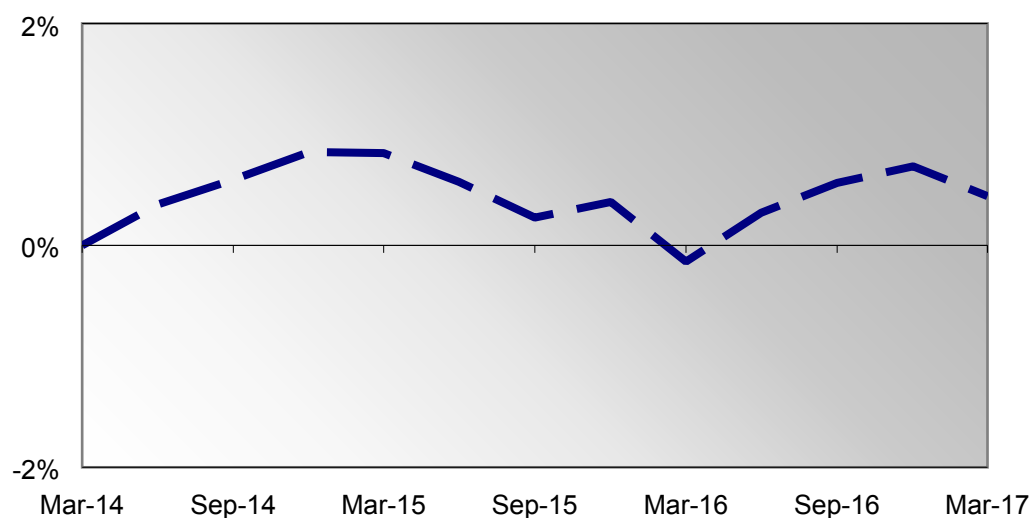
1.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
493.7	Global equities	5.3	5.5	-0.2
0.1	Cash			
493.8	Total	5.3	5.5	-0.2

1.2 The in-house fund underperformed the benchmark for the quarter.

1.3 Absolute returns for the quarter were strongly positive.

In-House Fund performance Vs Benchmark



2. Standard Life (UK Equities)

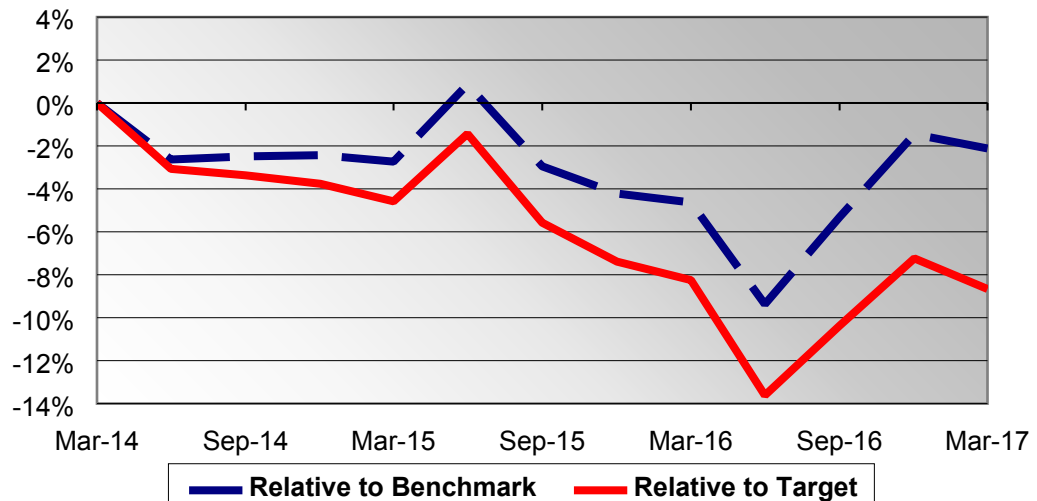
2.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
459.1	UK	3.6	4.0	-0.4
1.0	Cash			
460.1	Total	3.5	4.0	-0.5

2.2 Standard Life had a poor quarter relative to their benchmark. Absolute returns were very strong. Underweight positions in defensive sectors such as personal goods and tobacco were responsible for the under-performance.

2.3 Standard Life's target is to outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after their fees have been deducted.

Standard Life Performance Vs Benchmark & Target



3. Somerset County Council (North American Equities)

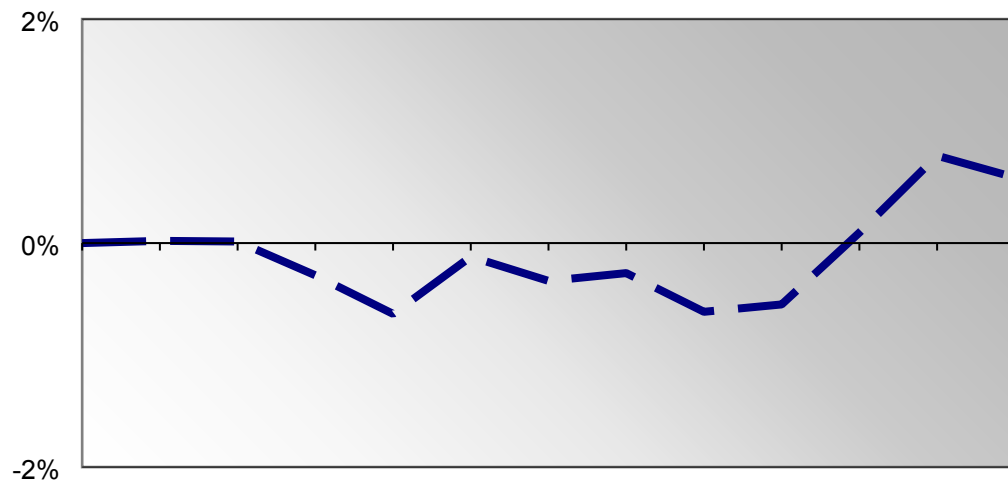
3.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
100.9	North America	4.7	4.8	-0.1
0.0	Cash			
100.9	Total	4.7	4.8	-0.1

3.2 The in-house fund's performance was below the benchmark for the quarter.

3.3 Absolute levels of performance during the quarter were strongly positive.

In-House Performance Vs Benchmark



4. Jupiter (Continental European Equities)

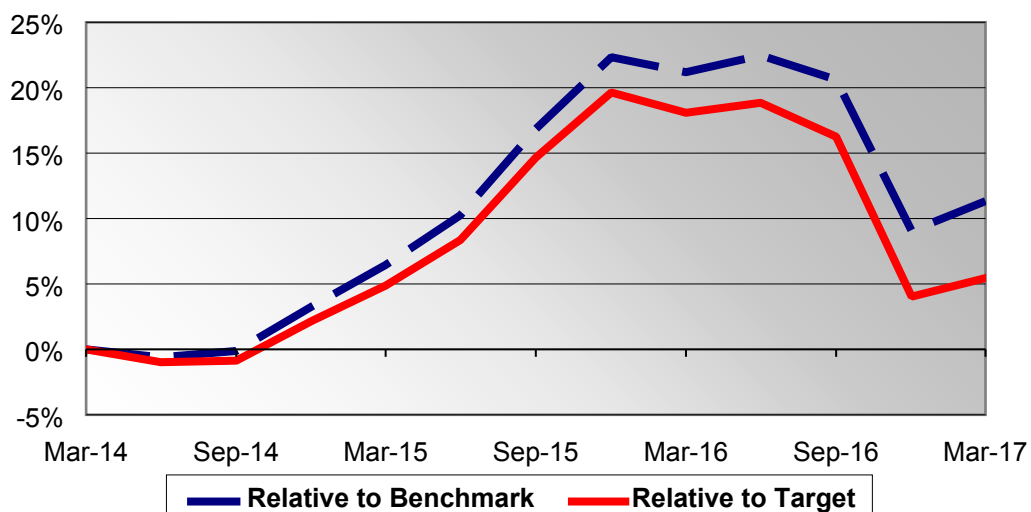
4.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
116.7	Europe	8.8	7.5	+1.3
1.5	Cash			
118.2	Total	8.7	7.5	+1.2

4.2 Jupiter had a good quarter relative to the benchmark, with outperformance of 1.2%. Absolute performance was strongly positive. Performance relative to benchmark continues to be very volatile from one month to the next.

4.3 Jupiter's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.

Jupiter Performance Vs Benchmark & Target



5. Maple-Brown Abbott (Far-East Equities ex-Japan)

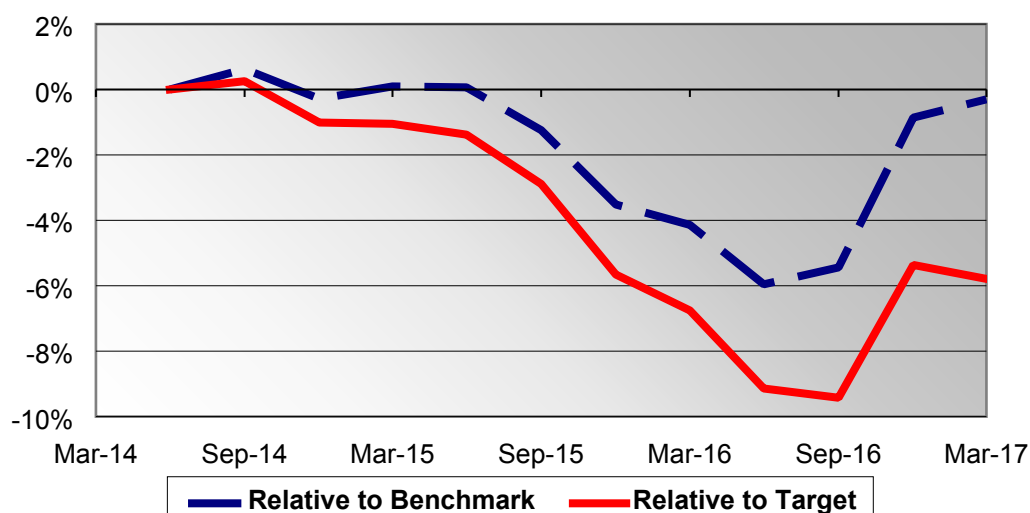
5.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
60.1	Pacific (ex Japan)	12.7	11.7	+1.0
0.9	Cash			
61.0	Total	12.2	11.7	+0.5

5.2 Maple-Brown Abbott had a good quarter relative to their benchmark. Absolute returns were strongly positive. Out performance was largely due to stock specific reasons rather than significant industry or country allocations.

5.3 Maple-Brown Abbott's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.

Maple-Brown Abbott Performance Vs Benchmark & Target



6. Nomura (Japanese Equity)

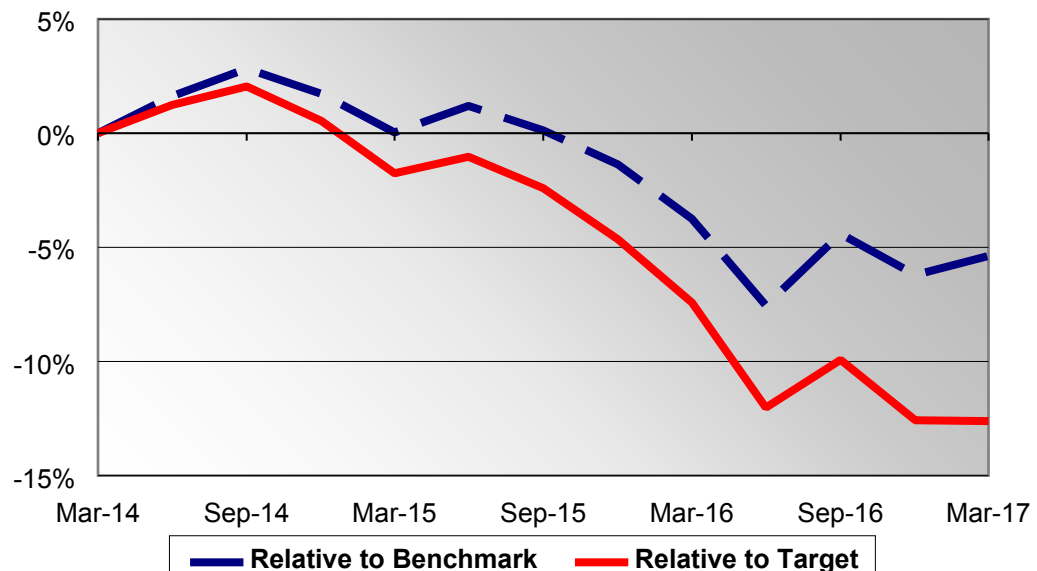
6.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017			
Value as at 31 Mar £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
60.6 Japan	4.7	4.0	+0.7

6.2 Absolute performance was strongly positive. Relative performance was good. Outperformance was largely due to poor stock selection, particularly in the Transportation equipment and Banks sectors.

6.3 Nomura's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.

Nomura Performance Vs Benchmark & Target



7. Pioneer (Emerging Market Equity)

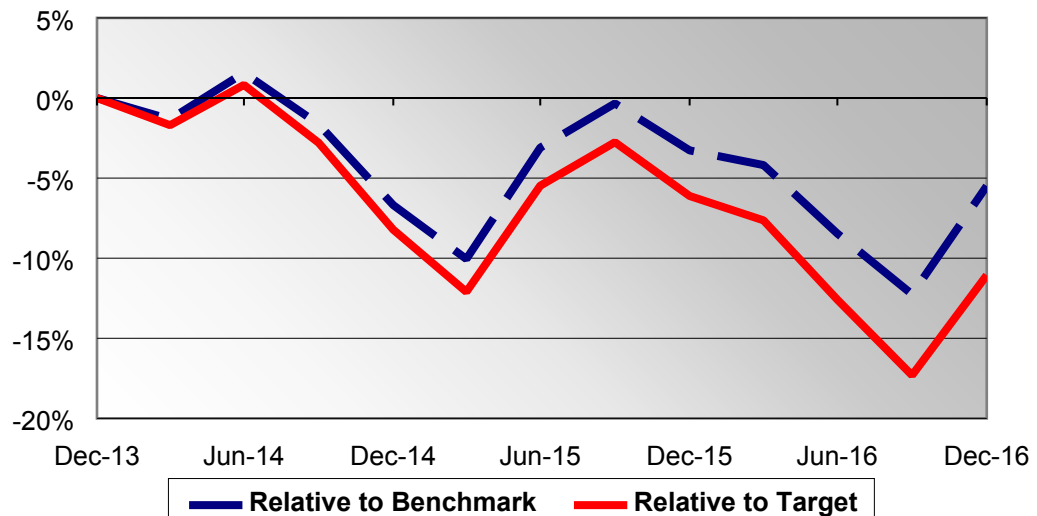
7.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017			
Value as at 31 Mar £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
81.9 Emerging Market	9.8	10.1	-0.3

7.2 Relative performance for the quarter was poor, absolute returns were strongly positive. Stock selection in the IT sector significantly contributed to the underperformance.

7.3 Pioneer's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.

Pioneer Performance Vs Benchmark & Target



8. Standard Life (Fixed Interest)

8.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

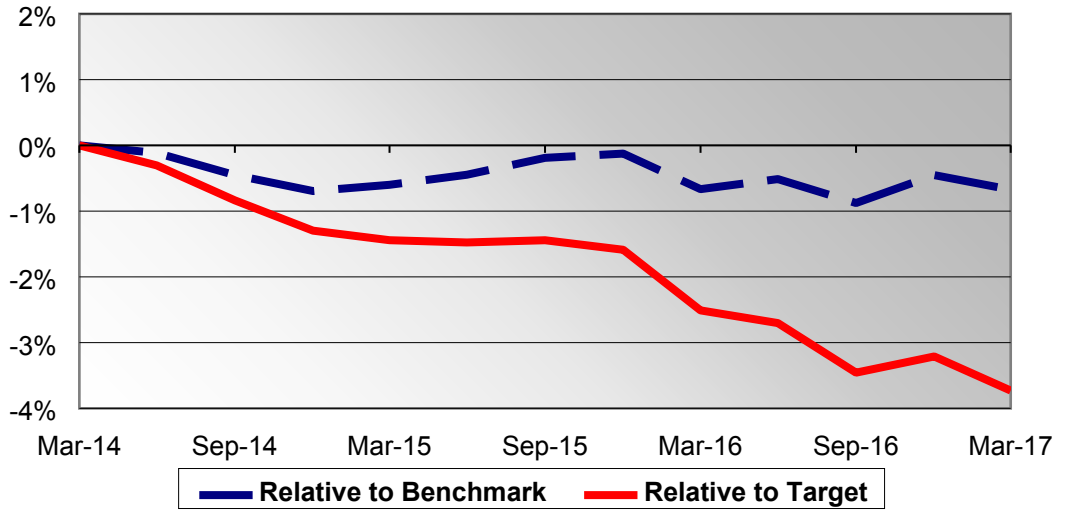
Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
42.9	UK Gilts	1.6	1.6	+0.0
70.3	Index Linked	1.5	1.9	-1.4
155.1	Corporate Bonds	2.5	2.5	+0.0
38.2	High Yield Debt	2.2	2.0	+0.2
0.4	Foreign Gov't Bonds			
1.7	F Gov't Index Linked			
	Currency Instruments			
0.0				
15.4	Cash			
324.0	Total	1.9	2.1	-0.2

8.2 Standard Life under performed their benchmark for the quarter. Absolute returns were positive. The asset allocation between the different bond types was a negative for performance during the quarter, particularly the overweight in cash.

8.3

Standard Life's target is to outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after their fees have been deducted.

Standard Life Performance Vs Benchmark & Target



9. Aviva (Property Fund of Funds)

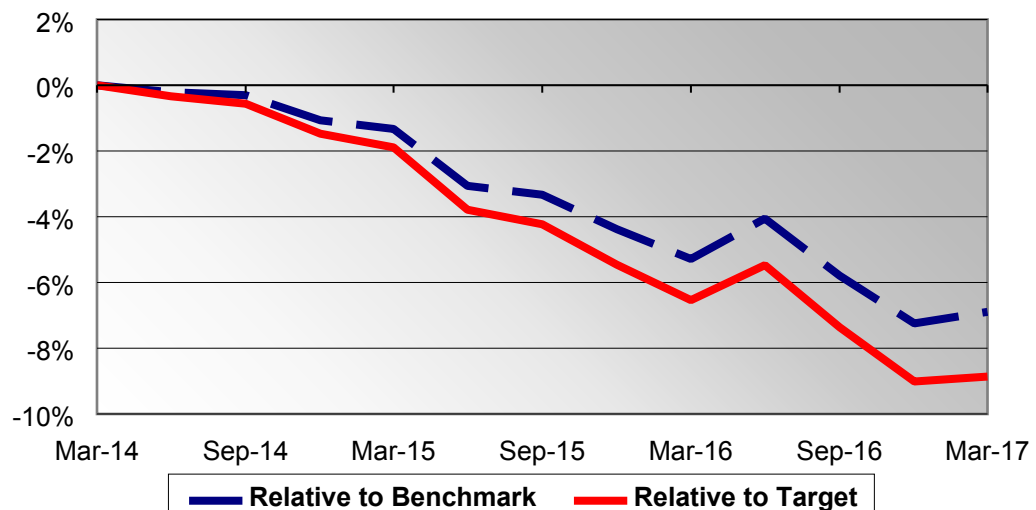
9.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
176.0	UK Property	2.8	2.0	+0.8
2.0	European Property	-9.9		
	Currency Instruments			
0.1				
	Cash			
8.0				
186.1	Total	2.4	2.0	+0.4

9.2 Property returns from the UK market were positive for the quarter. The fund outperformed relative to the benchmark due to good returns across a number of funds.

9.3 Aviva's target is to outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after their fees have been deducted.

Aviva Performance Vs Benchmark & Target



10. Neuberger Berman (Global Private Equity)

10.1 The performance for the quarter to 31st March 2017 is summarised in the following table:

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
28.7	Private Equity	0.1	0.1	+0.0

10.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP.

10.3 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 7.2%.

10.4 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 4.7%.

10.5 The Crossroads XXI fund is still very young and therefore it is not surprising that it is still in the negative part of the “J-curve” and is therefore running at a loss. However the return for the quarter was positive at 1.4%.

11. South West Ventures Fund

11.1 The fund continues to make reasonable progress.

12. Combined Fund

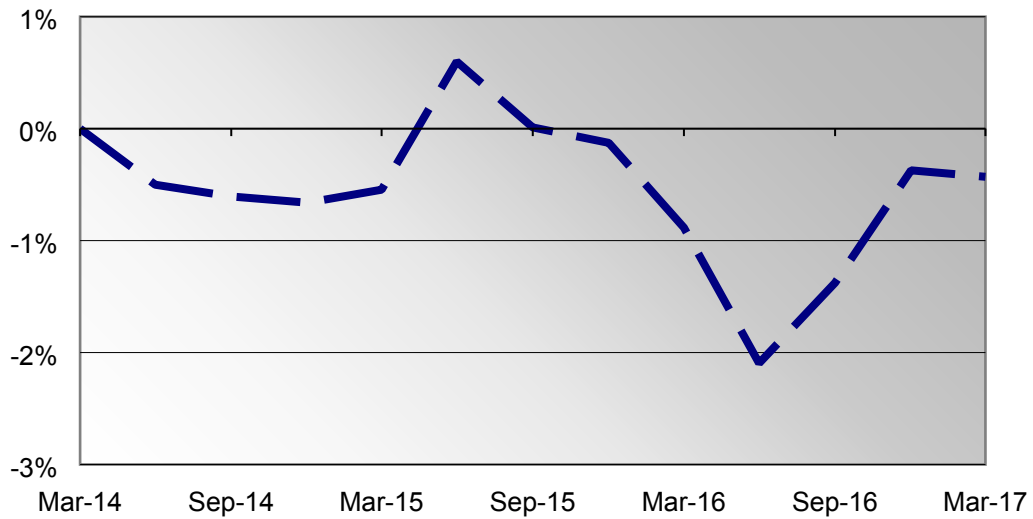
12.1 The performance for the quarter to 31st March 2017 is summarised in the following table:-

Quarter to 31 March 2017				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
493.8	In-House (Global Eq)	5.3	5.5	-0.2
460.1	Standard Life (UK Eq)	3.5	4.0	-0.5
100.9	In-House (US Eq)	4.7	4.8	-0.1
118.2	Jupiter	8.7	7.5	+1.2
61.0	Maple-Brown Abbott	12.2	11.7	+0.5
60.6	Nomura	4.7	4.0	+0.7
81.9	Pioneer	9.8	10.1	-0.3
324.0	Standard Life (FI)	1.9	2.1	-0.2
186.1	Aviva	2.4	2.0	+0.4
1.8	SWRVF	0.0	0.1	-0.1
28.7	Neuberger Berman	0.1	0.1	+0.0
48.2	Cash	0.1	0.1	+0.0
1,965.3	Whole Fund	4.3	4.4	-0.1

12.2 The fund as a whole underperformed its benchmark during the quarter. The level of absolute return was strongly positive. Jupiter, Maple-Brown Abbott Nomura and Aviva produced performance ahead of their target for the quarter.

12.3 All of the underperformance was due to the stock selection of the managers within the fund, asset allocation between the various fund managers was flat.

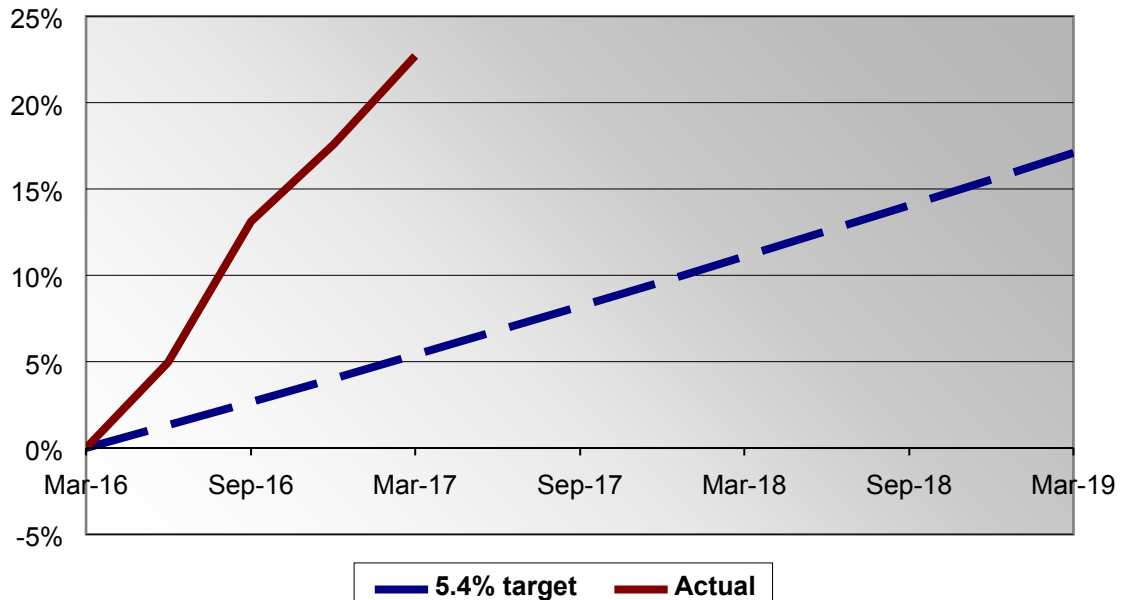
Whole Fund Performance Vs Benchmark



12.4

At the March 2017 committee meeting the committee adopted an absolute return target of 5.4% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2016 valuation. Progress against this target for the 2016 to 2019 actuarial cycle is shown in the graph below.

Performance of Fund Vs. 5.4% absolute return target



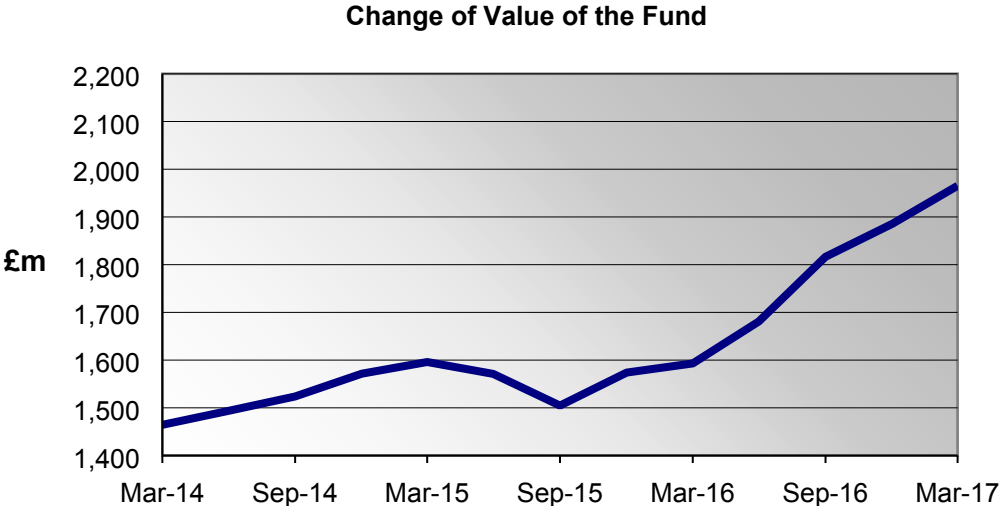
12.5 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Dec		Value as at 31 Mar		Strategic
	£m	£m	£m	%	Weighting
					%
In-House (Global Eq)	472.6	25	493.8	25	23
Standard Life (UK Eq)	445.2	23	460.1	23	23
In-House (US Eq)	97.3	5	100.9	5	5
Jupiter	108.6	6	118.2	6	5
M-BA (Pac Eq)	54.4	3	61.0	3	3
Nomura	57.8	3	60.6	3	3
Pioneer	74.5	4	81.9	4	5
Standard Life (FI)	317.9	17	324.0	17	19
Aviva	181.8	10	186.1	10	10
SWRVF	1.8	0	1.8	0	0
Neuberger Berman	30.7	2	28.7	2	3
Cash	43.0	2	48.2	2	1
Whole Fund	1,885.6	100	1,965.3	100	100

12.6 During the quarter the following movements of cash between funds took place:

- £2.9m was withdrawn from the in-house global equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £0.9m was withdrawn from the in-house US equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £2.1m was distributed from the Neuberger Berman's Private equity mandate during the quarter.

12.7 The change in the value of the investment fund over the last three years can be seen in the graph below.



12.8 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2017 is 83.0% and the average required employer contribution would be 24.1% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 77.4% and average required employer contribution of 22.6% of payroll at the 2016 funding valuation.

The discount rate underlying the smoothed funding level as at 31 March 2017 is 5.4% per annum. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.3% per annum.

It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.”

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Business Plan Update

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Member: Not applicable

1. Summary

1.1 To update the Committee with progress on and amendments to the Committee's business plan as agreed.

2. Issues for consideration

2.1 To note progress on the business plan and approve any amendments.

3. Background

3.1 The Somerset County Council Pension Fund (the Fund) is a statutory scheme with Somerset County Council acting as the 'administering authority' in accordance with the relevant legislation. This means that the County Council is responsible for taking all the executive decisions in respect of the Fund.

3.2 To meet its responsibilities in this respect the County Council has delegated executive decision making powers for the fund to the Pensions Committee. A business plan has been produced to help ensure that the Pensions Committee meet their responsibilities and consider all necessary issues.

3.3 Attached as appendix A is the business plan. Progress is shown in the final column followed by a colour coded key.

3.4 Attached as appendix B is a committee workplan, which indicates which items will come before each Committee meeting over the next 12 months.

4. Progress since last report

- 4.1 Work on the LGPS pooling work within the Brunel Pension Partnership continues and is covered in a separate paper..
- 4.2 Work on the 2016/17 accounts and production of the annual report is underway. The accounts are now complete and the external audit process is underway.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

None

Note For sight of individual background papers please contact the report author.

Pensions Committee Business Plan for 2015 to 2020

Key:

Change since last time

Completed

Not yet due

In progress and on time

In progress but late

Overdue

Topic Area	Training needs	Timing	Implementation Timing	Progress	
Regulations	Consultation and implementation on new regulations as they arise	Medium	Unknown - Determined by Central Gov't		
Fund Governance	Adoption of an Administration Strategy	Low	Spring 2015	Unknown	Approved at March 2015 meeting
Investment Governance	Voting and CSR engagement review	Medium	Autumn 2015	+ 9 months if Undertaken	On hold pending the outcome of the LGPS pooling of investments process
1 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2016	+ 9 months if Undertaken	Decision taken at the December 2016 committee meeting that this will be reviewed again at end of 2017 with a view to setting a new strategy to take the fund into pooling form April 2018
	Review of Aviva's mandate for Property	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for UK equity	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for Fixed Income	Medium		+ 9 months if Undertaken	
	Review of Jupiter's mandate for European Equity	Medium		+ 9 months if Undertaken	
	Review of Nomura's mandate for Japanese Equity	Medium		+ 9 months if Undertaken	
Investment Fund Structure & Alternative Asset Classes	Review of Asset Allocation and benchmark structure of the fund	Medium	Autumn 2016		
	Review of asset classes not currently invested in	High			
Investment Pooling	Review of Brunel Pension Partnership Business Case	Medium	Autumn 2016		The Brunel business case was approved at the December 2016 committee meeting.
Fund Governance	Agree and publish an Investment Strategy Statement	Medium	Q1 2017		First version agreed at March 2017 pensions committee, Revised draft on agenda.
Fund Governance	Re-approve all Strategies and policies post election	Medium	Spring 2017		
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	Spring 2017		
1 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2017	+ 9 months if Undertaken	
	Review of Aviva's mandate for Property	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for UK equity	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for Fixed Income	Medium		+ 9 months if Undertaken	
	Review of Jupiter's mandate for European Equity	Medium		+ 9 months if Undertaken	
	Review of Nomura's mandate for Japanese Equity	Medium		+ 9 months if Undertaken	
Investment Fund Structure & Alternative Asset Classes	Review of Asset Allocation and benchmark structure of the fund	Medium	Autumn 2017		
	Review of asset classes not currently invested in	High			
Review of Independent Advisor	Following an internal Audit review of the Fund's governance it was agreed that the role and performance of the Independent Advisor should be reviewed by Committee at least once every 4 years	Low	Summer 2019	Unknown	

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
21-Sep-17	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Analysis of Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2016.</p> <p>3. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>4. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2017.</p> <p>5. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>6. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>7. Annual Accounts and Investment Performance 2016/2017 To consider the accounts and investment performance for the year to 31 March 2017.</p> <p>8. Actuarial Update To consider the Report of the Fund's Actuary Barnett Waddingham.</p> <p>9. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>CT</p> <p>AS</p> <p>AS</p> <p>BW</p> <p>CT</p>

SOMERSET COUNTY COUNCIL PENSION FUND**PENSIONS COMMITTEE****MEETING WORKPLAN 2017 - 2018**

Date	Proposed Items of Business	Lead Officer
22-Sep-17	<u>ANNUAL MEETING</u> Annual Employers' Meeting of the Pension Fund at Dillington	
TBC	<u>INFORMAL MEETING</u> 1.Topic TBC	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
08-Dec-17	<p><u>FORMAL MEETING</u></p> <p>1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>2. Analysis of Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2017.</p> <p>3. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>4. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2017.</p> <p>5. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Voting and Engagement Report Report to provide an update of the Fund's voting and engagements activities for the half year to 30 September 2017.</p> <p>9. Review of Investment Fund Structure and Alternative Asset Classes To consider the existing structure of the investment fund, whether it is still suitable and to consider alternative asset classes that the fund is not currently invested in in preparation for the start of the transition of assets into a pool from 1st April 2018</p> <p>10. Fund Manager Performance Review (EXEMPT ITEM) To consider the performance of fund managers as per the review timetable agreed at earlier committee meetings.</p>	<p></p> <p>AS</p> <p>AS</p> <p>AS</p> <p>CT</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
02-Mar-18	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Analysis of Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2017.</p> <p>4. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>5. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2017.</p> <p>6. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Resources review, budget setting and committee objectives setting To conduct a review of the resources available to the fund and to adopt a budget, committee performance objectives for the 2018-2019 financial year and review the overall performance target for 2016 to 2019.</p> <p>9. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>CT</p> <p>AS</p> <p>AS/SM</p> <p>CT</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
08-Jun-18	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Analysis of Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2018.</p> <p>4. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>5. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2018.</p> <p>6. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Voting and Engagement Report Report to provide an update of the Fund's voting and engagements activities for the half year to 31 March 2018.</p> <p>9. Fund Policies To review and where necessary update the fund's policies and documents.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>CT</p> <p>AS</p> <p>AS</p> <p>AS</p>

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Budget And Membership Statistics Update

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Not applicable

Holder:

Division and Local Not applicable

Member:

1. Summary

1.1 This report updates the committee on the position of the Pension Fund budget at 31st March 2017 and related matters. This is a standard item of committee business.

2. Issues for consideration

2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

3. Budget

3.1 The outturn position for the fourth quarter of the financial year to 31st March 2017 against budget is shown in appendix A.

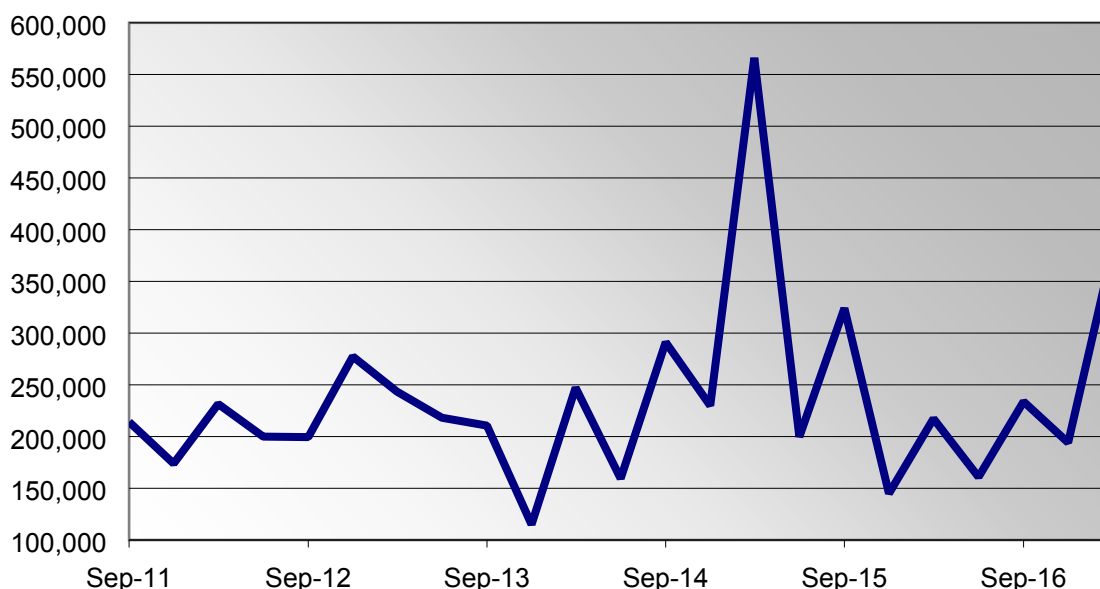
4. Transaction costs

4.1 Transaction costs for the quarter were as follows:

Manager	Asset Class	Fund Size £m
In-House	Global equity	493.8
Standard Life	UK equity	460.1
In-House	US equity	100.9
Jupiter	European equity	118.2
M-BA	Pacific equity	61.0
Standard Life	Bonds	324.0

Manager	Asset Class	Purchases		Sales		Total £
		Commission £	Expenses £	Commission £	Expenses £	
In-House	Global equity	4,427	9,307	4,441	1,825	20,000
Standard Life	UK equity	63,047	215,716	43,164	73	322,001
In-House	US equity	542	0	470	66	1,077
Jupiter	European equity	9,308	7,081	11,308	0	27,697
M-BA	Pacific equity	3,194	382	2,825	3,397	9,799
Standard Life	Bonds	0	0	0	0	0
Total		80,519	232,487	62,209	5,360	380,574

Total Transaction Costs

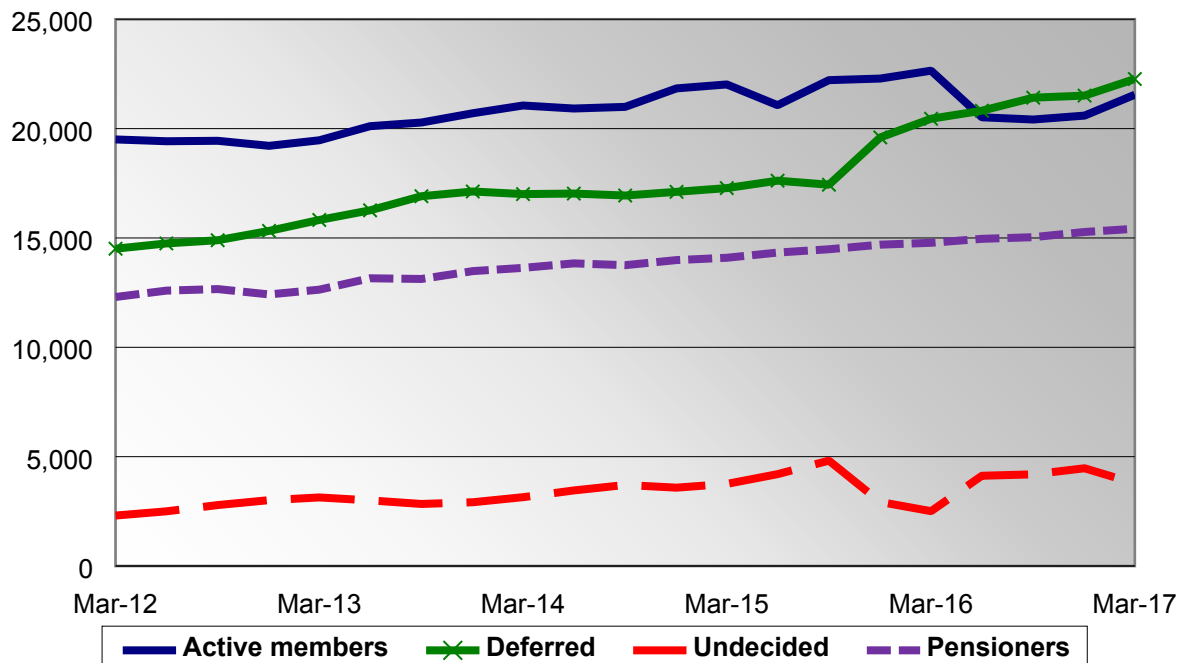


5. Membership Statistics

5.1 The change in membership statistics for the quarter is as follows:

	31 Dec	31 Mar	Change
Active members	20,595	21,550	+955
Deferred	21,510	22,268	+758
Undecided	4,469	3,778	-691
Pensioners	15,273	15,421	+148
Total	61,847	63,017	+1,170

5.2 The change in membership statistics for the last 5 years is shown in the graph below:



6. Background Papers

None

Note For sight of individual background papers please contact the report author.

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Pension Fund Budget

2016-2017

	2015-2016 Full Year	2016-2017 Full Year			2016-2017 Full Year Projected at 31 Dec 2016		
	Actual (a) £m	Budget (b) £m	Actual (c) £m	Variance (d) £m	Original Budget (e) £m	Projected Outturn (f) £m	Variance (g) £m
Contributions and other income							
Contributions	82.953	84.000	90.015	6.015	84.000	84.000	0.000
Recoveries from employers	1.387	1.500	2.851	1.351	1.500	1.500	0.000
Transfer values received	3.238	3.600	2.450	-1.150	3.600	2.500	-1.100
	87.578	89.100	95.316	6.216	89.100	88.000	-1.100
Less benefits and other payments							
Recurring pensions	-64.395	-66.000	-68.168	-2.168	-66.000	-68.000	-2.000
Lump sum on retirement	-12.323	-15.000	-13.429	1.571	-15.000	-15.000	0.000
Lump sum on death	-2.070	-2.000	-1.568	0.432	-2.000	-2.000	0.000
Transfer values paid	-4.755	-6.000	-3.423	2.577	-6.000	-4.000	2.000
Contribution refunds	-0.418	-0.400	-0.401	-0.001	-0.400	-0.400	0.000
	-83.961	-89.400	-86.989	2.411	-89.400	-89.400	0.000
Contributions after payments	3.617	-0.300	8.327	8.627	-0.300	-1.400	-1.100
Management Expenses							
Administrative expenses	-1.305	-1.200	-1.157	0.043	-1.200	-1.200	0.000
Investment management expenses	-4.302	-5.000	-4.964	0.036	-5.000	-5.000	0.000
Oversight and governance expenses	-0.650	-0.700	-0.740	-0.040	-0.700	-0.800	-0.100
	-6.257	-6.900	-6.861	0.039	-6.900	-7.000	-0.100
Investment Income							
Investment income	44.794	45.000	52.166	7.166	45.000	45.000	0.000
Net Increase / Decrease (-) in fund	42.154	37.800	53.632	15.832	37.800	36.600	-1.200

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Employer Body Update

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Charlotte Thompson: Head of Peninsula Pensions

Contact Details: (01392) 383000
charlotte.thompson@devon.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Member: Not applicable

1. Summary

1.1 This report provides an update for the Committee on the status of Employing Bodies within the Somerset Pension Fund.

2. Issues for consideration

2.1 Committee is asked to note the employer updates set out in section 3. It was decided at the June 2015 meeting that applications for admitted body status will not generally be brought to Committee for approval but that Committee will be informed of new employers joining the Fund.

3. Employer updates

3.1 It was reported at the last committee meeting in March that Way Ahead Care would become an admitted body in the fund. The member of staff due to TUPE did not end up doing so and therefore an admission agreement was not required after all.

3.2 Magna West Somerset Housing Association merged with other Magna housing societies on 1st April 2017. An addendum to the admission agreement was drawn up and signed to reflect this change.

3.3 All Saints primary school has joined the Bath and Wells Multi Academy Trust with effect from 1st February 2017.

3.4 12 employers have yet to submit their year-end returns which provide the administration team with the required data to produce the annual benefit statements. The administration team is actively chasing these remaining employers.

3.5 The fund currently has the following numbers of employer with active members:

- 59 scheduled body employers made up of 33 scheduled body employers, 12 academy trusts and 14 stand-alone academies
- 27 resolution bodies
- 34 admitted bodies (including those in this report)

4. Consultations undertaken

4.1 None.

5. Financial Implications

5.1 None. It is already a requirement that new admitted bodies should put in place a bond or guarantee.

6. Background Papers

6.1 None

Note For sight of individual background papers please contact the report author.

Review of Pension Fund Risk Register

Lead Officer: Kevin Nacey: Director of Finance and Performance

Author: Anton Sweet: Funds and Investments Manager

Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Member: Not applicable

1. Summary

- 1.1 In response to CIPFA guidance recommending the adoption and monitoring of a risk register for LGPS funds the Pensions Committee have requested that a review of the risk register is a standing item on the agenda for each meeting.

2. Issues for consideration

- 2.1 To monitor the risks contained on the risk register and approve any amendments.

3. Changes since last meeting

- 3.1 There have been no changes to the risk register since the last meeting of the Committee.

4. Background

- 4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund's risks in a single document.
- 4.2 Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

- 4.3 Following on from CIPFA's guidance the Committee has indicated that it wishes to adopt a risk register. The Committee have agreed that rather than have a static register that is reviewed periodically that the register should be discussed at every meeting and changes agreed and implemented as necessary.
- 4.4 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

5. Consultations undertaken

None

6. Financial Implications

- 6.1 No direct implications

7. Background Papers

None

Note For sight of individual background papers please contact the report author.

Somerset County Council Pension Fund Risk Register - June 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function. Monthly review of asset allocation and cash levels	2	4	8		2	4	8		on-going with quarterly review		
1. PF2 2. Pensions Committee Page 55	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement Investment Strategy Statement	3	5	15	The triennial valuation includes provision for restoring the fund to full funding over 25 years The current risk score partly reflects that the fund was 77% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10		Review again at next Valuation - 2019		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance. There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible.
1. PF3 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements Guarantee bonds	3	3	9	Ensure the on-going suitability of the guarantees in place with a review after each formal valuation Review of actuarial results to consider employer specific funding ratios and employer 'Hot Spots'	2	2	4	Stephen Morton	2016 Review again at next Valuation - 2016		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period. Review of employer positions and guarantee bonds planned for 2017
1. PF4 2. Kevin Nacey	Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.	None, other than experience of other staff within the sections	3	3	9		2	3	6		on-going with quarterly review	Updated to include positive impact of pooling September 2016	Shared service with Devon makes this less of an issue with respect to benefits administration staff. The move to pooling of investments should make the fund less reliant on a small number of internal officers

Somerset County Council Pension Fund Risk Register - June 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF5 2. Kevin Nacey	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SouthWest One IT support	As IT systems are refreshed or replaced build in support mechanisms	3	4	12		2	3	6		on-going with quarterly review		Shared service with Devon makes this less of an issue with respect to benefits administration IT
1. PF6 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with CLG and other interested stakeholders	4	4	16		2	3	6		on-going with quarterly review		The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme.
1. PF7 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Internal audit coverage Annual report to committee with feedback from stakeholders Internal procedures and checks	3	3	9		2	3	6		on-going with quarterly review		Long term the greater size of the shared service should see the likelihood of this risk reduce once the implementation phase is completed
1. PF8 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12		2	4	8		on-going with quarterly review	Updated June 2017 to reflect turnover of Committee following County Council elections	
1. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian	2	4	8		2	4	8		on-going with		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration.

Somerset County Council Pension Fund Risk Register - June 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
		Review of credit worthiness and inherent business risk of custodian at tender phase									quarterly review		As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption

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Voting and Engagement

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Executive Portfolio Holder: Not applicable

Division and Local Not applicable

Member:

1. Summary

1.1 This report is to inform the committee about the voting and engagement activity of the fund's investment managers for the six-month period to 31st March 2017.

2. Issues for consideration

2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

3. Background

3.1 The voting activity described in this report relates to all company meetings, the majority of which are Annual General Meetings (AGM's) but will also include Extraordinary General Meetings (EGM's), Ordinary General Meetings, Special Meetings and miscellaneous others.

3.2 The business that is required to be covered at AGM's varies according to local law and custom. In most countries both executive and non-executive directors have to be periodically re-elected to the board and there is a vote on the reappointment of auditors. In a growing number of jurisdictions, including UK and US, there is also a non-binding vote on the board of directors' remuneration report. Depending on local law there are often a number of technical resolutions regarding the creation of new shares, pre-emptive rights and share option schemes.

3.3 At AGM's typically all resolutions are proposed by the board of directors and they recommend that shareholders approve the proposed resolutions, however increasingly shareholders are proposing their own resolutions on a wide variety of areas including changes to the companies rules, initiating a vote on director remuneration, animal welfare, environmental issues and employment rules.

3.4 Although not exclusively, EGM's tend to fall into two categories, the first is to allow a shareholder vote on a proposed merger, takeover or other fundamental change to the company. The second category is where

shareholders are very unhappy with the board's behaviour and wish to hold them to account on a particular issue or set of issues.

- 3.5 PIRC (for the in-house funds) and each of the external fund managers have written guidelines on how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Typically these policies will, to varying degrees, adhere to the principles and best practice guidelines of the various legislation, city codes of conduct and policies of trade bodies such as the Association of British Insurers.
- 3.6 PIRC publishes the advice it gives clients (including SCC) on how to vote at company meetings on its website. Some of our external fund managers also place their voting record on their public websites.

4. Somerset County Council (Global Equity + US Equity)

- 4.1 The in-house fund continues to vote in line with recommendations received from PIRC. The following table indicates voting activity for the six months:

• Shareholder meetings at which the Fund's Shares were voted	75
• Votes in line with Company Management on all resolutions	9

- 4.2 The above results are for both the in-house global equity fund and the in-house US equity fund. Only a few holdings in the US equity fund don't appear in both funds.
- 4.3 PIRC within their recommendations tend to take a very strict line on many of the standard items that occur at AGM's. This includes issues around the tenure and genuine independence of non-executive directors, director remuneration proposals and non-audit fees for auditors. The vast majority of against votes and abstentions for the in-house fund occur in these areas. PIRC also will assess any shareholder proposals on their merits and advise accordingly, which often gives rise to votes against management.
- 4.4 Committee specifically requested data on voting activity on executive remuneration. The in-house funds were offered a vote on executive remuneration at 62 company AGMs in the period. Voting was as follows

• For the proposed remuneration	7 (11%)
• Against the proposed remuneration	35 (57%)
• Abstained from voting	20 (32%)

5. Standard Life (UK Equity)

5.1 A summary of voting activity for the six months is shown below:

• Shareholder meetings at which the Fund's Shares were voted	24
• Votes in Favour of all resolutions	17
• Vote against one or more resolutions	7
• Abstained on one or more resolutions	0

5.2 The data for votes on executive remuneration are as follows:

• Meetings with a vote on remuneration	19
• For the proposed remuneration	15 (79%)
• Against the proposed remuneration	4 (21%)
• Abstained from voting	0 (0%)

5.3 Standard Life continues to engage with a large number (approx. 100 per quarter) of UK companies on corporate governance or CSR issues.

6. Jupiter (Europe ex-UK Equity)

6.1 A summary of voting activity for the six months is shown below:

• Shareholder meetings at which the Fund's Shares were voted	6
• Votes In line with company management on all resolutions	5

6.2 The data for votes on executive remuneration are as follows:

• Meetings with a vote on remuneration	5
• For the proposed remuneration	5 (100%)
• Against the proposed remuneration	0 (0%)
• Abstained from voting	0 (0%)

7. Maple-Brown Abbott

7.1 A summary of voting activity for the six months is shown below:

7.2 The data for votes on executive remuneration are as follows:

8. LAPFF

8.1 LAPFF continue to have a wide ranging program of research and company engagement on a number of issues such as remuneration, audit standards, climate change and company governance. They also will engage with specific companies one on one if an issue of widespread interest arises outside of their current workstreams. Further details on their work can be found on their website <http://www.lapfforum.org/>

9. Consultations undertaken

None

10. Financial Implications

10.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods. The next assessment is currently underway.

11. Background Papers

None

Note For sight of individual background papers please contact the report author.

Policies and Statements

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Author: Anton Sweet: Funds and Investments Manager
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asweet@somerset.gov.uk
Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

1.1 The pension fund is required to maintain a significant number of policies and statements in accordance with the LGPS regulations. In line with good governance the new committee are being offered the chance to amend and approve these documents.

2. Issues for consideration

2.1 The committee is asked to adopt the following policies:

- Funding Strategy Statement (annex 1)
- Investment Strategy Statement (annex 2)
- Financial Reporting Council Stewardship Code Statement (annex 3)
- Governance Compliance Statement (annex 4)
- Pensions Committee Scheme of Delegation (annex 5)
- Pensions Committee Training Policy (annex 6)
- Communication Policy Statement (annex 7)
- Pension Administration Strategy (annex 8)

3. Background

3.1 The Funding Strategy Statement is a requirement of the regulations and has been redrafted in conjunction with the Fund's actuary, Barnett Waddingham, following on from the 2016 valuation exercise. In accordance with best practice the employers within the fund have been offered the chance to comment on the statement through a consultation exercise that closed on 30th May 2017. No comments were received.

- 3.2 The Investment Strategy Statement was a new requirement of the LGPS (Management and Investment of Funds) Regulations 2016 and replaced the previous requirement for a Statement of Investment Principles. The first version of the Investment Strategy Statement was adopted by Committee at the March 2017 meeting, however due to time constraints that version had not been the subject of any consultation. Some minor amendments to the March 2017 version have been made and the Statement was then part of the same consultation exercise with employers as the Funding Strategy Statement. No comments were received.
- 3.3 The Financial Reporting Council Stewardship Code is a voluntary code of best practice for institutional investors in the UK equity markets, it is not specifically a LGPS statement. The SCC Pension Fund first adopted the code in November 2010 and is currently judged as a tier 2 signatory. It is anticipated that we will look to review and enhance our Code Statement with a view to raising ourselves to tier 1 in conjunction with Brunel PP as the pooling process takes place during 2018 to 2020.
- 3.5 The Governance Compliance Statement is a requirement of the regulations and shows how the Fund complies with a set of best practice governance standards. This statement includes the Pensions Committee's Terms of Reference which are agreed by the Full County Council. The version presented today has not been altered from the previous adopted version.
- 3.6 The Pensions Committee Scheme of Delegation was brought in to put in place formal standard delegations from the Committee to officers to allow for the sensible day to day running of the Fund. The version presented today has not been altered from the previous adopted version.
- 3.7 The Pensions Committee training policy is in place as a way of codifying expectations on Committee members to ensure they meet the best practice standards on knowledge and understanding whilst discharging their duties in managing the Fund. The version presented today has not been altered from the previous adopted version.
- 3.8 The Communications policy is a requirement of the regulations and codifies how the Fund communicates with various stakeholders. The version presented today has not been altered from the previous adopted version.
- 3.9 The Administration Strategy is an optional requirement of the regulations and was first adopted by the SCC fund in March 2015. The version presented today has not been altered from the previous adopted version

4. Consultations undertaken

- 4.1 All of the above policies and statements were the subject of a consultation exercise at the point of their introduction or last significant alteration. As mentioned above the Funding Strategy Statement and Investment Strategy Statement have just been the subject of a consultation with Fund employers.

5. Financial Implications

- 5.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

6. Background Papers

None

Note For sight of individual background papers please contact the report author.

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Somerset County Council Pension Fund Funding Strategy Statement

Introduction

This is the Funding Strategy Statement for the Somerset County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and describes Somerset County Council's strategy, in its capacity as administering authority, for the funding of the Somerset County Council Pension Fund (the Fund).

The Fund Actuary, Barnett Waddingham LLP, has been consulted on the contents of this Statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance issued by CIPFA.

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(5) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purposes of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purposes of the Fund are to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective.

Key parties

The key parties involved in the funding process and their responsibilities are as follows:

The administering authority

The administering authority for the Fund is Somerset County Council. The main responsibilities of the administering authority are to:

- Operate the Fund;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers, including admission bodies, participate in the Fund.

The responsibilities of each Scheme employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions as certified by the Fund Actuary to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department of Communities and Local Government (DCLG).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice to the administering authority on bonds or other forms of security against the financial effect on the Fund of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to his or her role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. A summary of the methods and assumptions adopted is set out in the sections below.

The actuarial valuation involves a projection of future cash flows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (past service) and benefits in respect of service expected to be completed after the valuation date (future service). This approach focuses on:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay for pensions in payment. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year's benefit accrual.

For closed employers, the funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract of the remaining expected working lifetime of active members.

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The statistical assumptions which are essentially estimates of the likelihood of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current or present value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

Future pay inflation

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values. The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. The discount rate adopted for the 31 March 2016 valuation was 5.4% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the Scheme employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be to set a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis if the Fund do not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

Asset valuation

For the purposes of the valuation, the asset value used is the market value of the accumulated Fund at the valuation date adjusted to reflect average market conditions during the six months straddling the valuation date.

Statistical assumptions

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

2016 valuation results

As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 77% funded, corresponding to a deficit of £461m.

The primary rate required to cover the employer cost of future benefit accrual was 15.0% of payroll p.a.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

The recovery periods adopted for the employers in the Fund for the 2016 valuation varied from 3 years to 24 years. The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

In the event of a dispute regarding the pooling of individual employers the administering authority will consult with all relevant employers and the fund's actuary before making a decision in the best interests of the fund, which will be binding on all relevant employers.

Cessation valuations

When a Scheme employer exits the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the underlying investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the underlying investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll.

However, the Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters. In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.

The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.

However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central Government. The tax status of the invested assets is also determined by the Government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

Governance

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Somerset County Council Pension Fund

Investment Strategy Statement

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The regulations provide a prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Somerset Fund as well as providing transparency in relation to how Fund investments are managed.

The Somerset CC Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

The Fund aims to be a long term investors, it seeks to invest in productive assets that contribute to economic activity, such as equities, bonds and real assets. The Fund diversifies its investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- The Somerset Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- The Somerset Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- The Somerset Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- The Somerset Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Somerset CC Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Pensions Committee at least triennially, or more frequently should any significant change occur.

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2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

In line with the Fund's Funding Strategy Statement, the committee has set an objective of the fund being at or above a 100% funding level, as calculated by the fund's actuary at the triennial valuation, so that it can meet its current and future liabilities.

In order to meet these overriding objectives the Fund maintains an investment strategy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.

The Pensions Committee annually adopts a target return for the investment funds as a whole. This target return is set with specific reference to the investment return assumed by the actuary as part of the valuation process and therefore explicitly links the Fund's targeted level of return with achieving and maintaining a future funding level of 100%.

In order to translate the above objectives and beliefs into a set of investment mandates for practical management of the investments the Pension Committee have created a customised benchmark for the Fund. The customised benchmark is an amalgamation of specific benchmarks for each investment mandate, which is then given to an investment manager (internal or external) for day to day management.

The customised benchmark sets out the intended long term weighting to various types of investment (or asset classes), such as equities, bonds and property and reflects the Pension Fund’s investment strategy. The customised benchmark seeks to balance the affordability of contributions with the risk of different types of investments.

The Investment strategy and customised benchmark are reviewed by the Pensions Committee annually to ensure they continue to meet the Fund’s investment objectives.

The Actuary considers the Pension Fund’s assets in broad terms – growth assets and stabilising assets. The table below splits the customised benchmark between these categories, along with an overview of the role each asset plays:

Asset Class	Strategic Allocation	Role(s) within the strategy	Geography	Currency
Equities				
Global Passive	23%	Growth Inflation protection	Diversified	Diversified
UK Active	23%	Growth Inflation protection	UK	GBP
US Passive	5%	Growth Inflation protection	US	USD
Europe Active	5%	Growth Inflation protection	Europe ex-UK	Diversified
Japan Active	3%	Growth Inflation protection	Japan	JPY
Far East Active	3%	Growth Inflation protection	Diversified	Diversified
Emerging Market Active	5%	Growth Inflation protection	Diversified	Diversified
Total	67%			
Maximum	100%			

Bonds				
UK Gov't Bonds	4%	Stabilising	UK	GBP
UK Gov't Index linked bonds	4%	Stabilising Inflation protection	UK	GBP
Investment Grade corporate bonds	8%	Stabilising	Diversified	GBP
High yield bonds	3	Stabilising	Diversified	Diversified
Total	19%			
Maximum	100%			
Alternatives				
Property	10%	Growth Inflation protection	UK	GBP
Private equity	3%	Growth	Diversified	Diversified
Total	13%			
Maximum	25%			
Cash				
Cash	1%	Liquidity	UK	GBP
Total	1%			
Maximum	100%			

The Fund's benchmark currently includes a significant holding in 'growth' assets, specifically equities, reflecting its need for higher returns than from government bonds in the long term. These long term returns form part of the Actuary's assumptions and mean that employer contributions can be kept lower.

Actual asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly by officers and they have delegated authority to rebalance the assets taking into account market conditions and other relevant factors. The actual asset allocation and the actions taken by officers are reported to the Pensions Committee regularly.

As well as monitoring asset allocation officers also regularly monitor the largest single asset exposures and concentrations to ensure inappropriate exposures do not occur.

As there is a strong internal monitoring mechanism in place it is not deemed necessary to place an upper limit on the exposure of the fund to assets that are readily realisable such as assets listed on a regulated exchange or pooled funds that provide daily dealing. This is reflected in the maximum exposures of 100% quoted in the table above although it is not anticipated that this is likely to occur in anything but the most extreme circumstances. For assets that are illiquid, such as property and private equity funds a limit of 25% of the total value of the fund has been set.

Each manager mandate clearly states what assets can be invested in and where appropriate limits on certain asset types, this is monitored by officers for compliance. The Fund can invest in the following asset types:

- listed stocks, shares and warrants of companies;
- listed government and corporate bonds;
- futures and options;
- spot and forward currency contracts;
- cash deposits with suitable banks and building societies;
- stock-lending arrangements;
- unlisted collective investment schemes such as unit trusts and investment companies;
- limited liability partnerships (LLPs) ; and
- unlisted shares.

3. Risk measurement and management

Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The key investment risks that the Fund is exposed to are:

- The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.
- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark.

The Fund is also exposed to operational risk; this is mitigated through:

- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

The Fund maintains a risk register which is considered by the Pensions Committee regularly and updated as necessary. The risk register considers a number of non-investment risks such as funding risk, employer covenant risk, regulatory risk and operational risks.

The Fund's Funding Strategy Statement specifically covers the risks with respect to Funding and how these are managed by the Fund.

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4. Approach to asset pooling

The Somerset Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Somerset Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Somerset fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of Somerset Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Somerset County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above (approximately 2020), it is envisaged that all of the Fund's assets except certain cash holdings will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed by the Fund in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

The Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Fund is also mindful of its responsibilities as a long term shareholder, and the Pensions Committee regularly considers the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:

- The Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- Social, environmental and ethical concerns will not inhibit the delivery of the Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Fund invests in. For example, the Fund will not require any form of dis-investment from fossil fuels, tobacco or such like.
- It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
- The Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's investment managers will vote in accordance with the Fund's interest on investment grounds.
- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its investment managers to monitor and manage the associated risks. As the Fund moves towards the new arrangements for the pooling of investments it will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

6. Policy of the exercise of rights (including voting rights) attaching to investments

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate-governance practices in the companies it invests in. The committee considers that good corporate governance can contribute to business health and success by encouraging boards, shareholders and other stakeholders to answer to each other. Good corporate governance also plays an important part in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Pensions Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. The Fund is a signatory to the Code and a copy of the Funds most recent Stewardship Statement can be found within the Fund's annual report on the SCC website: <http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/>

The Funds policy on the exercise of voting rights is:

- To vote on all resolutions at company meetings where the fund holds shares in UK companies and where practically possible for shares in overseas companies.
- To give external investment managers the power to vote on our behalf in line with their own process and policy, which we review, within industry standards and the principles of this statement.
- For the in-house managed funds, to receive external advice from a specialist organisation on voting issues and to follow their recommendations in voting on all resolutions where practically possible. This service is currently provided PIRC Ltd.

External investment managers are required to report on their voting activity as part of their standard quarterly reporting. A summary of the Fund's voting activity is reported to the Pensions Committee twice a year.

The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund's objectives. As a general principle, votes will be used to:

- Protect shareholder rights.
- Reduce, as far as possible, risk to companies from corporate governance failing.
- Improve long-term value.
- Encourage corporate social responsibility.

As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website: <https://www.brunelpensionpartnership.org/>

7. Advice taken

This Investment Strategy Statement has been put together by Somerset County Council's professional investment officers, supported by the Fund's Independent Investment Advisor.

The Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from the Brunel Client Officer Group project team has also been taken into account in shaping the Fund's response to the pooling initiative and building an investment strategy that can be implemented via BPP Ltd. once it becomes operational.

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset CC, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

8. Arrangements for reviewing this statement

The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.

This Investment Strategy Statement will be regularly reviewed by the pensions committee, particularly to ensure it continues to meet all regulatory and statutory requirements. Where there is significant change to the Statement the pensions committee will consult relevant stakeholders, particularly the Pension Board, prior to amending the policy.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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Annex 1

Working in line with Myners

In 2000, the UK Government ordered a review of institutional investment in the UK. The review was carried out by Paul Myners, the chairman of a large fund-management group, and his findings were published in March 2001.

Myners sets out a number of principles of best practice and recommends that pension funds should set out what they are doing to apply these principles. In response to Myners' proposals, the Government issued a set of 10 investment principles in October 2001 that it said it would be taking forward. In November 2008, the Government published a revised set of principles, following on from this CIPFA had produced a set of Myner's principles specifically for Local Government Pension Schemes and guidance on how to compare compliance with the principles. The fund's performance against the CIPFA principles and guidance is set out below.

Principle 1: Effective Decision Making

Administering authority should ensure that:

- **decisions are taken by people or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementations; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The fund is fully compliant with this principle but must continue to work to ensure that the knowledge base of officers and committee members remains comprehensive and current.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisors and investment managers.

The fund is fully compliant with this principle. The fund will look to make additional progress by further consideration of the needs of the disparate employers within the fund and how their differing needs are reflected in the objectives of the fund as a whole.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of the liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The fund is fully compliant with this principle.

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

The fund is fully compliant with this principle with respect of measurement of investment performance and investment managers. The fund needs to consider more formal arrangements for the measurement of performance of other advisors and particularly formal assessment of the pensions committee's performance.

Principle 5: Responsible Ownership

Administering authorities should:

- **adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholder and agents**
- **include a statement of their policy on responsible ownership in the statement of investment principles**
- **report periodically to scheme members on the discharge of such responsibilities.**

The fund is fully compliant with this principle.

Principle 6: Transparency and Reporting

Administering authorities should:

- **act in a transparent manner, communicated with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The fund is fully compliant with this principle.

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Financial Reporting Council Stewardship Code Statement

Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The Somerset County Council Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers, its specialist voting advisor and through membership of the Local Authority Pension Fund Forum. The fund believes that it is better to utilise these third parties to undertake its stewardship activities as they have significantly greater experience and resources with which to research stewardship issues and engage with companies.

Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. With respect to those equity managers whose own shares fall within the scope of their mandate each has an explicit policy not to invest in their own company's, or eventual parent's, shares.

In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings and a related parties disclosure is made annually in the fund's annual report.

Principle 3 - Institutional investors should monitor their investee companies.

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. For the in-house managed fund we would expect PIRC, as our specialist voting advisor to monitor companies and engage with them prior to advising us on voting. Reports from our asset managers on voting and engagement activity are received by the fund on a quarterly basis and are augmented by quarterly meetings with officers and regular discussions.

In addition the fund receives an 'Alerts' service from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies.

Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers and PIRC, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However on occasion, the fund may itself choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum.

Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.

The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.

In respect of shareholder voting, the fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and is undertaken by officers for the in-house managed fund following voting advice from PIRC. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues are often discussed with fund managers as they arise.

The fund discloses a summary of voting activity of each of the segregated equity funds twice a year as a committee paper, all of the committee papers are published on the County Council's website. The fund is minded to disclose in full voting activity at a given company meeting on request. A number of our asset managers and PIRC publish their voting activity (advice).

Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.

As noted above under principle 6 fund reports semi-annually on voting and stewardship activity through a report to the Pensions Committee. This includes both fund-specific information and an overview of activity undertaken through the Local Authority Pension Fund Forum.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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Governance Compliance Statement

Introduction

Under Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended) an Administering Authority must, after consultation with such persons as it considers appropriate, prepare, publish and maintain a Governance Compliance Statement.

This statement is required to set out:

- (a) whether the Administering Authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;
- (b) if the authority does so:-
 - (i) the terms, structure and operational procedures of the delegation,
 - (ii) the frequency of any committee or sub-committee meetings,
 - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

The statement must be revised and published by the Administering Authority following a material change in their policy on any of the matters referred to above.

Delegation of management of Pension Fund

All decision making responsibility of Somerset County Council as administering authority of the Somerset County Council Pension Fund is delegated to the Pensions Committee. The operation of the Pensions Committee is governed by the following Terms of Reference.

**PENSION COMMITTEE OF THE SOMERSET COUNTY COUNCIL
PENSION FUND**

TERMS OF REFERENCE

1. Introduction

- 1.1 This document sets out the terms of reference of the Pensions Committee of Somerset County Council. The Pensions Committee is a committee with delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972.
- 1.2 The terms of reference will be formally approved by the Council as the Administering Authority and by the Committee itself thereafter.
- 1.3 These terms of reference shall be reviewed by the Council on the advice of the Committee and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Committee.

2. Definitions

- the Fund - Somerset County Council Pension Fund.
- the Committee – The Pensions Committee of Somerset County Council.
- the Pensions Board – The Pensions Board of Somerset County Council.
- LGPS – The Local Government Pension Scheme

3. Purpose and functions of the Committee

- 3.1 The Committee discharges the functions of the Council in its role as the administering authority of the Somerset County Council Pension Fund as defined in the LGPS Regulations.
- 3.2 The Committee's principal duties are:
- (i) Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.
 - (ii) Ensure all contributions due are collected from employers.
 - (iii) Ensure that all benefits due are paid correctly and in a timely manner.
 - (iv) Decide the aims of the investment policy.
 - (v) Make arrangements for managing the fund's investments.
 - (vi) Regularly monitor investment performance.
 - (vii) Make arrangements to publish the fund's annual report and accounts.
 - (viii) Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.
 - (ix) Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
 - (x) Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.
 - (xi) Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

4. Membership of the Board

- 4.1 The Board shall consist of 8 members and be constituted as follows:
- (a) Seven employer representatives
 - (i) Four employer representative will be county councillors who are not a member of the Pension Board or Cabinet and will be selected by the Administering Authority having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
 - (ii) One employer representative of the 5 district councils that are members of the Fund to be selected by the district councils collectively having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

- (iii) One employer representative of the Police and Crime Commissioner for Avon & Somerset to be selected by the Police and Crime Commissioner having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
 - (iv) one employer representative to be nominated by the remaining employers within the Fund who are not represented by (i)-(iii) above having demonstrated their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will arrange for a voting process of the qualifying employers.
- (b) One scheme member representative:
- (i) To be nominated by the Unions.
- 4.2 The Chair will be appointed annually by the Council as Administering Authority.
- 4.3 Due to the specialist knowledge requirements of Committee members, substitutes to the appointed members of the Committee are not permitted.
- 4.4 The committee will also be attended by:
- (i) an officer; and
 - (ii) a specialist independent adviser. In this respect the term independent means:
 - (i) having no current employment, contractual, financial or other material interest in either Somerset County Council or any scheme employer in the Fund; and
 - (ii) not being a member of the LGPS in the Fund.

The independent advisor will be a remunerated position.

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

- (a) ensuring the Board delivers its purpose as set out in the Committee's terms of reference;
- (b) the arrangements for meetings of the Committee;
- (c) ensuring that Committee meetings are productive and effective and that opportunity is provided for the views of all Committee members to be expressed and considered; and
- (d) seeking to achieve the consensus of all Committee members on the business presented to the Committee and ensure that decisions are properly put to a vote when that cannot be reached.

6. Conflicts of interest

6.1 All members of the Committee must declare on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Committee.

6.2 On appointment to the Committee and following any subsequent declaration of potential conflict the conflict must be managed in line with the, the internal procedures of Somerset County Council, the requirements of the Public Service Pensions Act 2013 and the requirements of the Pensions Regulator's codes of practice on conflict of interest for Committee members.

6.3 The Council's Monitoring Officer shall include interests registered by all members of the Committee in the published Members' and Co-opted Members' Register of Interests. All such interests are to be registered with the Monitoring Officer within 28 days of appointment to the Committee.

7. Knowledge and understanding including training

- 7.1 All new members must follow an induction training plan and all members of the Committee will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 The Committee has adopted a training policy and all members of the Committee are expected to meet the requirements of that policy.
- 7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

8. Term of office and removal from office

- 8.1 The members of the Committee serve for a four year term, subject to the following:
 - (a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
 - (b) the representatives of the district councils and the Police and Crime Commissioner for Avon and Somerset can be replaced by the relevant appointing group at their behest, but with a view to maintaining stability of membership;
 - (c) the members' representative may be replaced by the Unions, but with a view to maintaining stability of membership.
- 8.2 Members of the Committee will be expected to attend all meetings and training sessions. This will be recorded and published.
- 8.3 Other than by ceasing to be eligible for appointment to the Committee, Committee members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Committee at a meeting of the Committee where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.
- 8.4 Arrangements shall be made for the replacement of Committee members in line with the procedures for their original appointment.

9. Meetings

- 9.1 The frequency of meetings is to be determined by the Committee once it has agreed a workplan, with a minimum of four meetings annually. In addition to this, training sessions will be held as necessary to ensure that Committee members have sufficient knowledge and skills to undertake the role.
- 9.2 The Chair of the Committee may call additional meetings with the consent of other members of the Committee. Urgent business of the Committee between meetings may, in exceptional circumstances, be conducted via communications between members of the Committee including telephone conferencing and emails.
- 9.3 The Committee will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.
- 9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Committee. Committee meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Committee and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

10. Quorum

- 10.1 The quorum of the Board shall be 3 elected members.

11. Voting rights

- 11.1 Each of the 8 members of the committee will have voting rights. In the event of a tied vote the Chair has the option of having a final casting vote.

12. Code of Conduct

- 12.1 All members of the Board will be required to formally sign up to comply with the Somerset County Council Code of Conduct set out at Part 2, Section C of the Council's constitution.

13. Allowances and Expenses

- 13.1 Any councillor of the Council appointed to the Committee will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).
- 13.2 Reimbursement of expenses for all members of the Committee will be claimable in line with Somerset County Council's agreed expenses rates.

14. Budget

- 14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Committee will be met by the Fund.
- 14.2 The Council's Community Governance Team will provide the secretariat services to the Committee, the cost of which will be met by the Fund.

15. Accountability and reporting

- 15.1 The Committee is accountable solely to the County Council for the effective operation of its functions.
- 15.3 The Committee shall report annually to Full Council on its work.

16. Data protection and Freedom of Information

- 16.1 For legal purposes the Committee is considered a committee of and part of the administering authority legal entity. Therefore the Committee must comply with the Council's Data Protection and Freedom of Information policies.

Compliance with the guidance

The extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying are covered in the following tables.

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
A – Structure		
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Compliant	Somerset County Council has established the Somerset County Council Pensions Committee for this purpose. The specific terms of reference for the Committee are set within the fund's Governance Policy Statement.
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Compliant	The Pensions Committee includes representation of all the participating employers. Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Not Applicable	There are no secondary committees or panels in place.
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	Not Applicable	There are no secondary committees or panels in place.

B – Representation		
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:		
i) employing authorities (including non-scheme employers, e.g., admitted bodies);	Compliant	The Pensions Committee includes representation of all the scheme employers, including the County Council, District Councils, the Police and the Admitted Bodies.
ii) scheme members (including deferred and pensioner scheme members);	Compliant	Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
iii) where appropriate, independent professional observers;	Compliant	The independent investment advisor attends all Pensions Committee Meetings.
iv) expert advisors (on an ad-hoc basis).	Compliant	Our in-house officer expert advisors attend all Pension Committee meetings, including the Chief Financial Officer, investments manager and fund administration manager. The appointed actuary, external auditors and performance advisors also attend on an ad-hoc basis at least once per annum.

<p>b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.</p>	<p>Compliant</p>	<p>All members of the Pensions Committee receive equal access to the papers and training and have equal speaking rights in the consideration and discussion of all matters as part of the decision making processes.</p>
<p>C – Role of members</p>		
<p>a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.</p>	<p>Compliant</p>	<p>All new members receive regular specific training and access to external training and seminars.</p> <p>On appointment this includes specific time with lead officers to provide an induction into the role and a background to the Fund. Copies of relevant Committee Reports and Annual Reports are also made available.</p> <p>Specific Terms of Reference are also in place as part of the Fund’s Governance Policy Statement and specific legal guidance as to the role of Members has been provided to the Committee by the County Council Monitoring Officer.</p> <p>All Committee Members also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of a financial or non-financial nature and abstain from participation in that item on the agenda if appropriate.</p>

<p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p>Compliant</p>	<p>Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.</p>
<p>D – Voting</p>		
<p>a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.</p>	<p>Compliant</p>	<p>All members of the Pensions Committee have full voting rights.</p>
<p>E – Training, facility time and expenses</p>		
<p>a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.</p>	<p>Compliant</p>	<p>A formal training policy for members has been adopted by the Pensions Committee.</p> <p>The Committee forward work plan provides for specifically tailored training days, together with access to, and support for, external training provision and attendance at appropriate seminars.</p> <p>All members are encouraged to undertake regular training including attendance at the specific training days.</p> <p>All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.</p>

<p>b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.</p>	<p>Compliant</p>	<p>All Pensions Committee members have equal access and rights to training and related support.</p>
<p>c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken</p>	<p>Compliant</p>	<p>A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.</p>
<p>F – Meetings (frequency/quorum)</p>		
<p>a) That an administering authority’s main committee or committees meet at least quarterly.</p>	<p>Compliant</p>	<p>The Pensions Committee meets on a quarterly basis and forward dates have been agreed for at least twelve months in advance. A forward meeting plan is also in place</p>
<p>b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.</p>	<p>Not Applicable</p>	<p>There are no secondary committees or panels in place.</p>
<p>c) That an administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.</p>	<p>Compliant</p>	<p>The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.</p>

G – Access		
<p>a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.</p>	<p>Compliant</p>	<p>All members of the Pensions Committee receive the same agenda and papers containing advice for each meeting. All our Pensions Committee members can ask questions of our professional advisors who attend the Pensions Committee meetings.</p>
H – Scope		
<p>a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements</p>	<p>Compliant</p>	<p>Each meeting of the Pensions Committee receives a report on the performance of our pension fund, progress against the Forward Business Plan and key issues in respect of benefits administration.</p> <p>The Committee also receives regular reports and updates on approved policies including the communications policy statements.</p> <p>There are also annual reports from the appointed actuary, external auditor and performance advisors.</p>

I – Publicity		
<p>a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.</p>	<p>Compliant</p>	<p>The Governance Arrangements of the Pensions Committee are formally reviewed every four years as part of the Forward Business Plan.</p> <p>There are procedures in place for the re-appointment of individuals to the Pensions Committee at least every four years.</p> <p>All of the policies adopted by the Pensions Committee on behalf of the administering authority including the Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement are published annually in the Fund’s annual report and financial statement and are available on the County Council’s website. All of the policies and the annual report are available in hard or electronic copy on request.</p>

Local Pensions Board

The operations of the local pension board established under regulation 53(4) (Scheme managers) is governed by the Following Terms of Reference.

PENSION BOARD OF THE SOMERSET COUNTY COUNCIL PENSION FUND

TERMS OF REFERENCE

1. Introduction

- 1.4 This document sets out the terms of reference of the Pension Board of Somerset County Council. The Pension Board is established under Section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 1.5 The Board is established by Somerset County Council in its capacity as the Administering Authority of the Somerset County Council Pension Fund and operates independently of the Pensions Committee.
- 1.6 The terms of reference will be formally approved by the Council as the Administering Authority and by the Board itself at its first meeting.
- 1.7 These terms of reference shall be reviewed by the Council on the advice of the Board and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Board.

2. Definitions

- the Fund - Somerset County Council Pension Fund.
- the Board – The Pensions Board of Somerset County Council.
- the Pensions Committee – The Pensions Committee of Somerset County Council.
- LGPS – The Local Government Pension Scheme

3. Purpose and functions of the Board

- 3.1 The regulations state that the role of the Board is to assist the Administration Authority to:
- (a) secure compliance with:
- the LGPS Regulations;
 - any other legislation relating to the governance and administration of the LGPS; and
 - the requirements imposed by the Pensions Regulator in relation to the LGPS, and
- (b) ensure the effective and efficient governance and administration of the LGPS.
- 3.2 The Board will assist the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy and can only challenge decisions made by the Pensions Committee where the Board considers a decision to be in breach of the relevant Regulations (or overriding legislation). The Board's role is to have oversight of the governance process for making decisions and agreeing policy.
- 3.3 In discharging its role, the Board's remit shall cover all aspects of governance and administration of the LGPS, including funding and investments. The Board must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the Public Service Pensions Act 2013.

3.4 The Board will exercise its duties in the following areas:

- (a) monitor compliance with the relevant legislation and Codes of Practice set by The Pensions Regulator;
- (b) review and ensure compliance of the Fund's:
 - (i) governance compliance statement
 - (ii) funding strategy statement
 - (iii) pension administration strategy statement
 - (iv) discretionary policy statement
 - (v) communications policy statement
 - (vi) statement of investment principles
 - (vii) annual report and accounts
- (c) review and scrutinise the performance of the Fund in relation to its governance and administration, policy objectives and performance targets;
- (d) ensure policies and processes are in place so that employers comply with their obligations under the regulations;
- (e) review the processes for setting strategy, policy and decision-making and ensure they are robust;
- (f) agree the annual internal audit plan for the Fund;
- (g) consider the output of any internal audit work carried out on the Fund;
- (h) consider the external audit report on the Fund's Annual Report and Statement of Accounts;
- (i) review the Fund's risk register;
- (j) monitor the Fund's Internal Dispute Resolution Procedures;
- (k) from time to time the administering authority may consult the Board or ask assistance on specific issues.

3.5 Under Regulation 106(8) the Board has the general power to do anything which is calculated to facilitate or is conducive or incidental to, the discharge of its functions.

3.6 The Board must always act within its Terms of Reference.

4. Membership of the Board

4.1 The Board shall consist of 6 members and be constituted as follows:

(a) Three employer representatives

- (i) one employer representative will be a county councillor who is not a member of the Pension Committee and will be selected by the Administering Authority having taken account of their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the Local Government Pension Scheme;
- (ii) two employer representatives to be nominated by the employers having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

(b) Three scheme member representatives

- i) two members representatives will be nominated by the recognised trade unions having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS;
- ii) one members representative will be open to all scheme members. The administering authority shall contact scheme members advising them of the role and seeking nominations and asking them to demonstrate their capacity to represent other scheme members, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

4.2 Due to the specialist knowledge requirements of Board members, substitutes to the appointed members of the Board are not permitted.

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

- (e) ensuring the Board delivers its purpose as set out in the Board's terms of reference;
- (f) the arrangements for meetings of the Board;
- (g) ensuring that Board meetings are productive and effective and that opportunity is provided for the views of all Board members to be expressed and considered;
- (h) seeking to achieve the consensus of all Board members on the business presented to the Board and ensure that decisions are properly put to a vote when that cannot be reached.

5.2 The Chair will be appointed annually by Board. The Chair will be rotated around the 6 members of the Board.

6. Conflicts of interest

6.1 All members of the Board must declare on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Board.

6.2 On appointment to the Board and following any subsequent declaration of potential conflict the conflict must be managed in line with the Board's policy on conflicts of interest, the internal procedures of Somerset County Council, the requirements of the Public Service Pensions Act 2013 and the requirements of the Pensions Regulator's codes of practice on conflict of interest for Board members.

6.3 The Council's Monitoring Officer shall include interests registered by all members of the Board in the published Members' and Co-opted Members' Register of Interests. All such interests are to be registered with the Monitoring Officer within 28 days of appointment to the Board.

7. Knowledge and understanding including training

- 7.1 All new members must follow an induction training plan and all members of the Board will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 All members must be prepared to participate in such regular personal training needs analysis or other processes as are put in place to ensure that they maintain the required level of knowledge and understanding to carry out their role.
- 7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

8. Term of office and removal from office

- 8.1 The members of the Board serve for a four year term, subject to the following:
 - (a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
 - (b) the two union nominated member representatives can be amended at any time by the unions, but with a view to maintaining stability of membership.
- 8.2 Members of the Board will be expected to attend all meetings and training sessions. This will be recorded and published. The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors

- 8.3 Subject to 8.4 below, a Board member can be removed from the Board in the following circumstances (but not limited to):
- (a) A poor attendance record;
 - (b) if a member does not undertake training as requested by the administering authority;
 - (c) if a member is In breach of Council's Code of Conduct / Declarations policy;
 - (d) if a member has a conflict of interest that cannot be managed in accordance with the Board's conflicts policy;
 - (e) if a representative member ceases to represent his constituency e.g. leaves the employer so no longer has the capacity to represent the Fund's employers.
- 8.4 Other than by ceasing to be eligible for appointment to the Board, Board members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Board at a meeting of the Board where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.
- 8.5 Arrangements shall be made for the replacement of Board members in line with the procedures for their original appointment.

9. Meetings

- 9.1 The frequency of meetings is to be determined by the Board once it has agreed a workplan, with a minimum of two meetings annually. In addition to this, training sessions will be held as necessary to ensure that Board members have sufficient knowledge and skills to undertake the role.
- 9.2 The Chair of the Board may call additional meetings with the consent of other members of the Board. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and emails.
- 9.3 The Board will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.
- 9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Board. Board meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Board and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

10. Quorum

- 10.1 The quorum of the Board shall be 3 to include the Chair. The quorum must include one employer representative and one member representative.

11. Voting rights

- 11.1 Each of the 6 members of the committee will have voting rights. In the event of a tied vote the Chair has the option of having a final casting vote.

12. Code of Conduct

- 12.1 All members of the Board will be required to formally sign up to comply with the Somerset County Council Code of Conduct set out at Part 2, Section C of the Council's constitution.

13. Allowances and Expenses

- 13.1 Any councillor of the Council appointed to the Board will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).
- 13.2 Reimbursement of expenses for all members of the Board will be claimable in line with Somerset County Council's agreed expenses rates.

14. Budget

- 14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Board will be met by the Fund.
- 14.2 The Council's Community Governance Team will provide the secretariat services to the Board, the cost of which will be met by the Fund.
- 14.3 The Board will have open access to all officers involved in the running of the Fund and any advisors already employed by the Fund (e.g. the Fund's Actuary).
- 14.4 The Board may make requests to the Section 151 Officer to approve any additional expenditure required to fulfil its obligations which will then be charged to the Fund. This would include any officer resources not already employed by the Fund.

15. Accountability and reporting

- 15.1 The Board is accountable solely to the County Council for the effective operation of its functions.
- 15.2 The Board shall report to the Pensions Committee as often as the Board deems necessary and at least annually on:
- (a) a summary of the work undertaken;
 - (b) the work plan for the next 12 months;
 - (c) areas raised to the Board to be investigated and how they were dealt with;
 - (d) any risks or other areas of potential concern it wishes to raise;
 - (e) details of training received and planned; and
 - (f) details of any conflicts of interest and how they were dealt with.
- 15.3 The Board shall report annually to Full Council on its work. It will also and as necessary from time to time report to Full Council any breach in compliance, or other significant issue, which has not been resolved to the satisfaction of the Board within a reasonable time of being reported to the Pensions Committee.
- 15.4 The Board shall report to the Scheme Advisory Board:
- (a) any areas of persistent non-compliance;
 - (b) any areas of non-compliance with the LGPS Regulations that have been reported to the Pensions Committee and full council but persist to be of a material concern.
- 15.5 The Board shall report to the Pensions Regulator all material breaches of the Pensions Regulator regulatory guidance, following notification to full council and the Pensions Committee.

16. Data protection and Freedom of Information

- 16.1 For legal purposes the Board is considered a committee of and part of the administering authority legal entity. Therefore the Board must comply with the Council's Data Protection and Freedom of Information policies.

Arrangements for reviewing this policy

This policy statement will be regularly reviewed by the pensions committee. If we need to make any significant changes, we will consult all employers whose employees are members of the fund and publish the amended policy.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
XXXXXXX**

DRAFT

Pensions Committee Scheme of Delegation

Introduction

In order to meet its obligations from time to time the Pensions Committee will find it necessary to delegate certain functions to officers. This document provides a clear framework around standard operating functions as to what decisions and operations have been delegated to officers and what has been retained by the Committee.

All references in this document to the Chief Financial Officer means the most senior finance officer and appointed Section 151 Officer of Somerset County Council, it does not refer to a job title for that individual. Where committee delegates tasks to the Chief Financial Officer they are then free to assign tasks to other officers at their discretion.

This scheme of delegation will refer in turn to each of the main responsibilities of the Committee as laid out in the Committee's terms of reference, which form part of the fund's Governance Policy Statement.

Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.

The Chief Financial Officer is responsible for ensuring the legal operation of the fund and will bring matters of significance to the attention of the Committee.

Ensure all contributions due are collected from employers.

The Chief Financial Officer will maintain procedures to ensure relevant employers pay contributions and that these contributions meet the requirements set by the fund's actuary.

Ensure that all benefits due are paid correctly and in a timely manner.

The Chief Financial Officer will maintain procedures to ensure the correct calculation and payment of benefits by the fund

Decide the aims of the investment policy.

Committee agree the aims of the investment policy and publish this in the form of the funding strategy statement and statement of investment principles.

Make arrangements for managing the fund's investments.

The Committee will decide the fund's asset allocation both in terms of asset classes and investment mandates that will be managed either internally or by external fund managers.

The Committee will decide the fund's voting, engagement and socially responsible investment policies. The Chief Financial Officer will make arrangements for the implementation, monitoring and any necessary reporting against the agreed policies.

The Committee will advise the Chief Financial Officer of their preferences when appointing external fund managers, under County Council contract standing orders all contracts must be awarded and managed by officers. The Committee will advise the Chief Financial Officer if they wish a fund manager's contract to be terminated.

The Chief Financial Officer is responsible for the appointment of a global custodian for the fund and the management of this contract.

Where the Committee decide that assets will be managed in-house the Chief Financial Officer will make suitable arrangements for these assets in accordance with any guidelines provided by Committee.

The strategic asset allocation of the fund is set by the Committee. Once agreed by Committee the Chief Financial Officer is responsible for the monitoring of the investment assets against the strategic asset allocation and periodically rebalancing of the fund to optimise the balancing of risk and return. The Chief Financial Officer will report on all actions in this regard to the Committee at each formal meeting.

The Chief Financial Officer is responsible for the day to day monitoring and recording of the investment assets.

Regularly monitor investment performance.

The Committee will review the performance of all fund managers quarterly. The Committee will meet with external fund managers periodically at their discretion to discuss performance.

The Chief Financial Officer will review the performance of all fund managers monthly and officers will meet with external fund managers quarterly to discuss performance.

Make arrangements to publish the fund’s annual report and accounts.

The Chief Financial Officer will make arrangements for the production and audit of the fund’s annual report and accounts. The Committee will receive the external auditor’s report annually.

Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.

The Chief Financial Officer will make arrangements for the drafting of all policies and statements and undertake consultations as applicable. The Committee will be responsible for approving all policies and statements after receiving feedback from any consultations undertaken.

Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.

The Chief Financial Officer will appoint a suitable actuary for the fund in consultation with the Committee and instigate the valuation process. The Committee will receive the actuary’s draft valuation report and approve it. The Committee will meet with the actuary at least annually to receive an update.

Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.

The Committee will be informed by the Chief Financial Officer of applications from organisations who wish to join the fund as admitted bodies and any requests to alter the terms of an existing admission agreement. Where the regulations allow it the committee will approve any such applications and also may set any pre-conditions on the acceptance of new admitted bodies.

Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

The Committee will instruct the Chief Financial Officer on what it wishes to be included in any representations, which he will then draft and send accordingly.

Contract Standing Orders

The Contract Standing Orders of Somerset County Council apply to the operation of the Somerset County Council Pension Fund, however the Contract Standing Orders contain the ability for the Pensions Committee to exempt the fund from clauses where it is deemed this is necessary by Pensions Committee. The following sections of Contract Standing Orders will not apply to Contracts relating to the Fund and will be replaced by the provisions given below.

Section 24 – exempted in full

Replaced by:

No procurement process for requirements with a value of over £25,000 will commence before the requirement has been countersigned by the Chief Financial Officer

Section 29 – clarification

The relevant Senior Leadership Team officer for the fund is the Chief Financial Officer.

Use of a Waiver must be approved by the Chief Financial Officer.

Section 30 – exempted in full

Replaced by:

Approval to accept a proposal or tender can only be given by the Chief Financial Officer.

Section 31 – exempted in full

Replaced by:

Every contract shall be signed on behalf of the Council, acting in its capacity as the administering authority of the Pension Fund, by 2 officers who have been given authority to do so by the Chief Financial Officer.

Section 35 – partial exemption

Exempt from consulting with or obtaining the approval of the Business Development Director or Legal Services.

Replaced by:

Consult with specialist legal advisors.

Section 37 & Section 38 – partial exemption

Exempt from having to include SCC Terms and Conditions

Section 39, 40 & 41 – exempted in full

Replaced by:

A contract may only be signed after having been approved by specialist legal advisors.

Section 43 – partial exemption

Any variations or changes will need to be approved by the Chief Financial Officer and comply with Contract Standing Orders (as modified by this Pension's Committee Scheme of Delegation).

Section 45 – exempt from 45.1 in full

Replaced by:

Subject to the provisions of the contract, every extra or variation will be evidenced and authorised in writing by the Council Officer responsible for the contract or the agent acting on behalf of the Council.

All variations will be reported to the Chief Financial Officer.

Section 46 – exempted in full

Replaced by:

Approval of the Chief Financial Officer must be sought to terminate a contract.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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Pensions Committee Training Policy

Introduction

The 2004 Pensions Act requires that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits. Members of the Pensions Committee are not legally trustees and are not bound by this law, however they should aspire to reach a similar standard.

Within the Local Government Pension Scheme (LGPS) the statutorily required Governance Compliance Statement requires the fund to compare its practice to the following statement:

“That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.”

Pension Committee members will be expected to undertake regular training to ensure they have sufficient knowledge of the LGPS, pension benefits and investment issues to make informed decisions for the benefit of all stakeholders.

CIPFA Knowledge and Skills Framework

The Chartered Institute of Public Finance and Accountancy (CIPFA) in 2010 published a Pensions Finance Knowledge and Skills Framework and accompanying guidance for elected representatives, non-executives and officers.

The fund has formally adopted the framework, will assess all relevant individuals against the suggested standards of knowledge and ensure relevant training is made available.

An assessment of competence against the framework and training undertaken by relevant individuals will be provided in the fund’s annual report as required by the framework.

Annual Training Commitment

Pension Committee members are encouraged to undertake training within the following guidelines:

Level 1 - New Pensions Committee members 1st year of office

New members should have 1-3 days training via:

- Receiving 1/2 day in-house induction training on the LGPS and its benefits, the membership and role of the Committee and the current investment structure of the fund.
- Reading the Pension Committee Members Handbook containing key documents such as the Fund Members guide, the Fund Annual Report and Financial Statement and background reading and knowledge building for 1/2 day.
- Attending at least one days external training on relevant topics.
- Attending the annual employers communications meeting.

Level 2 – Members 2nd and 3rd year of office

Should undergo 1 or 2 days a year personal training to build their knowledge and skills in specific topics in greater depth such as:

- Investing in specific asset classes
- Fund manager performance measurement
- SRI, corporate governance, and activism
- Actuarial valuation
- Fund accounting and taxation
- Third party pensions administration

Level 3 - Member serving longer than 3 years

Should seek to have at least 2 days a year of "updating and refreshment" personal training and/or more advanced training in specialist topics, on either fund investment or pensions administration.

The training undertaken by each member of the committee in each financial year will be reported annually in the fund's annual report and financial statement along with their attendance record at Committee Meetings.

Suitable Events

It is anticipated that at least 1 days annual training will be arranged and provided by officers to address specific training requirements to meet the Committee’s forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses.

There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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Communication policy statement

Introduction

Under the Local Government Pension Scheme Regulations 2013 [SI 2013/2356], each administering authority in England and Wales must prepare, maintain and publish a statement setting out their policy on communicating with members, members' representatives, future members and employers whose employees are members in the fund.

This document represents the communication policy based on good custom and practice that has developed over many years. This policy will be continually reviewed to make sure it provides for effective and efficient communication with the range of stakeholders in the Somerset County Council Pension Fund.

Peninsula Pensions is a shared service with Devon County Council and provides the administration of the LGPS on behalf of Somerset County Council Pension Fund. Communication may be from/with Peninsula Pensions or Somerset County Council as appropriate.

Scheme members

The fund will communicate with scheme members in the following ways.

- Peninsula Pensions issues statutory notifications to new scheme members on a monthly basis, including information about how to access a full scheme guide and other documents.
- Peninsula Pensions will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.
- Peninsula Pensions will send newsletters to current scheme members and pensioners once a year.

- Peninsula Pensions will run presentations for scheme members as and when requested by employers.
- Information about the scheme, including a full scheme guide, is available on the Peninsula Pensions website www.peninsulapensions.org.uk .
- Member self-service is available via the Peninsula Pensions website for current and deferred scheme members, allowing members to view their record, update their address and run simple estimates.

It is also important to recognise that not all individuals who are eligible to join the scheme will be aware of the benefits of being a member. The fund will on occasion contact people who are non-members to remind them of the benefits and the process for joining the scheme. Information about the scheme for prospective joiners is available on the Peninsula Pensions website.

Scheme employers

The employers whose employees are members of the Somerset County Council Pension Fund are key stakeholders. The fund needs to communicate with them effectively so we can build the partnerships needed to manage the scheme efficiently and effectively.

Communication provided will include:

- an annual meeting to give an update on the investment and administration of the fund, together with key developments affecting the LGPS (this will include details of the current actuarial position of the fund);
- a meeting twice a year for employers about administration;
- a quarterly e-zine covering updates and administrative matters;
- site visits to employers when requested;
- formal consultation on regulatory issues with employers;
- training seminars for employers; and
- employer forms and guides available on the Peninsula Pensions website.

Elected members

This includes communicating with the members of the pensions committee and the county council as administering authority.

- The pensions committee meeting is made up of elected members from both the county council and employing authorities. These meetings are open to all stakeholders and members of the public.
- The fund will provide specific technical training sessions.

Miscellaneous

The fund will communicate with a range of stakeholders in the following ways.

- The fund will issue an annual report and accounts to employing authorities, elected members and other interested stakeholders.
- The fund will review and maintain a funding strategy statement after consulting employing authorities.
- The fund will review and maintain the statement of investments principles after consulting employing authorities.
- Peninsula Pensions is working towards providing all communications electronically (including newsletters and annual benefit statements) and will contact all scheme members about this in due course. The option to continue to receive communications via post will remain available.

Arrangements for reviewing this policy

This policy statement will be regularly reviewed by the pensions committee. If we need to make any significant changes, we will consult all employers whose employees are members of the fund and publish the amended policy.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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LOCAL GOVERNMENT PENSION SCHEME

Somerset Pension Fund Administration Strategy



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Pension Administration Strategy 2014

1. Introduction

Peninsula Pensions is a shared pension administration service, run by Devon County Council, providing the Local Government Pension Scheme (LGPS) administration for both Devon and Somerset administering authorities.

The shared service started on 1 September 2013 with both teams coming together in one office in February 2014.

The Devon and Somerset Pension Funds and their Committees remain independent from each other with each Administering Authority retaining Investment responsibility. Both the Devon and Somerset Pension Fund Committees, have agreed to the implementation of a Pension Administration Strategy (PAS). Although there will be one strategy per fund, the contents will be the same for both, to ensure an equal, efficient and quality service for all stakeholders.

The Pensions Administration Strategy supports the pension fund on behalf of its employing authorities and the administering authority. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations.

In no circumstances does this strategy override any provision or requirement of the regulations set out below nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

The Fund will review and revise this policy statement if policies which relate to strategy matters change. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.

2. The Regulations

In accordance with Regulation 59 of the Local Government Pension Scheme (Administration) Regulations 2013:

- 1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.
- 2) The matters are:
 - a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
 - b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
 - (i) the setting of performance targets,
 - (ii) the making of agreements about levels of performance and associated matters, or
 - (iii) such other means as the administering authority considers appropriate;
 - c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
 - d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
 - e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);

f) the publication by the administering authority of annual reports dealing with:

- (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under subparagraph (b), and
- (ii) such other matters arising from its pension administration strategy as it considers appropriate; and

g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

3) An administering authority must:

- a) keep its pension administration strategy under review; and
- b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

5) An administering authority must publish:

- a) its pension administration strategy; and
- b) where revisions are made to it, the strategy as revised.

6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

3. The Administration Strategy

This strategy formulates the administrative arrangements between the pension fund and the participating employing authorities. It recognises that both fund employers and Peninsula Pensions have a shared role in delivering an efficient and effective pension fund to its scheme members and this can only be achieved by co-operation.

With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

An annual report will be issued by Peninsula Pensions to illustrate the extent to which the standard of performance established under this strategy has been achieved and such other matters arising from the strategy as appropriate.

4. Liaison and Communication

The delivery of a high quality, cost-effective administration service is not the responsibility of just the administering authority, but depends on the administering authority working with a number of individuals in different organisations to make sure that members and other interested parties receive the appropriate level of service and ensure that statutory requirements are met.

Peninsula Pensions will have an Employer Liaison Officer who will be the main contact for any administration query relating to the correct interpretation of the LGPS regulations, employer responsibilities and help when completing interfaces and forms.

Each employing authority will designate named individual(s) to act as a **Pensions Liaison Officer** the primary contact with regard to any aspect of administering the LGPS. The Pension Liaison Officer(s) will be given a user name and password to access the employer section of the Peninsula Pensions website

Peninsula Pensions will employ a multi-channel approach in liaising and communicating with employing authorities to ensure that all requirements are consistently met.

The various channels of communication employed by the fund include:

1. **Peninsula Pensions website** – the main communication tool for both employers and scheme members.
 - **Employers** – Dedicated and secure employer section where employers can access procedure guides, information on courses run by the fund, access back copies of the Pensions Line, access Employer Self Service and Interface information.
 - **Electronic communication** – unless agreed separately all employers will be required to provide data through the Employer Self Service Portal and/or Interfaces.
 - **Scheme members** – access to up-to-date information about all aspects of the LGPS. Member Self service area where member's can update personal details, review annual benefit statements and newsletters and do their own pensions estimates.
 - **Contact Details** – All Peninsula Pension Staff roles and contact information together with both Funds Investment Team contact details
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. **Periodic newsletters** issued to scheme members and all employing authorities and placed on Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding, minimum number of attendees 10 required
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Quarterly E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held when required to review scheme developments, or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review the investment and administrative issues that the pension fund has experienced during the preceding 12 months, and also to look forward at the challenges that lie ahead for the next 12 months.

9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

Note: Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. That responsibility rests with the employer.

Payroll providers – where an employer delegates responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form needs to be completed confirming which areas you are allowing them to act on your behalf for. If the information received from the payroll provider results in wrong information/benefit being paid the responsibilities under the Local Government Pension Regulations rest with the Employer.

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5. Standards of Performance - Employers

Expectation is to complete 90% of cases within the timescale quoted.

Employer Responsibility	Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods
To ensure that all employees subject to automatic admission are brought into the scheme from the date of appointment. Determine their pensionable pay and contribution rate.	1 month
Update Peninsula Pensions with changes to scheme members details such as change of hours or name.	1 month
Deduct scheme member contributions including APCs and pay over to the fund.	As stipulated by your pension fund
To deduct from a members pay and pay over any Additional Voluntary Contributions (AVCs) to the in-house AVC provider	Before the 19 th of the following month after deducted from pay
On cessation of membership determine reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Retirees preferably at least 1 month before date of leaving.. All within 5 working days of final payday. Leavers under age 55 within 1 month from final payday.
Where a member dies in service determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Preferably within 2 weeks of date of death. All within 5 working days of final payday.
Provide monthly CARE data within required format	Within 2 weeks of pay run
Provide end-of-year data within required format	30 April each year

<p>Publishing a policy relating to the key employing authority discretions required by the LGPS regulations</p>	<p>Within 1 month of publication</p>
<p>Under Data Protection Act 1998 an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS.</p>	<p>Ongoing requirement</p>
<p>There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct .</p>	<p>Annually</p>

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6. Level of Performance – Peninsula Pensions

Expectation is to complete 90% of cases within timescale quoted based on all relevant information being received from the scheme employer.

Peninsula Pensions Responsibility	Timescale
To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.	Ongoing support
Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.	Ongoing support
To accurately record and update member records on pension administration systems.	10 working days
To produce a statutory notification and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.	1 month of notification
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	3 months
To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.	Sent out/available on MSS by 31 August

<p>To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.</p>	<p>Sent out/available on MSS by 30 June</p>
<p>To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.</p>	<p>Within 10 working days</p>
<p>To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).</p>	<p>Within 10 working days</p>
<p>To produce retirement estimates for employers, once in receipt of all of the necessary information.</p>	<p>Within 10 working days</p>
<p>To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.</p>	<p>Within 1 month</p>
<p>To accurately calculate and inform the member of the options available to them upon retirement.</p>	<p>10 working days from receiving all information from employer</p>
<p>Upon receipt of members completed retirement forms finalise pension records, and authorise payment of lump sum and set up of payroll record.</p>	<p>Within 5 working days</p>
<p>Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.</p>	<p>Ongoing requirement, online security within databases regularly reviewed.</p>

<p>Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.</p>	<p>Peninsula Pensions will maintain links to these discretions on their website.</p>
<p>Notification of Pension Fund Triennial Valuation results including contributions rates</p>	<p>Assuming information provided by Actuaries provisional results December following valuation, with final results the following March</p>

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7. Financial Information

Contributions (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

Employer contribution rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

Administration fees and other charges

Interest on late payments

- In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.
- Interest will be calculated at 1% above base rate on a day-to-day basis from the due date to the date of payment and compounded with three-monthly rests.

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case, and
- the extent to which the pension fund and the employing authority have complied with those provisions in carrying out their functions under these regulations.

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer to be applied for the subsequent three year period.

The costs associated with the administration of the scheme are charged directly to the pension fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

Note: If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Please note charges are set out separately within the attached appendix.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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APPENDIX

Administration Fee – Peninsula Pensions will charge employers outsourcing services a Fee of £750 to cover both the pension administration and legal work necessary in the setting up of an Admission Agreement. The Fee will become payable once we have issued the draft admission agreements to relevant parties. If the outsourcing is of a complex nature the Fee may be renegotiated with the employer concerned. This is in addition to any actuary work required

Actuary Fixed Fee Menu for Standard Work up to 31/12/2015 (revised annually)

Funding Updates (roll forward approach)

Annual Funding update	£1,755
Quarterly Funding update	£1,175
Monthly Funding update	£760
Employer Funding update	As per FRS17 Scale

Employer Work

New Employer (no previous interest in Fund) Contribution Rate *	£1,395
New Employer Bond and Contribution *	£1,470
Single Bond review - ER Strain Only *	£960
Single Bond review - ER Strain and Deficit *	£2,060
Cessation Valuation *	£2,060
Cessation Valuation Update	£885
Projected Cessation Valuation with sensitivities *	£2,930

Cessation roll forward from valuation to payment date	£265
Closure Valuation *	£2,060
Combined Closure/cessation valuation *	£2,930
New employer deficit assessment and ctbn rate (academies etc)	£1560
	£1480
New pooled employer deficit assessment and ctbn rate (academies etc)	£530
Pooled Free School ctbn rate	
Review of GAD Broadly Comparable Report	£1,120
Internal Bulk Transfer *	£950
Valuation of unfunded pensions and report *	£1,395
Miscellaneous Work	
Actuarial Statement for Accounts	£585
Individual Member Calculation (excl tax calcs)	£320
Review of FSS/SIP	£1,470
Projected cashflow report	£3,715

FRS17/IAS19 Work

Audit letter	£365
Rerun report (amended data - eg conts)	£180
Own assumptions - extra charge	£300
Rerun report (different assumptions)	£300
Full valuation of unfunded pensions	£885
Projected Service Costs per employer	£185
IAS 26 report whole fund	£750
Additional Sensitivity table other than 0.1%	£265
Employer Monthly Update	£530
First time FRS17/IAS19 report (non roll forward approach)	£1,675
First time FRS17/IAS19 report (roll forward approach)	£835
Early report (pre accounting date)	£835
Early report (post accounting date) - scale fee plus	£185

FRS17/IAS19 Reports (roll forward approach)

First Employer	£1,400
Next 9 employers	£485
Next 20 employers	£285
Thereafter	£165
Minimum fee per roll forward report	£360
Maximum fee per roll forward report	£770

Actuary Notes

Assumes between 10 and 500 members. If less than 10 members then a discount of 20% will apply. If more than 500 members then fee is increased by 10%

If the nature of the work changes due to regulatory changes then we may want to review the level of fee

Some work may need to be customised to meet any specific requests - any additional fee will be quoted in advance

FRS17/IAS19 roll forward fees increase by 10% in year following triennial valuation

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