

Somerset County Council Pension Fund Annual Report & Accounts 2020/21



County Hall, Taunton, Somerset TA1 4DY

www.somerset.gov.uk

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Chair's report

This annual report sets out the activities of the pension fund for the year ending 31 March 2021. It is produced to provide information for the following four groups.

- **Those responsible for managing the fund (our elected members).**
- **Those currently receiving benefits from the fund (the pensioners).**
- **Those who will receive benefits from the fund in the future (the deferred pensioners).**
- **Those who contribute to the fund (the active scheme members and employers).**

Obviously much of the financial year covered by this report was dominated by the COVID pandemic, however there was still a lot of other change and work during the year. In last year's report we noted the change to regulations to allow for exit payments where an employer leaves the fund with a surplus. The Pensions Committee have been working through changes to our Funding Strategy Statement (FSS) to put in place our own policies for exit payments and other related additional freedoms and a new FSS will be signed off soon. Committee has also started work on reviewing and refreshing the Fund's Investment Strategy Statement.

The Government has been working to put in place new regulations to cover the issues noted last year relating to the McCloud court case.

After a couple of comparatively quiet years in terms of Governance we are expecting a significant step change in 2021-22 with the LGPS Scheme Advisory Board's "Good Governance" review and The Pensions Regulators new code of practice both due.

During the last year officers have had to contend with learning how to work 100% remotely, including producing the 2020-21 accounts and the audit of those accounts. I am pleased to say that the officers managed this change smoothly. Whilst there was an initial pause in the process of pooling of our investments our officers have worked with Brunel and the other partner LGPS funds to continue to move the partnership forward. During the financial year covered by this report the Somerset fund moved from having 56% of assets managed by Brunel to 76%. Brunel has also worked hard to refresh its governance arrangements and push forward with its strategy for managing Climate Change.

Investment returns for the year, at 27.2%, were very strong. Much of this was simply recouping the impact of the COVID-19 crisis with returns in the quarter to 31 March 2020 of -13.4%, but returns have still been surprisingly strong considering that economic growth is still significantly below its pre-pandemic levels. Equity returns were very high, with some portfolios generating returns in excess of 40%. Fixed income returns were more muted at around 7% whilst we made a small loss on property.

Overall the Fund outperformed its own customised benchmark by 2.5%, with in particular our Equity fund managers outperforming their own benchmarks.

During the year, contributions paid into the scheme were greater than the pensions paid out. The net result is that before expenses and investment returns the fund grew by £8.5m. We expect this figure to continue to be positive for the current financial year.

The last formal valuation was 2019, indicating that the funding level was 86%. The next valuation will take place in 2022 and officers are already working with our actuary to prepare for this.

I would like to thank my fellow committee and board members for their commitment and support over the last year, I would particularly like to thank Graham Noel for his contribution as my predecessor as Chair of the Pensions Committee, it has been reassuring to have Graham still on the Committee as I get used to my new role as Chair. Finally, I would like to thank the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees.

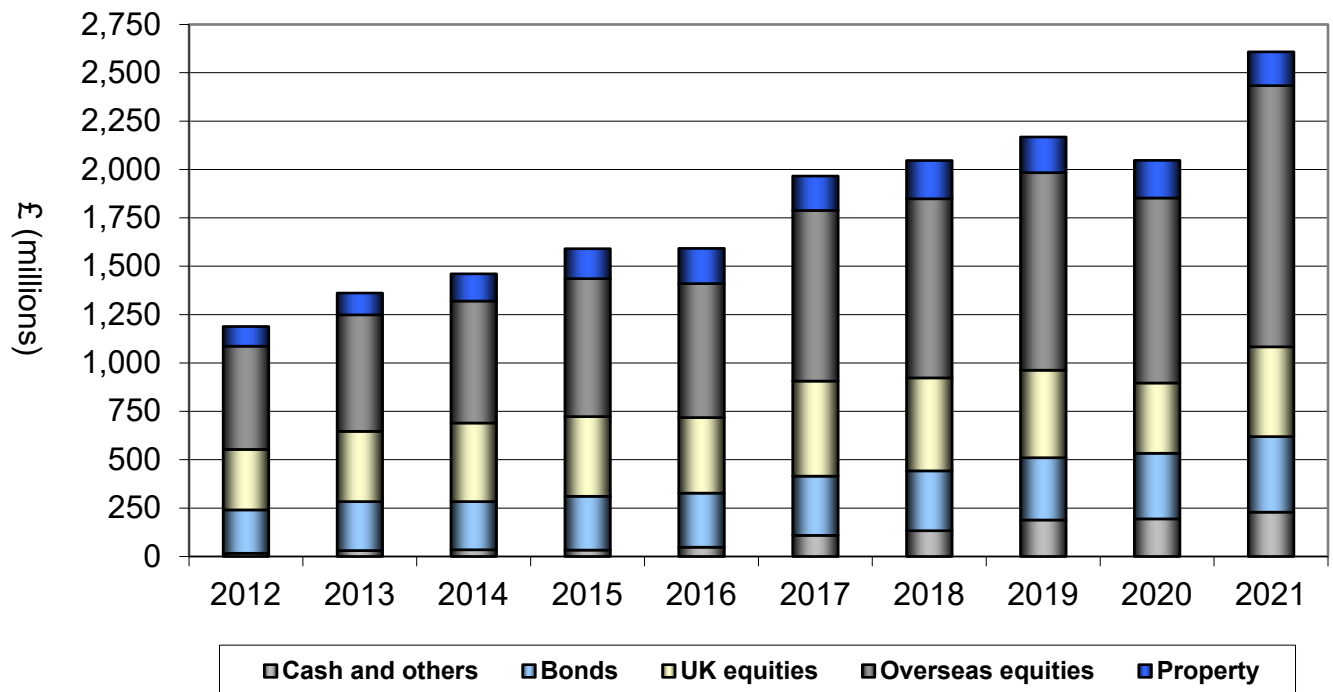
John Thorne

Chair of the pensions committee

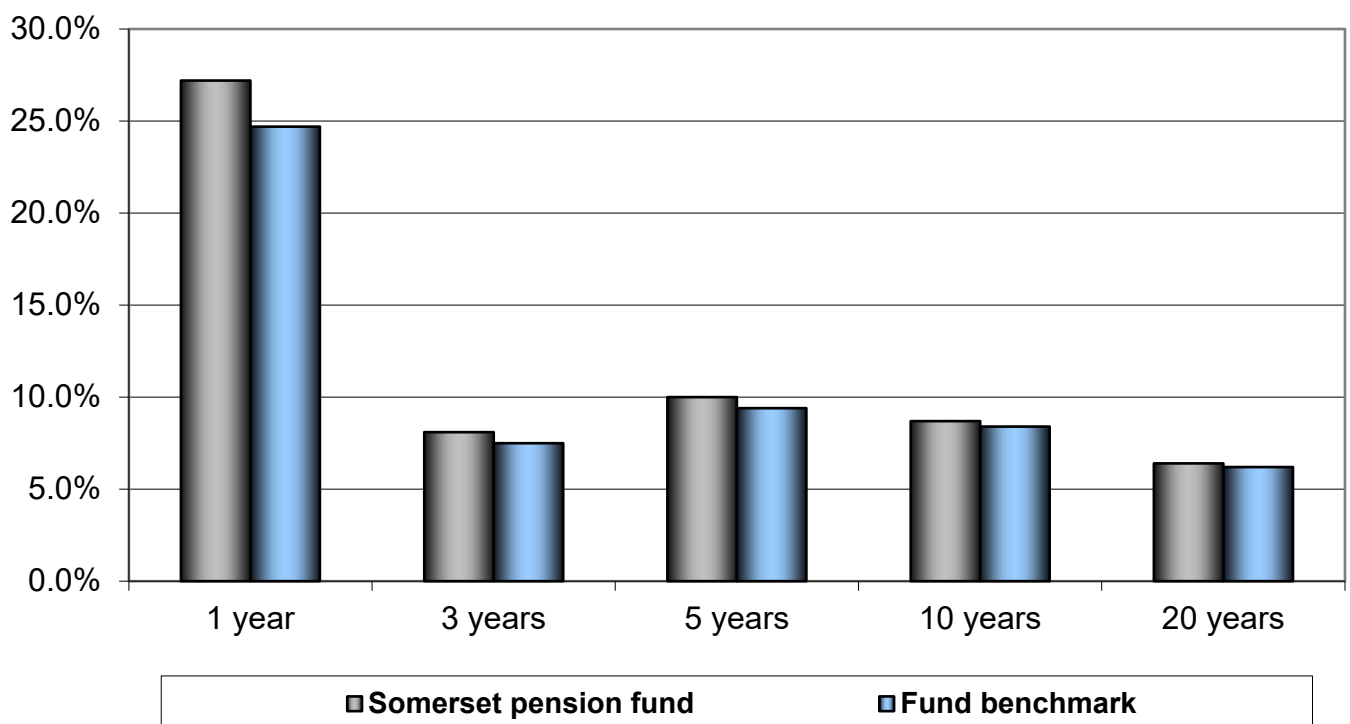
Summary of the scheme

Statistical overview

Fund investment assets



Annualised fund investment performance



Source: Somerset CC

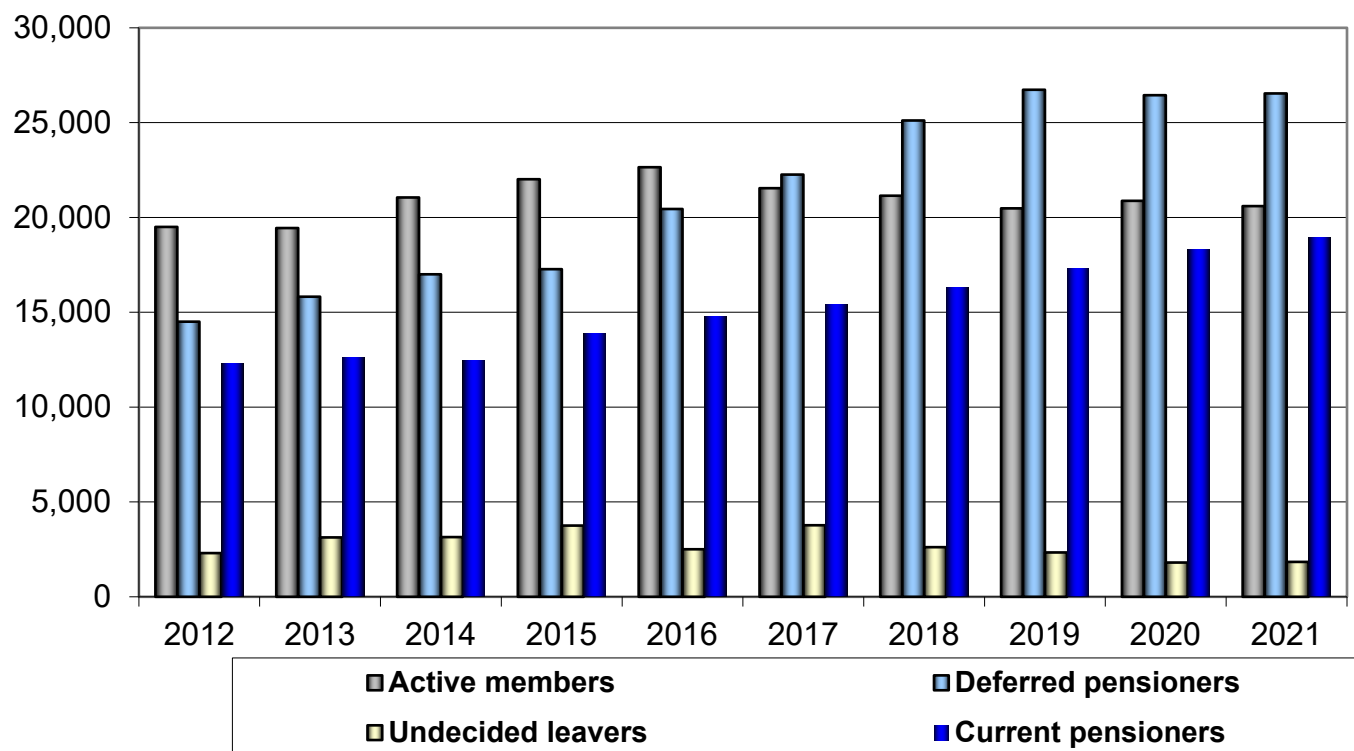
Analysis of investment assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	463.496	122.453	1,227.756	1,813.705
Fixed Interest	260.195	130.232	0.000	390.427
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	177.350	0.020	70.497	247.867
Cash	156.449	0.000	0.000	156.449
Other	0.000	0.000	0.000	0.000
Total	1,057.490	252.705	1,298.253	2,608.448

Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	0.132	2.062	0.000	2.194
Fixed Interest	6.203	4.285	0.000	10.488
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	5.753	0.000	0.000	5.753
Cash	0.651	0.000	0.000	0.651
Other	0.059	0.000	0.000	0.059
Total	12.798	6.347	0.000	19.145

Fund membership statistics



Employer statistics

	Active	Ceased	Total
Scheduled body	131	20	151
Resolution body	30	1	31
Admitted body	36	33	69
Total	197	54	251

Financial Statistics – five-year trends

	2016/2017 £ millions	2017/2018 £ millions	2018/2019 £ millions	2019/2020 £ millions	2020/2021 £ millions
Income from contributions	95.316	107.412	114.351	122.636	122.968
Spending on benefits	-86.989	-94.887	-102.191	-111.516	-114.496
Contributions less benefits	8.327	12.525	12.160	11.120	8.472
Management Expenses	-6.861	-7.619	-7.956	-8.175	-9.134
Investment income	52.166	58.515	45.712	33.203	19.031
Change in value of investments	318.549	25.319	70.521	-159.714	544.893
Net return on investments	370.715	83.834	116.233	-126.511	563.924
Change in net assets	372.181	88.740	120.437	-123.566	563.262

Value for money statistics

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Administration expenses (£m)	1.157	1.113	1.170	1.285	1.270
Investment management expenses (£m)	4.964	5.706	6.178	6.228	7.183
Oversight and governance expenses (£m)	0.740	0.800	0.608	0.662	0.681
Total expenses	6.861	7.619	7.956	8.175	9.134
Administration expenses per member	18.75	17.36	17.71	19.13	18.77
Total expenses per member	111.20	118.84	120.46	121.73	134.99
Investment expenses (p) per £ of assets	0.28	0.28	0.29	0.30	0.31
Total expenses (p) per £ of assets	0.39	0.38	0.38	0.39	0.39

Member numbers are the average of the opening and closing membership for the year.

Asset numbers are the average of the opening and closing investments assets for the year.

Other Statistics

	2016/2017	2017/2018	2018/2019	2019/2020	2020/2021
Income yield on average assets	2.98%	2.98%	2.23%	1.60%	0.82%
Average pension in payment (£)	4,514	4,487	4,518	4,586	4,531

Pensions committee

Somerset County Council, the administering authority for the pension fund, has delegated its responsibility to manage the fund to the pensions committee under the county council's constitution.

The pensions committee meets regularly to consider all aspects of the administration of the fund. In line with legal regulations, they get advice from professional advisors, the fund's managers and officers, as necessary. The pensions committee makes decisions about the fund's overall policy and investment strategy, taking account of the professional advice it has received.

The following committee was in place during 2020-21, the in-year changes are detailed.

John Thorne (Chair)

John is one of the four county council representatives on the committee and is the councillor for Blackdown and Neroche. John joined the committee in November 2020 and has been the chair since joining the committee.

Simon Coles

Simon is one of the four county council representatives on the committee and is the councillor for Taunton East. Simon joined the committee in May 2017.

James Hunt

James is one of the four county council representatives on the committee and is the councillor for Upper Tone. James left the committee in November 2020.

Graham Noel

Graham is one of the four county council representatives on the committee and is the councillor for Mendip West. Graham stepped down from being the committee chairman in November 2020 but remains a committee member. Graham joined the committee in May 2013.

John Parham

John is one of the four county council representatives on the committee and is the councillor for Shepton Mallet. John joined the committee in May 2019.

Ross Henley (district councils' representative)

Ross represents the four district councils that are members of the fund. Ross is a district councillor and member of the Executive Committee of Somerset West and Taunton Council with responsibility for planning policy and transportation. Ross joined the committee in May 2019.

Mark Simmonds (police representative)

Mark represented the Police and Crime Commissioner for Avon and Somerset on the committee. Mark was the Chief Finance Officer for the Police and Crime Commissioner for Avon and Somerset. Mark left the committee in September 2020.

Paul Butler (police representative)

Paul represents the Police and Crime Commissioner for Avon and Somerset on the committee. Paul is the Chief Finance Officer for the Police and Crime Commissioner for Avon and Somerset. Paul joined the committee in September 2020.

Gordon Bryant (represents other employers)

Gordon represents all of the employers except those specifically covered by another committee member. Gordon is Head of Finance and Operations for Exmoor National Park Authority.

Gordon is a CIPFA-qualified accountant. Gordon has been a member of the pensions committee since May 2017.

Sarah Payne (employees' and members' representative)

Sarah is the employees' and members' representative on the pensions committee. Until 2011 she was employed by the county council as their Extended Schools Services Manager within the Children and Young Person's Directorate and during her career she worked in a variety of roles and directorates, giving her a wide range of experience of local-government services. She is now a pensioner member of the fund. Sarah is also a retired member of the trade union UNISON who support her position as employees' and members' representative on the committee. Sarah joined the pensions committee as the members' representative in 2004.

As well as the committee members, an independent advisor and officers attend all committee meetings.

Independent advisor – Caroline Burton

After graduating from Oxford University, Caroline joined Guardian Royal Exchange plc in 1973 as a trainee investment analyst. She moved from analysis to portfolio management and became manager of international investments in 1978. In 1987 she became Managing Director of the newly-incorporated Guardian Asset Management. She joined the board of Guardian Royal Exchange plc as the Executive Director for Investment in 1990, a post she held until the company was taken over by AXA in 1999. Caroline currently advises a number of pension schemes.

Caroline has been the independent advisor to the pensions committee since 2002.

Officer – Jason Vaughan

The lead officer of the Fund, as covered by the Fund's scheme of delegation has specific responsibilities although much of the day to day work is delegated. The lead officers for the Fund is Jason Vaughan (Director of Finance). Jason has been the lead officer since March 2020.

The work the committee has done this year

During the financial year 2020/2021, the committee formally met four times, although due to the COVID pandemic each of these meetings were held remotely via video conference. At each of these meetings (quarterly) the committee received a report on the investment performance of the fund for the previous quarter and any related information, an update on the committee business plan and workplan, an update on the fund's risk register and an update on the budget and membership statistics of the fund. They also receive an update on the status of all outstanding matters relating to the performance of the administration provided by Peninsula Pensions. Every September, the committee receive a report on the investment returns for the previous financial year.

In addition to the above, at each of its meetings the committee has discussed the future investment arrangements of the LGPS and the Government's guidance that we Pool our investments with other LGPS Funds. The pool that the Somerset Fund has chosen to join is called the Brunel Pension Partnership's (BPP). The Somerset Fund is part of BPP along with 9 other like-minded LGPS Funds, loosely based in the South West of England. More detail on BPP and its progress towards pooling can be found later in this annual report.

During the year committee also considered a new version of the Funding Strategy Statement, although due to changes in the regulations pertaining to employer exit credits during the process we had to consider a revised draft after an initial consultation with employers. Final adoption of the new Funding Strategy Statement will take place during the current financial year.

Committee training

As part of the fund's training policy, the committee members are committed to developing their skills and knowledge in relation to the pension fund. We have encouraged our members to attend appropriate outside training events and conferences. Due to the COVID pandemic opportunities for conferences and other external training events were more limited than usual. We held an internal training session in March 2021 focussing on risk and the risk register.

The table below shows how many formal meetings, informal meetings and training events committee members attended this year.

	Committee meetings	Induction training	Brunel Engagement Event	Internal training days
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Number of meetings	4		2	1
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Committee members

Graham Noel (Chairman)	2 (2 as Chair)			1
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John Thorne (Chairman)	2 of 2	1		1
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Simon Coles	3			1
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James Hunt	2 of 2			
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John Parham	3			1
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Ross Henley	0			
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Mark Simmonds	1 of 1			
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Paul Butler	3	1	2	1
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Gordon Bryant	4			1
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Sarah Payne	4			1
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Independent advisor

Caroline Burton	4			1
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Risk management

The committee takes the management of risks within the fund seriously. To this end the fund has developed a risk register which is considered and updated as necessary at each of the quarterly Pensions Committee meetings. A copy of the current risk register, which shows the fund's key risks and the actions to mitigate those risks, can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report. As at 31 March 2021 the key risks on the risk register were:

- Failure of Pensions Committee to manage the fund effectively, particularly as a result of insufficient knowledge and skills.
- Risk of Regulatory change:
 - Implementation of change risks
 - Consequences of change risks
- The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.
- The pension fund has insufficient available assets to meet its long term liabilities.
- Under performance of pensions investments due to ESG factors, including climate change.
- Failure of Brunel to deliver either fee savings or investment performance.
- Insolvency of the fund's Global Custodian.
- Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.
- Legal challenge to fund, particularly in respect of the payment of pension benefits.
- Fraud, corruption, or error either within investment assets or benefits administration.
- The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.
- Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.
- Resilience of IT including a breach of cyber security.
- Impact of COVID-19 crisis.

In addition to the risk register, how the fund manages and aims to mitigate the funding risk and investment risk are dealt with in more detail in the Funding Strategy Statement and the Investment Strategy Statement respectively. Copies of each of these statements can be found later in this annual report. These are supported by monthly monitoring of investment exposures, risk and performance by officers and quarterly reporting to committee. The management of investment exposures, risk and performance includes the risks associated with holding financial instruments and further details regarding these exposures and the management of these risks in the financial statements, which can be found later in this annual report.

The management of third party risk such as late payment of contributions, or error and emissions by investment managers or custodian is managed through a robust set of internal controls and reconciliations.

Financial management

The pensions committee undertakes management of the financial affairs of the fund through a number of regular items at Pensions Committee meetings.

To manage the investments the Committee receive a specific paper on the returns achieved by each fund manager quarterly and the return of the fund as a whole along with relevant benchmark information. Annually the committee receive more detailed reports on the performance of the whole fund.

To manage the other financial aspects of the fund the committee set a budget for the forthcoming financial year and then receive quarterly outturn reports and updated projections for the full year. A copy of the current budget report can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

Copies of the most recent investment returns and budget information can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

Exercise of shareholder rights at company meetings

The fund is committed to the responsible use of its rights as a shareholder in companies. In particular we are committed to voting at company meetings wherever this is practically possible.

For those funds managed by external fund managers, they are responsible for deciding how the fund votes. 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.

For the in-house managed funds a specialist company is retained to provide analysis and advice on how we should vote our shares, the current provider is PIRC.

For those funds managed by Brunel, they are responsible for deciding how the fund votes. Brunel has a number of policies governing how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Full details of Brunel's policies and how they have voted on the Fund's behalf are available on their website.

In addition PIRC publishes the advice it gives clients (including SCC) on how to vote at company meetings on its website. Brunel and most of our other external fund managers also place their voting record on their public websites.

Pension board

Under the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 Each LGPS fund was required to set up a Pension Board to assist the administering authority (the Pensions Committee) in the running of the fund.

Under the legislation the Board must have equal representatives of Employers and Members

Employer representatives

Mark Healey (Chair)

Mark is a representative of the county council on the board and is the councillor for Huntspill. Mark joined the Board in July 2015.

Vacancy

There are currently two vacancies for employer representatives on the Board.

Member representatives

Nigel Behan

Nigel is a nominated union representative from UNITE. He is a transport project support officer for Somerset County Council. Nigel joined the Board in September 2017.

Vacancy

There are currently two vacancies for member representatives on the Board.

The work the board has done this year

During the financial year 2020/2021, the board did not formally meet although members are provided with the full set of committee papers

Board training

As part of the fund's training policy, the board members are committed to developing their skills and knowledge in relation to the pension fund. We have encouraged our members to attend appropriate outside training events and conferences. Due to the COVID pandemic opportunities for conferences and other external training events were more limited than usual.

Pension fund administration

In accordance with the Pension Fund's scheme of delegation, a copy of which can be found later in this annual report, the Pensions Committee delegate most of the day to day work of the scheme to officers of Somerset County Council or to Peninsular Pensions, a shared service with Devon County Council. This section details this work.

Investment administration and accounting

The administration of the investments, which includes the monitoring of, and reconciling with, the fund's custodian and external fund managers, is undertaken by the investments team of Somerset County Council.

The accounting for the investments of the fund is also done by the investments team.

The team also report on all investment matters to the Pensions Committee and Pension Board.

Accounting for contributions and benefits

The monitoring and accounting of contributions received from employers is done by the corporate accounting team of Somerset County Council. The corporate accounting team also account for the benefits payments and undertake some other accounting tasks for the fund.

During 2020/2021 financial year (prior year comparative in brackets) there were 134 (176) instances of late payment of contributions by employers, making up 6.34% (8.96%) of payments due. The corresponding figures for more than 10 days beyond due date were 75 (71) instances and 3.55% (3.62%) of payments due.

Instances of failure to pay by the due date were spread over 28 (61) employers.

Based on average monthly contributions from employers it is estimated that by value 97.64% (94.96%) of contributions were received on or before due date and 99.89% (99.00%) within 10 days of due date.

Under the Regulations the Administering Authority is entitled, but not required, to charge interest on late payments at 1 per-cent above base rate. During the 2020/21 financial year no interest was levied on any employer for late payment. The use of this sanction is constantly reviewed.

Membership administration

Membership administration involves all the tasks necessary to maintain the records of each of the members of the fund, be they active members (those currently paying in contributions), deferred (have paid into the fund in the past but are not currently contributing or drawing a pension) or pensioners.

Peninsula Pensions was formed in 2013 as a shared pension administration service, with Devon County Council acting as lead authority, for the provision of the Local Government Pension Scheme (LGPS) administration for the Devon County Council and Somerset County Council administering authorities.

Peninsula Pensions also administers the Police Pension Schemes for Avon and Somerset Police and the Firefighters Pension Schemes for Gloucestershire Fire and Rescue Services.

Key functions provided by the service include:

- guidance and information as to how pension legislation affects employers and their employees;
- guidance and information to individual members in respect of pension issues that will fundamentally affect their living standards, involve complex regulations and will often be in emotional circumstances e.g. death of a partner;
- calculation of individual pension benefits;
- payment of pensions; and
- adherence to HRMC and other regulatory bodies requirements including completion of all statutory returns

Value for money

Peninsula Pensions is committed to delivering a high quality, effective and efficient pensions administration service. We aim to ensure that all of our customers' needs and requirements are met, while delivering value for money for all of our employers and members.

Our vision

Our vision is to be a provider of efficient and cost-effective pensions administration, utilising technology to deliver service improvement, developing training modules to ensure that staff are trained and developed, similarly providing effective training and communication for employers and members alike.

We also aim to ensure that information is readily available to members and employers alike by developing the existing self-service functionality.

Our objectives

We aim to achieve our mission through experienced, well trained pensions administrators driven to deliver a reliable and professional service, whilst demonstrating excellent customer care.

We will develop training modules to enable continuous improvement and development of staff across the service at all levels.

We will make best use of technology to enable an efficient and cost-effective service, providing direct access online to as much information as possible through our Member and Employer self-service facilities.

We will use technology to improve member and employer communications and learning, and will develop training modules to enable more flexible communication to a wider audience.

We also strive for Continuous improvement in service delivery and high levels of employer and member satisfaction.

Summary of activity

The team maintained a high level of performance throughout 2020/21 and have successfully adapted to the new ways of working following the challenges arising from COVID19.

The team is headed up by Dan Harris, Head of Peninsula Pensions, and is split across three specialist functions, as set out on the following pages.

Employer liaison and communication

This team is headed up by Shirley Cuthbert, Employer and Communications Manager, and is responsible for all client management aspects of the fund's employers.

Some of the key areas covered by the team are:

- client management;
- employer engagement, training and support;
- monitoring and review of employer performance data;
- administering the process for admitted bodies and new employers;
- improving and developing communications with employers and members; and
- increasing the use of self-service portals and the website.

Technical and compliance

This function is headed up by Rachel Lamb, Technical and Compliance Manager, and is responsible for ensuring that Peninsula Pensions operates in full compliance with legislation and regulations, and that our internal processes are efficient, effective and secure.

Some of the key areas covered by the team are:

- pensioner payroll;
- finance;
- systems development; and
- technical and training, which includes:
 - procedure notes and training;
 - training and accreditation programme for staff;
 - quality assurance scheme for accredited staff;
 - technical queries; and
 - administering the Annual Allowance exercise and other projects.

Member services

This function is headed up by Natalie Taylor, Member Services Manager, and covers all areas of member services for LGPS, Police and Fire schemes.

The member services teams provide a full pension administration service for scheme members, including:

- processing LGPS retirement calculations and estimates, including retirements of the grounds of ill-health, redundancy, efficiency, early and age retirements;
- processing LGPS benefit calculations in respect of deaths-in-service, deaths of pensioners and the deaths of deferred members;
- setting up new fund members;
- processing leaver notifications;
- calculation of cash equivalent transfer values (CETVs) for divorce proceedings, pension sharing and earmarking orders;
- processing the transfer-in of pension rights accrued with a previous employer or pension provider;
- processing the transfer-out of pension benefits to an external employer or pension provider;
- processing refunds of member contributions;
- administration of Additional Pension or Additional Voluntary Contributions;
- processing notifications such as changes of address, hours and marital status; and
- responding to all queries from LGPS fund members via a variety of communication methods.

Some of the key activities undertaken by the team during 2020/21 are set out below:

Peninsula Pensions Website

Peninsula Pensions launched a new website during the year. The website provides a much improved user experience with easier navigation, clear and relevant information and links and is in full compliance with the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018.

A series of online videos and user guides for scheme members and employers have been published on the website and these will continue to be developed on an ongoing basis.

The new website can be found here: <https://www.peninsulapensions.org.uk/>

Pension Administration Strategy

October 2020 saw the launch of the updated Pension Administration Strategy (PAS).

Pension Administration Strategies (PAS) were first introduced into the LGPS regulations in 2008, and now fall under Regulation 59 of the LGPS 2013 Regulations. Although they are not a legal requirement, a PAS provides a mechanism to formulate a service level agreement between the administering authority and employers. The PAS covers a number of areas including procedures for liaison and communication, and sets out the performance standards and expectations for the administering authority and employers.

The PAS also helps to improve governance arrangements, ensuring that the administering authority and employers work together to ensure compliance with The Pensions Regulator Code of Practice.

Peninsula Pensions first introduced a PAS in April 2015 and the revised PAS reflects the growth in membership and demands of Scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring.

The PAS can be found on our website via the following link:

<https://www.peninsulapensions.org.uk/document/somerset-pension-fund-administration-strategy/>

McCloud and Sargeant Judgements

In 2018 the Court of Appeal ruled that protections introduced for older members of the Judges' and Firefighters' Pension schemes, as part of public sector pension reforms in 2014 and 2015, unlawfully discriminated against younger members. The remedy to address this discrimination will be applied to all public sector pension schemes, including the LGPS. Anyone affected by the discrimination will be offered an appropriate remedy to ensure that they are placed in an equivalent position to protected members.

The team have been working with scheme employers over the year to complete a historic data sign off exercise and a move to monthly data submissions, which will ensure that Peninsula Pensions has the necessary data available to implement the remedy when the regulations are introduced. The target for completing the data sign off exercise is 31st March 2022.

Implementing the remedial action following the McCloud/Sargeant judgement is likely to prove to be one of the team's biggest challenges to date, but we are confident that we possess the skills and resources to deliver the project internally.

The Government has confirmed that members who qualify for this protection do not need to make a claim for the changes to apply to them. Peninsula Pensions will contact any members that will be affected by the remedy in due course. More information about judgment and the impact of the remedy can be found here:

https://lgpsmember.org/news/story/mccloud_qanda.php

Restriction of Public Sector Exit Payments Regulations 2020

This past year saw the introduction of the Restriction of Public Sector Exit Payments Regulations 2020. The regulations were intended to address and restrict the value of exit packages for high earners and therefore deliver value for the taxpayer. Despite several flaws in the regulations which were highlighted in our response to the Government consultation (including the unintended consequence that lower paid earners would also be impacted), the regulations were introduced. The team worked hard to ensure that our internal processes were updated to ensure full compliance with the new regulations and that all scheme employers were aware of their obligations.

Three months after the introduction of the regulations, the Government announced that the regulations were being revoked and would be disapplied with immediate effect. The team were then faced with the additional challenge of identifying benefits that had been impacted by the regulations during the period and making the necessary corrections. We are now awaiting revised regulations which are expected to be released during the coming year.

Member Self-Service

Peninsula Pensions launched a campaign prior to the Government imposed lockdown restrictions to encourage scheme members to register for Member Self-Service (MSS) in order to mitigate any risk of delay with postal communication during the pandemic. MSS allows members to view all of their pension information online, calculate estimates of their benefits, update personal information and to send and receive documentation to and from Peninsula Pensions. Although Peninsula Pensions has continued to provide communications via postal methods throughout the pandemic, MSS has proved to be a much more effective and efficient method of communication for registered members.

If you have not yet registered for MSS and are interested in finding out the benefits of doing so, please visit our website for more information and details on how to register.

COVID-19

Despite having an effective risk register and robust business continuity plan in place, nobody could have anticipated the impact that COVID-19 would have on our day-to-day operations. Prior to the Government imposed lockdown restrictions, Peninsula Pensions took early action to ensure that the impact on the level of service provision would be minimal.

A summary of actions taken by the team over the period are set out below:

- Appropriate ICT and office equipment was provided to staff to ensure that they were able to work from home effectively and maintain service provision.
- Office staffing levels have been kept to a minimum throughout the pandemic and staff have only been permitted to work in the office for issues of wellbeing or for business continuity purposes. Any member of staff wishing to work from the office was required to complete a health risk assessment and adhere to strict social distancing measures.
- Email signatures, the Peninsula Pensions website and telephone welcome message were all updated in respect of the COVID-19 situation.
- Letters were issued to scheme members, notifying them of potential delays in our printing facilities and postal communications, and encouraging the use of Member Self-Service (MSS) for communication purposes.
- The team have made greater use of technology during lockdown to enable continued efficient communication with scheme members, employers, colleagues and for staff management purposes.
- A full internal audit review was commissioned to consider the effectiveness of our Business Continuity Plan and adaptation of our working practices and processes in response to the pandemic.

Taking this action has ensured that Peninsula Pensions has been able to operate as close to business as usual as possible throughout the pandemic, and the impact on our level of service provision has been minimal.

Key administration performance data

Administration performance

Peninsula Pensions' internal service standard target is to complete 90% of work within 10 working days from the date that all necessary information has been received.

In addition to the internal targets, Peninsula Pensions monitors performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information.

Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.

Total performance against internal targets for 2020/21 was 92%, despite the continued impact of COVID19.

Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for 2020/21 was 93%.

The tables below provide a detailed breakdown of administration performance relating to the Somerset Pension Fund only against the internal targets and Disclosure Regulations for the financial year ending 31st March 2021.

	Cases completed	Performance (internal targets)	Performance (disclosure regs)
High priority procedures	5,502	96%	96%
Medium priority procedures	13,382	90%	92%
Low priority procedures	2,557	89%	91%
Total	21,441	91%	93%

The table below provides additional detail on high priority procedures.

	Cases completed	Performance (internal targets)	Performance (disclosure regs)
Changes	845	99%	100%
Complaints (member)	40	100%	100%
Complaints (employer)	0	-	-
Deaths	606	95%	95%
Payroll	1,466	99%	100%
Refunds	344	99%	99%
Retirements (active)	723	91%	92%
Retirements (deferred)	1,478	91%	91%
Total	5,502	96%	96%

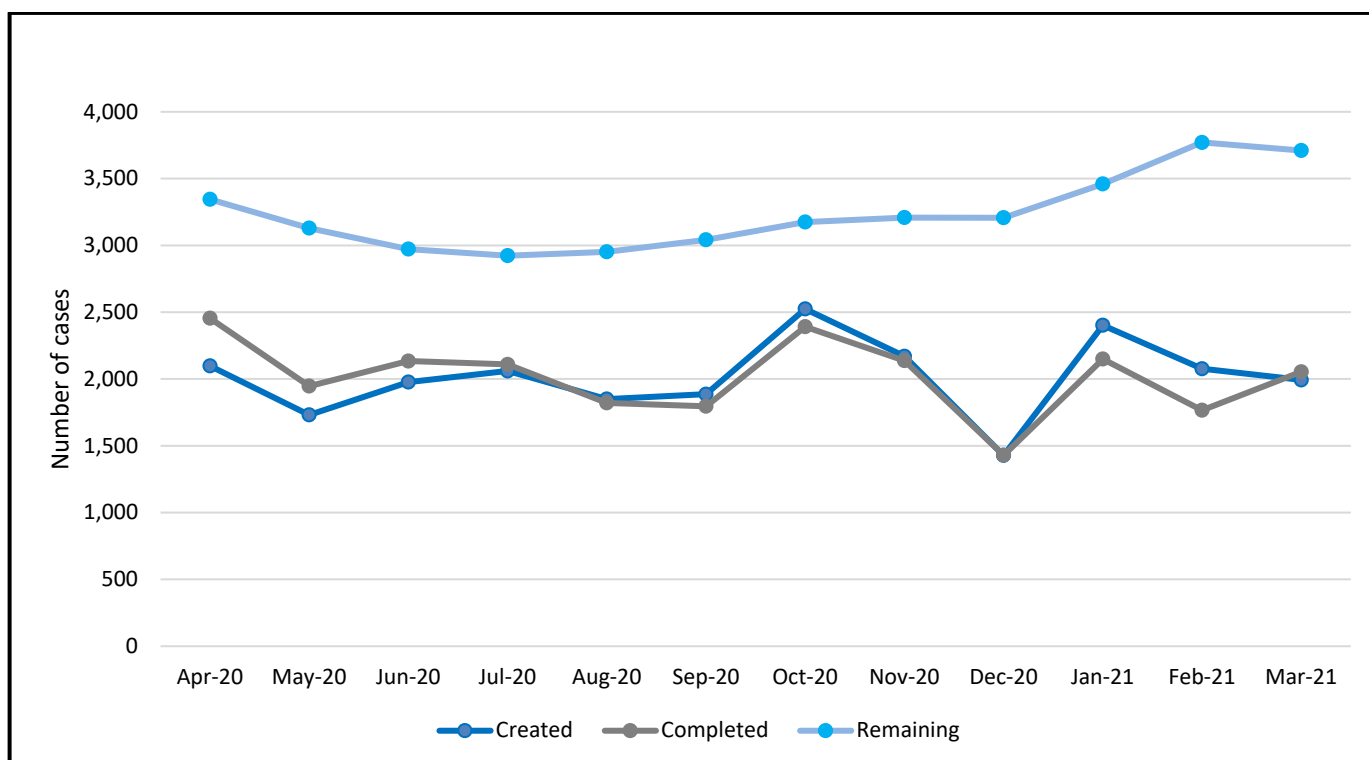
The table below provides additional detail on medium priority procedures.

	Cases completed	Performance (internal targets)	Performance (disclosure regs)
Amalgamation of records	1,677	82%	90%
Deferred benefit calculations	2,355	72%	74%
Divorce calculations	143	85%	85%
Employer queries	579	58%	76%
Estimates (bulk)	0	-	-
Estimates (employer)	79	100%	100%
Estimates (member)	228	98%	98%
General	5,648	100%	100%
HMRC	75	97%	97%
Member self-service	2,598	100%	100%
Total	13,382	90%	92%

The table below provides additional detail on low priority procedures.

	Cases completed	Performance (internal targets)	Performance (disclosure regs)
Estimates (other)	128	94%	94%
GMP queries	8	100%	100%
Interfund transfers in	251	65%	77%
Interfund transfers out	281	71%	78%
Pension top ups	197	96%	96%
Frozen refunds	1,271	98%	98%
New starters	1	100%	100%
Pension transfers in	177	96%	96%
Pension transfers out	243	85%	85%
Total	2,557	89%	91%

The graph below highlights the overall performance of Peninsula Pensions (Somerset Fund only) for the year ending 31st March 2021.



Financial Indicators

For the financial year 2020/21, the costs of providing a pension administration service equated to £17.76 per fund member (compared with £18.13 for 2019/20). The reduction in administration costs per member are primarily as a result of the team making greater use of electronic communication throughout lockdown which resulted in reduced printing and postage costs.

Our pension payroll costs per pensioner equated to £5.60 per pensioner (compared with £5.22 for 2019/20). The increase is as a result of staffing movements.

During 2018/19, officers made the decision to withdraw from the CIPFA Benchmarking Club, which enabled cost comparisons to be made against other LGPS administrators. In addition to saving on membership costs, the decision to withdraw was made in view of the decreasing number of funds taking part in the exercise and results not being available until after the publication of the Pension Fund Annual Report. For the 3 financial years prior to our withdrawal from the CIPFA Benchmarking Club, the costs of our administration service compared favourably against the national average.

We will continue to monitor and benchmark our costs internally against the national average.

Staffing indicators

As at 31st March 2021, Peninsula Pensions employed 65.87 full-time equivalent members of staff. This equates to approximately 3,241 fund members for every full-time equivalent member of staff (compared with 3,372 for 2019/20).

Other Information

A further analysis of new pensioners for the Somerset Pension Fund during 2019/20 is set out in the table below:

Pensioner category	Number of new pensioners
Ill-health retirement	25
Early retirement	565
Normal retirement	310
Total	900

Compliments, complaints and internal dispute resolution procedure

The LGPS has a 2-stage dispute resolution procedure. For stage 1 appeals relating to a decision or action by the member's employer, the dispute is dealt with by the nominated person for that employer. All other disputes are dealt with by the Head of Peninsula Pensions. If the member is not happy with the decision made at Stage 1 then they can move to Stage 2 where the issue will be looked at afresh by the Director of Finance of Somerset County Council. If the member is not happy with the decision made by the Stage 2 panel they can take their case to the Pensions Ombudsman for a final decision.

The table below shows a summary of the number of compliments, complaints and formal complaints under the provision of the IDRP (Internal Dispute Resolution Procedure) received during 2020/21.

	Total
Compliments	106
Formal complaints (IDRP Stage 1) ¹	1
Formal complaints (IDRP Stage 2) ²	0
Other complaints ³	39

¹ The IDRP Stage 1 complaint was against a decision made by the administering authority. The complaint was partially upheld.

² Any complaint that cannot be resolved under Stage 1 of the IDRP may be escalated to Stage 2. No IDRP Stage 2 complaints were received during 2020/21.

³ All other complaints were successfully resolved in-house and did not escalate to a formal complaint under provision of the IDRP.

Member Self-Service

Peninsula Pensions encourages scheme members to sign up for Member Self-Service (MSS). This facility enables scheme members to:

- view pension records online;
- update personal information;
- submit and receive document securely and effectively;
- view documents such as annual benefit statements, newsletters and pensioner payslips;
- calculate pension forecasts and estimates; and
- contact the team directly with any queries.

MSS has proved to be very popular with our members. It is easy to access and use, in addition to being a more environmentally friendly method of communication than post. As at 31st March 2021, approximately 50% of our active fund members have signed up for the service and 6% have opted out (Somerset Pension Fund only).

Member self-service can be accessed via the following link:

<https://members.peninsulapensions.org.uk/>

Pension payroll

Pensioner payroll services were provided by Peninsula Pensions.

Audit

All of the teams above are subject to regular internal audit review of processes and internal controls as well as review by external audit as part of their audit of the accounts of the fund.

The internal audit work for Somerset County Council and is provided by the South West Audit Partnership.

The internal audit work for Peninsula Pensions is provided by Devon Audit Partnership.

External audit work on all areas of the Fund is undertaken by Grant Thornton.

In addition to the audit work undertaken on the directly controlled operations of the Fund by auditors, the Fund requests from its external fund managers and the global custodian reports undertaken by audit companies on the robustness of their internal control environments.

Audit findings are reported regularly to the Somerset County Council Pensions Committee and Pension Board.

Asset pooling

Background

Since 2015, we have been working with nine other Administering Authorities to implement the Government's requirement to pool the management and investment of our assets with other Local Government Pension Scheme (LGPS) Funds.

The 2015 LGPS Investment Reform Criteria and Guidance set out how the Government expected LGPS funds to establish asset pooling arrangements and the objectives from pooling including: benefits of scale, strong governance and decision making, reduced costs and excellent value for money, and an improved capacity and capability to invest in infrastructure.

We established the Brunel Pension Partnership in conjunction with nine other LGPS Funds to meet this Government guidance and the requirements of the LGPS (Management and Investment of Funds) Regulations 2016. We launched our pooling delivery operator, the Brunel Pension Partnership Ltd (Brunel Ltd) on 18 July 2017 as a new company wholly owned by the ten Administering Authorities, including Somerset County Council Pension Fund. We own a 1/10th shareholding in Brunel Ltd.

Brunel Ltd obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor. Brunel Ltd met the Government's requirement for the Pool to become operational from April 2018 and the transition of assets to start.

Brunel Ltd is responsible for implementing our detailed Strategic Asset Allocation and those of its other nine partner Funds by providing and implementing a suitable range of outcome focused investment "portfolios". In particular, it researches and selects the professional external investment managers responsible for making the day to day investment decisions on the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities, Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator (Fundrock), as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS.

Importantly, Somerset County Council, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to, and actively do, suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Governance and oversight

The Somerset County Council Pension Fund is both a shareholder and a client of Brunel Ltd and as a client, we have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The Pension Committee recognises that the governance of the partnership is of the utmost importance to ensure our assets are invested well and our needs and those of our beneficiaries are protected. We have ensured that governance controls exist at several levels within Brunel Ltd as follows:

- As shareholders in Brunel Ltd, we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are special reserved matters requiring the consent of all shareholders, with other reserved matters requiring agreement across a majority of shareholders. Each of the ten participating Pension Funds has a 1/10th shareholding in Brunel Ltd.
- An Oversight Board comprising representatives from each of the Funds has a primary monitoring and oversight function. Meeting at least quarterly, it reviews and challenges papers from Brunel and interrogates its management. However, it cannot take decisions requiring shareholder approval, which are remitted back to each Fund individually. Sarah Payne (pensions committee member) represents the Fund on this Board. Two members representing Pension Fund members from the participating Funds also attend Oversight Board meetings.
- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Funds, but also drawing on finance and legal officers from time to time. It has a leading role in reviewing the implementation of pooling by Brunel, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. Client Group is also supported by a number of sub-groups, to delve deeper into detail. Anton Sweet represents the Fund and is co-vice chair of the overall client group, he also sits on the strategy and governance, finance and investments sub-groups. We also attend other sub-groups such as the operations or responsible investment sub-groups when required. The Client Group is also responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.
- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises five highly experienced and independent non-executive directors, chaired by Denise LeGal and three executive directors. Further information can be found on Brunel's website:
www.brunelpensionpartnership.org/people
- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, which cover areas such as training and competency, policy and process documents, and internal controls.

Brunel Ltd operational delivery

The COVID-19 crisis has impacted the operational delivery of Brunel through 2020-21, largely by postponing transitions that were planned for spring and autumn 2020 to autumn 2020 and summer 2021 respectively. In all other respects Brunel has continued to deliver on the core objectives agreed by the clients.

In accordance with a revised timetable agreed across the partner Funds as part of the 2019/20 Brunel Ltd business plan process, it was anticipated that investment assets would be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and around October 2021.

Despite the delays to this process caused by the pandemic Somerset largely completed its transition in June 2021. During the 2020-21 financial year Somerset had its first drawdowns on commitments to Brunel's private equity offering, we invested in the new Brunel global smaller companies fund and we transitioned our property unit trust holdings to being managed by Brunel. The process was substantially completed with the movement of our fixed income assets after the year end.

The Fund still has certain commitments to long term illiquid investment funds in private equity which will take longer to transition across to the new portfolios to be set up by Brunel Ltd. We will continue to manage these in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned. It is anticipated that the in-house team will continue to manage the Fund's cash outside of Brunel Ltd for the foreseeable future.

Delivery against original business case

One of the key objectives for Brunel Ltd is to deliver the fee savings included in the original business case agreed across the ten partner Funds.

The Pensions Committee approved our participation in the Brunel Pension Partnership in July 2017, based on the detailed original business case and supported by appropriate legal and financial assurance. Overall, undiscounted potential fee savings across the pool were estimated at £550 million over the 20 year period (to 2036), of which the Fund's savings were projected to be around £27 million. We recognised that the project would incur initial setup costs, with the business case showing that the Somerset County Council Pension Fund would break even on a cumulative basis during 2024. For the overall pool, the breakeven date is 2023.

The expected costs and savings for the Somerset County Council Pension Fund through to 2036, as per the original approved business case submitted to Government, are as follows:

	2016/ 2017 £ m	2017/ 2018 £ m	2018/ 2019 £ m	2019/ 2020 £ m	2020/ 2021 £ m	2021/ 2022 £ m	2022/ 2023 £ m	2023/ 2024 £ m	2024/ 2025 £ m	2025 to 2036 £ m	Total £ m
Set up costs	0.117	1.028									1.145
Ongoing Brunel Costs			0.400	0.517	0.534	0.552	0.569	0.588	0.607	8.115	11.882
Clients Savings			-0.040	-0.042	-0.043	-0.044	-0.045	-0.047	-0.048	-0.635	-0.944
Transition costs			1.257	1.805	0.010						3.072
Fee savings			0.008	-0.750	-1.295	-1.454	-1.630	-1.816	-1.945	-33.253	-42.135
Net costs / (realised savings)	0.117	1.028	1.625	1.530	-0.794	-0.946	-1.106	-1.275	-1.386	-25.773	-26.980

Set up costs

Included in the original business case were set up costs for 2016/17 and 2017/18, recognising that Brunel Ltd would go operationally live from April 2018. No additional set up costs were incurred in 2020/21. The cumulative total of set up costs is shown below:

	Cumulative £ millions
Recruitment	0.018
Legal	0.133
Consulting, Advisory & Procurement	0.082
Other support Costs e.g.IT, accommodation	0.000
Share Purchase / Subscription Costs	0.840
Other Working Capital Provided e.g. loans	0.000
Staff Costs	0.000
TOTAL SET UP COSTS	1.073

Transition costs

The transition costs for 2020/21 are for our smaller companies equity. Transition costs are summarised in the table below:

	2020/2021			Cummulative to date £ millions
	Direct £ millions	Indirect £ millions	total £ millions	
Transition Fee	0.000	0.060	0.060	0.144
Tax	0.000	0.055	0.055	0.887
Other Transition Costs	0.000	1.305	1.305	4.313
	<u>0.000</u>	<u>1.420</u>	<u>1.420</u>	<u>5.344</u>

Investment Fee savings

A summary of fee savings for the 2020/21 financial year are provided below.

Portfolio	Value in original business case (31 March 2016) £ millions	Value 31 March 2021 £ millions	Price variance £ millions	Quantity variance £ millions	Total Savings £ millions
Global passive equity	383.102	681.900	0.003	-0.018	-0.015
Active UK equity	363.467	450.502	0.162	-0.096	0.066
Global high alpha equity	274.912	360.872	0.168	-0.193	-0.025
Smaller companies equity	0.000	184.984	0.097	-0.616	-0.519
Emerging market equity	60.977	122.078	-0.189	-0.107	-0.296
Property	181.893	174.870	0.123	0.005	0.128
Private equity*			0.041	0.000	0.041
Total			0.405	-1.025	-0.620

*Private equity fees and savings are based on committed capital, not the actual value of investments.

For the smaller companies equity portfolio this represents a partial year saving as the fund transitioned in September 2020. For the property portfolio this is also a partial year effect as the fund transitioned in November 2020.

Expected verses actual costs and savings to date

A summary of the costs and savings to date compared to the original business case is provided in the following table.

	2019/20				2020/21			
	Budget		Actual		Budget		Actual	
	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions
Set up costs	0.000	1.145	0.000	1.073	0.000	1.145	0.000	1.073
Ongoing Brunel Costs	0.517	0.917	0.979	1.545	0.534	1.451	0.991	2.536
Clients Savings	-0.042	-0.082	0.000	0.000	-0.043	-0.125	0.000	0.000
Transition costs	1.805	3.062	1.526	3.925	0.010	3.072	1.420	5.345
Fee savings	-0.750	-0.742	-0.170	-0.227	-1.295	-2.037	-0.405	-0.632
Net costs / (realised savings)	1.530	4.300	2.335	6.316	-0.794	3.506	2.006	8.322

The most significant variances from the original business case can be summarised as follows:

- Fee savings in 2020/21 are lower as a result of slower than anticipated transitioning to Brunel portfolios and transitions being more expensive, although this is partly due to higher than forecast asset levels.
- Additional resources have been required by Brunel over and above those envisaged by the original business case, in order to deliver the service required by their clients. As a result, the ongoing overhead costs of the Brunel company are higher than originally estimated.
- The slower than expected transitions has delayed the realisation of internal savings.

Ongoing monitoring of Brunel Ltd against business case

Now that Brunel Ltd is operational, ensuring that the financial performance of the pool is monitored and that Brunel Ltd is delivering on the key objectives of investment pooling is vital. This includes reporting of the costs associated with the appointment and management of Brunel Ltd (our pool company) including set up costs, investment management expenses and the oversight and monitoring of Brunel Ltd by the client funds. This is reinforced through CIPFA, the accounting standards body, which has published recommended guidance for disclosing these costs. We have reported using this guidance above.

The Pensions Committee takes its role as both Shareholder and Client of Brunel Ltd very seriously, as part of its fiduciary and legal obligations to act in the best interests of members. Progress on the implementation of Brunel Ltd, our asset transitions and the business case/business plan are discussed at every Pensions Committee meeting.

Ensuring that Brunel Ltd deliver against the original business case, as a minimum, is of critical importance to the Pensions Committee. We have highlighted above how the Somerset County Council Pension Fund is represented through the governance of Brunel Ltd and how we work with our other partner Funds to achieve this. At all stages and levels there is monitoring and assurance processes around cost control. Regular financial reporting is provided through Client Group and the Oversight Board.

We are pleased that Brunel Ltd has signed up to the Cost Transparency Initiative, and the Pensions Committee are keen to ensure that this is implemented effectively, to improve disclosure and transparency

The ongoing transition of our assets, management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2021/22.

Further information regarding Brunel Ltd can be found on their website:

<https://www.brunelpensionpartnership.org/>

Fund managers

Under the regulations, we must consider:

- **the need to invest in a wide range of investment areas;**
- **the suitability of investments; and**
- **getting proper advice.**

The fund is divided into sub-funds for investment-management purposes.

In-house

Global Equity Portfolio

Aim

To track the benchmark.

Benchmark

FTSE All-World Developed Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'.

Type of investments

Equities. A percentage of these investments are overseas.

Method

Since this fund has a passive investment style, a quantitative analysis system is used to identify suitable equity stocks and how much of each stock to hold.

Allocation of the fund

Zero. The majority of this fund transferred to a Brunel run portfolio in July 2018. It was effectively closed in March 2021 with only two holdings remaining at 31 March 2021.

Appointed

The pension fund has been running an in-house tracking fund since February 1991.

Cash Portfolio

Aim

To outperform Sterling deposit rates

Benchmark

Bank of England Base Rate

Type of Investments

Cash deposits and Money Market Funds

Allocation of the fund

The target allocation is 1% of the whole fund.

Appointed

The in-house team have been running the Sterling cash fund since at least 1990

Aberdeen Standard Investments

UK equity portfolio

Aim

To outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after Aberdeen Standard's fees have been deducted.

Benchmark

FTSE All-Share index.

Type of investments

UK equities

Allocation of the fund

The target allocation is 20% of the whole fund to UK equity, the majority of this money moved to a Brunel run portfolio in November 2018. The remaining exposure is in a UK smaller companies fund.

Appointed

July 2004

Fixed-income portfolio

Aim

To outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after Aberdeen Standard's fees have been deducted.

Benchmark

22% FTSE Actuaries UK government all-stock gilt total return index

21% FTSE Actuaries UK government index-linked all-stocks total return index

42% iBoxx Sterling non-gilt over 10-year total return index

15% Merrill Lynch European Currency High Yield Index

Type of investments

Bonds

Allocation of the fund

The target allocation is 19% of the whole fund.

Appointed

February 2008

Nomura Asset Management

Aim

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

Benchmark

TOPIX Index

Type of investments

Japanese equities

Allocation of the fund

Zero. The remaining allocation to Nomura was transitioned to Brunel in September 2020

Appointed

March 2010

Maple-Brown Abbott

Aim

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

Benchmark

FTSE All-World Developed Asia Pacific ex-Japan Index

Type of investments

Far East equities. This will mainly be equities listed in South Korea, Hong Kong, Singapore, Australia and New Zealand, but other Asian countries are allowed.

Allocation of the fund

Zero. The remaining allocation to Maple-Brown Abbott was transitioned to Brunel in September 2020

Appointed

July 2014, prior to this the portfolio was managed by the in-house team on a passive basis.

LaSalle Investment Management

Aim

To outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after LaSalle's fees have been deducted.

Benchmark

MSCI/AREF All Balanced Funds Index

Type of investments

Property unit trusts

Allocation of the fund

The target allocation is zero. One European fund remains under LaSalle management, all other assets were transitioned to Brunel in October 2020

Appointed

February 2004 (as Aviva)

Neuberger Berman

Aim

To outperform global equity stock markets over the life of each private equity fund.

Benchmark

Cash returns. This is the normal benchmark for private equity investments.

Type of investments

Companies that are not listed on stock exchanges

Allocation of the fund

The target allocation to private equity 5% of the whole fund spread between Neuberger Berman and Brunel. The existing funds with Neuberger Berman will run off over a number of years and be reinvested with Brunel.

Appointed

March 2010

Brunel Pension Partnership

Passive global equity portfolio

Aim

To track the benchmark.

Benchmark

FTSE All-World Developed Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'.

Type of investments

Equities. A percentage of these investments are overseas.

Underlying fund manager

Brunel has employed LGIM to manage this portfolio on its behalf.

Allocation of the fund

The target allocation is 30% of the whole fund to passive global equity.

Appointed

July 2018

UK equity portfolio

Aim

To outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.

Benchmark

FTSE All-Share index excluding investment trusts.

Type of investments

UK equities

Underlying fund manager

Brunel has employed Baillie Gifford and Investec to manage this portfolio on its behalf.

Allocation of the fund

The target allocation is 20% of the whole fund to UK equity.

Appointed

November 2018

Global high alpha equity portfolio

Aim

To outperform the benchmark by an annualised return of 2% to 3% over continuous three to five-year periods after fees have been deducted.

Benchmark

MSCI world index.

Type of investments

Equities. A percentage of these investments are overseas.

Underlying fund managers

Brunel has employed Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London to manage this portfolio on its behalf.

Allocation of the fund

The target allocation is 10% of the whole fund.

Appointed

November 2019

Global smaller companies equity portfolio

Aim

To outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.

Benchmark

MSCI world small cap index.

Type of investments

Smaller company equities

Underlying fund manager

Brunel has employed American Century, Kempen and Montanaro to manage this portfolio on its behalf.

Allocation of the fund

The target allocation is 5% of the whole fund.

Appointed

September 2020

Emerging market equity portfolio

Aim

To outperform the benchmark by an annualised return of 2% to 3% over continuous three to five-year periods after fees have been deducted.

Benchmark

MSCI Emerging Markets index.

Type of investments

Emerging market equities

Underlying fund manager

Brunel has employed Genesis, Investec and Wellington to manage this portfolio on its behalf.

Allocation of the fund

The target allocation is 5% of the whole fund.

Appointed

October 2019

Property portfolio

Aim

To outperform the benchmark by an annualised return of 0.5% over continuous five to seven-year periods after fees have been deducted.

Benchmark

MSCI/AREF UK quarterly property fund index.

Type of investments

Property funds (such as unit trusts)

Allocation of the fund

The target allocation is 10% of the whole fund.

Appointed

October 2020

Private Equity

Aim

To outperform the benchmark by an annualised return of 3% over continuous seven to ten-year periods after fees have been deducted.

Benchmark

MSCI all countries world index.

Type of investments

Companies that are not listed on stock exchanges

Allocation of the fund

The target allocation to private equity 5% of the whole fund spread between Neuberger Berman and Brunel. All new investments will be made via Brunel.

Appointed

January 2021

As well as the funds mentioned previously the pension fund has a small interest in the South West Regional Venture Capital Fund, which is managed by Technology Venture Partners LLP. For a table showing the split of the assets by fund manager at the date of the net asset statement, see note 16 of the accounts.

Other experts

We need to work with a number of experts to provide functions that are needed under various regulations.

Custodian – JP Morgan

Custody services manage the records of the fund's cash and security investments and track and settle the investment transactions of the fund's appointed investment managers.

JP Morgan has been the fund's custodian since August 2012.

Custodian – State Street

State Street provide custody for those assets which are managed by Brunel Pension Partnership

State Street has been the Brunel's custodian since July 2018.

Bank – NatWest

NatWest have been providing all of the standard banking requirements to the fund since these were split from Somerset County Council's bank accounts in March 2010.

Auditors – Grant Thornton

The role of the auditor is to test the accounts and confirm that they give a true and fair view of the fund's financial position.

Grant Thornton became the auditor of the Fund in 2012.

Actuary – Barnett Waddingham

The role of the actuary is to give the fund information about the fund's liabilities and the best way to meet them. Every three years, the actuary carries out a formal valuation of the fund, which shows how the fund's liabilities relate to its assets and recommends suitable rates of employers' contributions to prevent any shortfall in future years.

Barnett Waddingham has been the fund's actuary since April 2006.

Legal advisor – Osborne Clarke

The role of the legal advisor is to provide independent advice on legal matters affecting the fund.

Osborne Clarke was appointed as legal advisor to the fund in October 2006.

Voting advice – Pensions Investment Research Consultants (PIRC)

PIRC provides us with background information about proposed votes at company meetings, along with a recommendation on how to vote in line with best corporate-governance practice. The in-house managed funds use this information and PIRC's recommendations to help us decide how to vote.

Shareholder engagement on socially responsible investment and corporate governance – The Local Authority Pension Fund Forum (LAPFF)

Our fund is committed to working with companies to improve their awareness of environmental and social issues. LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 72 local authority pension funds from across the country with combined assets of over £200 billion. It aims to bring about improvements in the way companies are run, such as improvements in corporate governance, of the companies in which member funds invest. LAPFF is also concerned with promoting corporate social responsibility on environmental issues and issues relating to overseas employment standards. It does this by working with company boards to encourage them to improve standards.

The fund is also a member of the Pensions and Lifetime Savings Association (PLSA)

Contributions and benefits

The Local Government Pension Scheme (LGPS) has been approved under the Local Government Superannuation Act 1972 and has been updated on a number of occasions since. The most recent version of the scheme is a Career Average Revalued Earnings (CARE) scheme which was introduced from 1st April 2014.

As an administering authority, we must maintain a pension fund for all the County Council's relevant employees (other than teachers) and those of all local-government staff in our area.

The fund also includes civilian employees of the Avon and Somerset Police and the employees of further-education colleges and academy schools. Employees of certain other organisations (town councils, for example) have a right to be included. We have agreed to admit a number of other organisations, including several housing associations.

The fund is financed by contributions from employees and employers, together with interest and other income earned from investing funds not needed to meet pension payments in the short term.

Employees' contributions are fixed by government regulation. Employers' contributions are assessed by the fund's actuary every three years, but are reviewed every year to take account of early retirements.

Contributions

Employees – Tiered contribution rates depending on actual pay received, with nine contribution bands ranging from 5.5% to 12.5%.

Contribution rate	Salary range 2019-2020	Salary range 2020-2021	Salary range 2021-22
5.50%	£0 to £14,400	£0 to £14,600	£0 to £14,600
5.80%	£14,401 to £22,500	£14,601 to £22,800	£14,601 to £22,900
6.50%	£22,501 to £36,500	£22,801 to £37,100	£22,901 to £37,200
6.80%	£36,501 to £46,200	£37,101 to £46,900	£37,201 to £47,100
8.50%	£46,201 to £64,600	£46,901 to £65,600	£47,101 to £65,900
9.90%	£64,601 to £91,500	£65,601 to £93,000	£65,901 to £93,400
10.50%	£91,501 to £107,700	£93,001 to £109,500	£93,401 to £110,000
11.40%	£107,701 to £161,500	£109,501 to £164,200	£110,001 to £165,000
12.50%	More than £161,501	More than £164,201	More than £165,001

Employers – Separate rates apply to the major employing authorities, to make sure the actuarial requirements are met and are expressed as a percentage of employees' pensionable pay, sometimes with an additional cash value payment.

	2019/2020		2020/2021		2021/2022		2022/2023	
	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m
Common fund rate	22.9%	0.000	24.3%	0.000	24.3%	0.000	24.3%	0.000
Somerset County Council	15.5%	12.806	18.1%	9.330	18.1%	9.670	18.1%	10.030
Mendip District Council	14.9%	0.854	17.3%	0.810	17.3%	0.840	17.3%	0.870
Sedgemoor District Council	14.9%	1.630	18.7%	1.410	18.7%	1.470	18.7%	1.520
South Somerset District Council	16.1%	1.659	17.6%	1.360	17.6%	1.410	17.6%	1.460
Somerset West & Taunton	15.4%	2.518	17.5%	2.140	17.5%	2.220	17.5%	2.300
Avon and Somerset Police	13.2%	2.944	16.3%	2.260	16.3%	2.340	16.3%	2.420
Further education colleges	13.8% to 16.2%	Variable	16.3% to 19.9%	Variable	16.3% to 19.9%	Variable	16.3% to 19.9%	Variable
Academies	20.9%	0.000	23.7%	0.000	23.7%	0.000	23.7%	0.000
Town councils	17.8%	Variable	20.3%	Variable	20.3%	Variable	20.3%	Variable
Admitted organisations	9.3% to 24.4%	Variable	12.8% to 28.4%	Variable	12.8% to 28.4%	Variable	12.8% to 28.4%	Variable

A full actuarial valuation of the fund was carried out as at 31 March 2019 and this showed a funding level of 86%. This was higher than the level at the 2016 valuation. Despite an increase in the funding level at the 2019 valuation there were increases in the contribution rates of most of the employers within the fund. Most employers have been asked to make payments towards the funding deficit as prescribed cash amounts rather than as a percentage of payroll. This approach has been taken to ensure the deficit reduction plan is not affected by changes in the size of the employee base as local government undergoes a period of considerable change.

A further valuation of the fund is due using data from 31 March 2022. This will set employers' contribution rates for the following three years and confirm the funding level.

The benefits structure of the fund is set by government legislation and the fund has no discretion over this.

Major benefits

- A pension calculated at 1/80th of final salary for each year of service for pre-April 2008 service;
- A pension calculated at 1/60th of final salary for each year of service for service between April 2008 and March 2014;
- A pension calculated on 1/49th of actual pay for each year of service from April 2014 to provide a pension based on CARE (Career Average) salary;
- The revaluation of earnings as part of the CARE calculation will be based on CPI;
- Normal retirement age for post April 2014 service synchronised with state retirement age, Normal retirement age for pre-April 2014 service is 65;
- Up to 25% of the pension can be exchanged for a tax-free lump sum, 3/80th of pre-April 2008 service will be paid as a lump sum;
- Lump-sum death benefits of three times pay for death in service;
- Lump-sum cover for death after retirement of a guarantee of 10 times' annual pension;
- An ill-health retirement package with three levels of benefits depending on the seriousness of the individual's illness;
- A nominated partner's pension and dependent children's pensions; and
- Pensions that are protected from inflation through the Pensions (Increase) Acts.

Other benefits

- Scheme members can 'top up' their pension benefits by paying additional contributions. This facility has become more popular – both through the in-house scheme 'added benefits' facility and the in-house additional voluntary contributions (AVCs) plan. Prudential are now the fund's AVC provider, although a few members continue with their existing arrangements with Equitable Life.

There is a so called 50/50 option where an employee can chose to pay half the contributions but will accrue half of the benefits.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. The increase applied from April 2018 was 3.0% and the increase applied from April 2020 was 1.7%.

For more details of the current benefits visit the LGPS members' website: www.LGPsmember.org

Principles and policies

The statements, policies and principles listed below are those that were in place at 31st March 2021.

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.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
June 2017**

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.

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.

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
June 2017**

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.

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:-
 - 1 the terms, structure and operational procedures of the delegation,
 - 2 the frequency of any committee or sub-committee meetings,
 - 3 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 Committee

4.1 The Committee 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:

- an officer; and
- 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	<p>The Pensions Committee includes representation of all the participating employers.</p> <p>Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.</p>
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	<p>Our in-house officer expert advisors attend all Pension Committee meetings, including the Chief Financial Officer, investments manager and fund administration manager.</p> <p>The appointed actuary, external auditors and performance advisors also attend on an ad-hoc basis at least once per annum.</p>

<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>
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C – Role of members

<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>	Compliant	<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>	Compliant	<p>Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.</p>

D – Voting		
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.	Compliant	All members of the Pensions Committee have full voting rights.
E – Training, facility time and expenses		
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.	Compliant	<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>
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.	Compliant	All Pensions Committee members have equal access and rights to training and related support.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	Compliant	A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.
F – Meetings (frequency/quorum)		
a) That an administering authority's main committee or committees meet at least quarterly.	Compliant	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
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.	Not Applicable	There are no secondary committees or panels in place.
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.	Compliant	The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.

G – Access		
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.	Compliant	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.
H – Scope		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Compliant	<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

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.

Compliant

The Governance Arrangements of the Pensions Committee are formally reviewed every four years as part of the Forward Business Plan.

There are procedures in place for the re-appointment of individuals to the Pensions Committee at least every four years.

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.

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
June 2017**

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.

In practice the majority of tasks relating to benefits administration are delegated to Peninsula Pensions, a shared administration team with Devon County Council, and the majority of investment decisions are delegated to the internal Investments team.

When delegating the Chief Financial Officer must ensure that the officers undertaking the delegated tasks have sufficient knowledge and experience to undertake those tasks.

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.

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.

The Chief Financial Officer will make arrangements for the completion of all necessary regulatory documents, statistical returns, tax documents and other documents as appropriate.

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.

Where relevant the Chief Financial Officer will decide if interest should be levied for late payment as permitted by the regulations.

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 investment strategy statement having regard to advice provided by officers and advisors as appropriate.

As part of agreeing the strategy the Committee will agree the Fund's strategic asset allocation and the investment mandates necessary to deliver the strategy. The Chief Financial Officer will make all necessary arrangements for the implementation of the agreed strategy.

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.

Make arrangements for managing the fund's investments.

The strategic asset allocation of the fund is set by the Committee. Once agreed by Committee the Chief Financial Officer is responsible for the implementation of the strategy and monitoring of the investment assets against the strategic asset allocation and periodically rebalancing of the fund to optimise the balancing of risk and return. All investment decisions regarding the precise timing and amounts of rebalancing are delegated to the Chief Financial Officer and there are no restrictions placed on this discretion. The Chief Financial Officer will report on all actions in this regard to the Committee at each formal meeting.

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, the management of this contract and any related investment decisions.

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. All investment decisions with respect to in-house managed funds are taken by officers.

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

Regularly monitor investment performance.

The Chief Financial Officer will put in place procedures for the calculation and monitoring of investment performance.

The Chief Financial Officer will review the performance of all fund managers and the fund as a whole monthly and officers will meet with external fund managers regularly, typically quarterly, to discuss performance.

The Committee will review the performance of all fund managers and the fund as a whole quarterly. The Committee will meet with external fund managers periodically at their discretion 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 adopt the completed annual report.

Consult stakeholders, and publish the funding strategy statement, investment strategy statement 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 and advice from officers and advisors as appropriate.

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 and undertake all necessary tasks and discussions with the actuary in order to allow the actuary to complete the valuation.

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 Chief Financial Officer will make all necessary arrangements for the consideration of requests for admitted body status and changes to any existing admission agreements including the negotiation and signing of the necessary admission agreements.

The Committee will receive an update at each formal meeting of all activity in this regard.

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 they 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.

General clarification:

Where Contract Standing Orders require authorisation or approval in accordance with the Council's Scheme of Delegation approval must be sought from the Chief Financial Officer, who will consult the Pensions Committee at their discretion.

Section 24.7

Exempt in full. The pension fund does not use purchase orders.

Section 43.1

Table to be amended such that contract values over £500,000 to be approved by the Chief Financial Officer and such decisions are Non-Key Decisions.

Section 44.2

Section to be amended to remove any reference to, or need for, a purchase order.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
December 2017**

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
June 2017**

Pension Board 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.

As a result a member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

These legal responsibilities begin from the date that Pension Board members take up their role on the Board and as such they should immediately start to familiarise themselves with the relevant documents and the law relating to pensions.

In accordance with the Act, the knowledge and understanding requirement applies to every individual member of a Local Pension Board rather than to the members of a Local Pension Board as a collective group.

Key Documents

In accordance with the LGPS statutory guidance on the creation and operation of Pension Boards the following is a suggested list of the documents that Pension Board members should make themselves familiar:

- Member booklets, announcements and other key member and employer communications, which describe the Fund's policies and procedures (including any separate AVC guides) including documents available on the Fund's website;
- Any relevant policies of the Administering Authority and/or Pension Committee, for example policies on:
 - conflicts of interests
 - record-keeping
 - data protection and freedom of information
 - internal dispute resolution procedure.
- The Administering Authority's governance compliance statement;
- The Administering Authority's funding strategy statement;
- The Administering Authority's pension administration statement;
- The Administering Authority's discretionary policy statement;
- The Administering Authority's communications policy statement;
- The Administering Authority's statement of investment principles;
- The Administering Authority's internal controls risk register;
- The Fund's actuarial valuation report and rates and adjustment certificate;
- The Fund's annual report and accounts;
- Any accounting requirements relevant to the Fund;
- Any third party contracts and service level agreements;
- Any internal control report produced by third party service providers and investment managers;
- The Fund's standard form of admission agreement and bond and related policies and guidance.

This list should be viewed as a suggestion and not a definitive list of all the relevant documents.

Wider Background Knowledge

In addition to the list of key documents the statutory guidance provides examples of the knowledge that is relevant to the role of Pension Board members. Again the list is not intended to be exhaustive. The examples are as follows:

Background and Understanding of the Legislative Framework of the LGPS

- Differences between public service pension schemes like the LGPS and private sector trust-based schemes;
- Role of the IPSPC and its recommendations;
- Key provisions of the 2013 Act;
- The structure of the LGPS and the main bodies involved including the Responsible Authority, the Administering Authority, the Scheme Advisory Board, the Local Pension Board and the LGPS employers;
- An overview of local authority law and how Administering Authorities are constituted and operate; and
- LGPS rules overview (including the Regulations, the Transitional Regulations and the Investment Regulations).

General pensions legislation applicable to the LGPS

An overview of wider legislation relevant to the LGPS including:

- Automatic Enrolment (Pensions Act 2008);
- Contracting out (Pension Schemes Act 1993);
- Data protection (Data Protection Act 1998);
- Employment legislation including anti-discrimination, equal treatment, family related leave and redundancy rights;
- Freedom of Information (Freedom of Information Act 2000);
- Pensions sharing on divorce (Welfare Reform and Pensions Act 1999);
- Tax (Finance Act 2004); and
- IORP Directive.

Role and responsibilities of the Local Pension Board

- Role of the Local Pension Board;
- Conduct and conflicts;
- Reporting of breaches;
- Knowledge and understanding; and
- Data protection.

Role and responsibilities of the Administering Authority

- Membership and eligibility;
- Benefits and the payment of benefits;
- Decisions and discretions;
- Disclosure of information;
- Record keeping;
- Internal controls;
- Internal dispute resolution;
- Reporting of breaches; and
- Statements, reports and accounts.

Funding and Investment

- Requirement for triennial and other valuations;
- Rates and adjustments certificate;
- Funding strategy statement;
- Bulk transfers;
- Permitted investments;
- Restrictions on investments;
- Statement of investment principles;
- CIPFA guidance;
- Appointment of investment managers; and
- Role of the custodian.

Role and responsibilities of Scheme Employers

- Explanation of different types of employers;
- Additional requirements for admission bodies;
- Automatic Enrolment;
- Deduction and payment of contributions;
- Special contributions;
- Employer decisions and discretions;
- Redundancies and restructuring (including the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006); and
- TUPE and outsourcing (including Fair Deal and the Best Value Authorities Staff Transfers (Pensions) Direction 2007).

Tax and Contracting Out

- Finance Act 2004
- Role of HMRC
- Registration
- Role of 'scheme administrator'
- Tax relief on contributions
- Taxation of benefits
- Annual and lifetime allowances
- Member protections
- National Insurance
- Contracting out (Pensions Scheme Act 1993)
- Impact of abolition of contracting out in 2016
- VAT and investments

Role of advisors and key persons

- Officers of the Administering Authority
- Fund actuary
- Auditor
- Lawyers
- Investment managers
- Custodians
- Administrators – in house v. third party
- Procurement of services
- Contracts with third parties

Key Bodies connected to the LGPS

An understanding of the roles and powers of:

- Courts
- Financial Services Authority
- HMRC
- Information Commissioner
- Pensions Advisory Service
- Pensions Ombudsman
- The Pensions Regulator (including powers in relation to Local Pension Boards)

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 1-5 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.
- Attending at least one day of 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

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 Board in each financial year will be reported annually in the fund's annual report and financial statement along with their attendance record at Board Meetings.

Suitable Events

It is anticipated that at least 1 day of annual training will be arranged and provided by officers to address specific training requirements to meet the Board's requirements, 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.

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

Approved by the Pension Board
Somerset County Council Pension Fund
July 2015

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
June 2017**

Pension administration strategy

1. Introduction

Peninsula Pensions was formed in 2013 as a shared pension administration service, with Devon County Council acting as lead authority, for the provision of the Local Government Pension Scheme (LGPS) administration for the Devon County Council and Somerset County Council Administering Authorities.

The Devon County Council and Somerset County Council Administering Authorities, Investment and Pension Fund Committees and Pension Boards remain independent from each other with each Administering Authority retaining investment and governance responsibility for their respective pension fund.

Although not a statutory requirement, a Pension Administration Strategy (PAS) was introduced in April 2015, following approval by the Devon County Council and Somerset County Council Investment and Pension Fund Committees. Although there is a separate PAS in place for each Administering Authority, the content is identical in order to ensure that a fair and consistent approach is maintained for all stakeholders.

The legal context for this Strategy is [Regulation 59 of The Local Government Pension Scheme Regulations 2013](#) which permits Administering Authorities the opportunity to prepare and review a Pensions Administration Strategy. The PAS also has regard to [the Occupational and Personal Pension Schemes \(Disclosure of Information\) Regulations 2013](#) and [The Pension Regulator Public Sector Code of Practice 14](#).

The PAS sets out the performance standards and expectations of the Administering Authority and employers, defining clear roles and responsibilities, and aims to ensure the delivery of a high-quality service for all stakeholders.

The revision to the PAS, effective from April 2020, reflects the growth in membership and demands of scheme members and employers, changes to LGPS regulations and advances in technology.

The PAS is linked to the following statutory documents of the Administering Authority which are located within the Somerset County Council Pension Fund Annual Report, which can be found on the Somerset County Council website:

- Governance Policy and Compliance Statement
- Communications Strategy
- Funding Strategy Statement
- Investment Strategy Statement

Under no circumstances does the PAS override any provision or requirement of the LGPS regulations nor is it intended to replace the more extensive commentary provided by the Employers' Guide and associated documentation for day-to-day operations, which can be found within the employer's area of the Peninsula Pensions website.

2. Key Administration Strategy focus

This strategy formulates the administrative arrangements between the Administering Authority and employers. It recognises that employers and the Administering Authority have a shared role in delivering an efficient and effective pension service to scheme members and that this can only be achieved by co-operation and working together.

The strategy document sets out in detail how we will achieve our key focus points stated below:

- setting out the quality and performance standards required of the Administering Authority and employers;
- promoting good working relationships and improving efficiency between the Administering Authority and employers for the benefit of scheme members;
- enhancing the flow of data by having clear channels of communication in place, so that each stakeholder is fully aware of its role and responsibilities within this process; and
- providing a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, as opposed to sharing the costs across all employers in the Pension Fund*.

(* [Regulation 70 of the 2013 LGPS Regulations](#) permits the recovery of additional costs from an employer where unsatisfactory performance levels have incurred additional costs to the Administering Authority)

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

3. Record keeping

Record-keeping is a fundamental part of managing a scheme such as the LGPS. Administering Authorities and employers have a legal obligation to collate and maintain accurate data records.

Peninsula Pensions must be able to demonstrate that records are accurate and up to date, within the parameters of data protection legislation, in order to govern and administer the pension scheme efficiently and effectively for scheme members.

Employers (and their delegated payroll providers) are responsible for providing the core data required by the Administering Authority. Employers need to ensure that legal obligations regarding the provision of timely and accurate information to the scheme are met.

The Administering Authority has a legal duty to provide scheme members with accurate and timely information regarding their benefits. The use of electronic processes aides all parties to do this in a timely and efficient manner. A strong working partnership between the Administering Authority and employers is key in delivering a successful administration service. This document describes how the Administering Authority provides support to employers in meeting their responsibilities.

Peninsula Pensions will notify employers in advance of any proposed changes in systems, processes, legislation and data requirements and will provide sufficient time, support and guidance for employers to implement any changes.

Full details covering the processes for employers, including the procedures for the escalation of outstanding requests for information, can be found within the employer's section of our website.

If employers have concerns about the data required, they should contact Peninsula Pensions without delay. This will allow Peninsula Pensions to work with employers to resolve any issues and enable both parties to meet their requirements for the benefit of scheme members.

Where an employer does not actively engage with Peninsula Pensions to resolve issues and/or consistently fails to meet its responsibilities under the LGPS Regulations, the Administering Authority (or stakeholders such as the Pension Board) has a statutory duty to report any breach to The Pensions Regulator. Similarly, stakeholders (such as the Pension Board) may report Peninsula Pensions to The Pensions Regulator if it is believed that a breach has occurred in respect of its duty as scheme administrator.

If deemed to be materially significant, The Pensions Regulator has the authority to take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

The Pensions' Regulator may impose a penalty under section 10 of the Pensions Act 1995. At the time of creating the PAS, the maximum amount of a penalty in relation to a breach is £5,000 in the case of an individual and up to £50,000 in any other case.

Penalties may be imposed on any party who has legal requirements or responsibilities relating to the management or administration of the scheme, and anyone else who could be subject to any of The Pensions' Regulator's statutory powers of investigation and enforcement, such as employers and professional advisers.

The Pensions' Regulator's compliance and enforcement policy for public service sector schemes can be accessed via the following link:

<https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/compliance-policy-public-service-pension.ashx>

More information about the work of The Pensions Regulator can be found via the following link:

<https://www.thepensionsregulator.gov.uk/en>

4. Roles and Responsibilities

The key focus of the strategy set out in Section 2 will be achieved by:

- clearly defining the respective roles of employers and the Administering Authority
- setting clear and achievable standards of service levels for the functions carried out by employers and the Administering Authority
- setting out clear procedural guidance for the secure and effective exchange of information between employers and the Administering Authority
- monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required
- continuous development of resources via the use of digital technology and staff training for both the Administering Authority and employers
- applying charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers.

The Employer's Roles and Responsibilities

The key responsibilities for the employer are to:

- communicate the LGPS to eligible staff
- ensure the correct level of monthly pension contributions are collected and paid by the 7th of the following month, and no later than the 19th
- report information and data to the Peninsula Pensions as set out in this Strategy
- keep up to date with Peninsula Pension Communications
- provide a prompt response to information requests

The Administering Authority's Roles and Responsibilities

The key responsibilities for the Administering Authority are to:

- administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy
- maintain and review the Pension Fund's Statements, Policies and Reports and all other matters relating to the Governance of the scheme
- communicate and engage with employers on LGPS matters
- provide support/training to employers
- maintain and develop an effective web presence for the benefit of members and employers

A guide to the roles and responsibilities of employers and the Administering Authority are set out in Appendix A. The guides include a summary of duties, defining the main functions, which will facilitate the delivery of an efficient, accurate and high-quality pension service to scheme members.

Failure to comply with any of the duties listed in Appendix A will be considered as a reportable breach. The ultimate aim is to work together to ensure that any issues of concern are addressed before an issue reaches a breach status. Any affected party will be given sufficient warning and the opportunity to address any outstanding issues before a breach is recorded.

Any breaches of duty will be recorded on our breaches register, which will be reviewed by the Pension Board on a quarterly basis. Individual breaches will be reported to The Pensions Regulator as required.

5. Performance Monitoring

The strategy recognises that there is a shared responsibility for ensuring compliance with the LGPS regulations and the PAS. Below we have set out the ways in which performance and compliance will be monitored;

- the Administering Authority and employers must aim to ensure that all functions and tasks are carried out to the agreed quality standards set out in this Strategy
- the Administering Authority will regularly monitor, measure and report on compliance with the agreed service standards outlined in this document
- the Administering Authority will undertake a formal review of performance against this Strategy on an annual basis and liaise with employers in relation to any concerns on performance
- the Administering Authority monitors its own performance against internal key performance indicators and the Disclosure Regulations 2013. Formal monitoring is carried out on a monthly basis, and is reported to the Pension Board on a quarterly basis
- the performance of employers against the standards set out in this document will be reported to the Pensions Committee and Pension Board, as appropriate, and will include data quality
- the Administering Authority will also regularly report to employers regarding individual performance, identifying any areas for improvement including outstanding data items

Underperformance Fees

The LGPS regulations provide Administering Authorities with the authority to recover any administration costs incurred as a result of the underperformance of an employer, from the employer responsible for the underperformance.

To date the Administering Authority has not recovered these additional costs and has taken the decision to work with employers to improve service delivery. However, we reserve the right to pass on these costs to the employer concerned, as opposed to sharing such costs across all employers.

From April 2020 Peninsula Pensions will monitor any additional costs incurred in the administration of the scheme as a direct result of underperformance, with a view to recovering these costs from the responsible employer.

Where areas of underperformance are identified, and an employer fails to make improvements and/or is unwilling to engage with Peninsula Pensions to resolve performance issues, Peninsula Pensions will:

- write to the employer, setting out area(s) of non-compliance with performance standards, offer support and, where applicable, request attendance at a training/coaching session.
- where the underperformance is in respect of an Admitted Body, the originating employer will be informed and will be expected to work with Peninsula Pensions to resolve the issue(s).

If no improvement is seen within one month or the employer is unwilling to attend a meeting to resolve the issue, Peninsula Pensions will issue a formal written notice, setting out:

- the area(s) of non-compliance that have been identified
- the steps taken to resolve those area(s)
- how the underperformance has contributed to the additional costs of administration and the amount of the additional cost incurred
- provide notice that the additional costs incurred by Peninsula Pensions as a direct result of the employer's poor performance will now be reclaimed

A breaches report will be presented to the Pension Board on a quarterly basis. This report will include the nature of the breach, the party responsible for the breach and details of any action taken to address the breach. The report will also include a recommendation for the Board to consider whether a breach is significant enough to warrant reporting to The Pensions Regulator.

In the event of a levy being issued to the Administering Authority by The Pensions Regulator, the levy will be passed on to the relevant employer where it can be demonstrated that the employer's action or inaction are responsible for the levy. Any disagreement regarding the amount of the levy 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 Administering Authority and the employer have complied with those provisions in carrying out their functions under these regulations.

Interest on late payments

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

The employer will be reported to The Pensions Regulator where contributions are received late in accordance with The Pensions Regulator Code of Practice.

Feedback from Employers

Peninsula Pensions is also accountable for its performance and we welcome feedback from our employers regarding the performance against the standards in this administration strategy, as set out in Appendix A.

Comments should be sent to peninsulaemployers@devon.gov.uk or to the Employer and Communications Manager. Any feedback received will be incorporated into the quarterly reports provided to the Pension Board.

Employers are also entitled to raise any performance related issues direct to the Pension Board, via one of the Board's Employer Representatives.

6.Liaison and Communication

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

Peninsula Pensions has a dedicated Employer & Communications Team who will work with employers to ensure they are equipped to meet their responsibilities in line with the LGPS Regulations.

Every employer will have access to a dedicated Member Services Team who will assist employers with queries relating to individual members.

Each employer will designate a named individual(s) to act as a Pension Liaison Officer, who will serve as the primary contact regarding any aspect of administering the LGPS. The Pension Liaison Officer(s) will be provided with a username 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 employers to ensure that all requirements are consistently met.

The various channels of communication are set out below:

1. The Peninsula Pensions website is the main communication tool for both employers and scheme members.
 - Employers – a 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. All employers are 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 and the Member Self Service area where members can update personal details, review annual benefit statements, complete their own pensions estimates and access online tutorials.
 - Contact Details – Peninsula Pension staff roles and contact information are available on the website, together with contact details for the Pensions Committee and Pension Board.
2. Scheme members who have chosen to opt out of the Member Self Service will continue to receive statutory communication by post. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. Periodic newsletters are issued to scheme members and all employing authorities and published on the Peninsula Pensions website.
4. Induction and pre-retirement workshops undertaken upon request to develop both employer and scheme member understanding (minimum of attendees 10 required per workshop).
5. Pension surgeries held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. Regular E-zine sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. Employer seminars and training groups held at least annually to review scheme developments, and/or to resolve any training needs that employers may have.
8. Annual Consultative Meeting held to review investment and administrative performance during the preceding 12 months, and to consider future plans and challenges.
9. Employer representatives are responsible for ensuring that information supplied by Peninsula Pensions is communicated to scheme members within their organisation, such as scheme guides and factsheets.

For further information regarding our methods of communication, please see our Communications Policy which is located within the Statutory Statements section of our [website](#)

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. This responsibility rests with the employer.

Payroll providers: For employers who have delegated the responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form will need to be completed confirming the areas for which they are permitted to act on your behalf. If information received from the payroll provider results in incorrect information being issued or incorrect benefits being paid to scheme members, the responsibilities under the Local Government Pension Regulations lie with the employer.

7. Actuarial work

The Administering Authority will appoint an actuary, who will conduct a valuation of the pension fund, as appropriate. The actuary will determine the assets and liabilities in respect of each employer and will calculate the appropriate contribution rate 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.

In the event that an employer elects to outsource a service, the actuary is required to produce a report in respect of those scheme members involved in the outsourcing. The outsourcing employer will be liable for any actuarial costs arising from the outsourcing of a service, including the production of the report.

Guidance regarding the outsourcing of a service is located within the employer's section of our website.

An employer may also commission the actuary to undertake additional work, the costs of which will be charged to the employer. Please note that these costs will also include an element of the cost of any administration work involved in liaising with the actuary.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
March 2020**

Performance Standards

The delivery of an efficient and cost-effective administration is dependent upon a successful joint working partnership between Peninsula Pensions and key individuals within or representing the employer.

Performance standards are expressed as targets (i.e. the level of performance expected in normal circumstances). It is accepted that there may be occasions where it may not be possible to achieve the target indicated and a pragmatic approach will be adopted, subject to employers using their best endeavours to meet expected standards wherever possible.

Employer Responsibilities

1. Communication

Function/Role	Performance Target
Primary contacts - Nominate and keep under review named contacts including main contact and HR and payroll links.	Within 1 month of employer joining the Pension Fund or change to nominated representative
Stage 1 Appeals (IDRP) Officer - Appoint a person to consider appeals under Stage 1 of the Applications for the Adjudication of Disagreements Procedure (AADP) and provide full, up to date contact details to Peninsula Pensions.	Within 1 month of employer joining the Pension Fund or 1 month of a change in Appeals Officer
Independent Registered Medical Practitioner (IRMP) - Appoint an IRMP qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from Peninsula Pensions, for the consideration of all ill-health retirement applications from active and deferred members.	Within 1 month of employer joining the Pension Fund or within 1 month of a change in IRMP(s)
Employer Discretions - Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to Peninsula Pensions).	Initial policy and subsequent revisions to be provided within 1 month of publishing
LGPS content in Contracts – Ensure that Fund-approved LGPS content is included in all contract / appointment / adjustment communications for LGPS-eligible positions including direction to Peninsula Pensions website .	Review LGPS content annually or within 1 month following receipt of information regarding adjustment to Fund approved wording
Communicate any information provided by Peninsula Pensions to scheme members/potential scheme members.	Within 1 month unless an alternate timeframe is set by Peninsula Pensions

Refer new / prospective scheme members to Peninsula Pensions' website.	Within 1 month of commencement of employment or change in contractual conditions
Outsourcing – Notify Peninsula Pensions of contracting out of services which will involve a TUPE transfer of LGPS eligible staff to another organisation to enable LGPS information to be provided to potential contractors.	Within 1 week-following Committee approval
Work with Peninsula Pensions to arrange for the admission of a contractor as a new employer.	A minimum of 2 months in advance of the date of contract
Notify Peninsula Pensions of changes / extension / cessation of arrangements with a contractor.	Within 5 working days of decision being made
Assist Peninsula Pensions in ensuring that the terms of the contractor's admission as an employer (Admission Agreement) are complied with.	Notify Peninsula Pensions immediately if the terms of the Admission Agreement have been breached
Respond to enquiries from Peninsula Pensions and representatives from the Administering Authority.	Within 2 weeks from receipt of the enquiry
Respond to enquiries from Peninsula Pensions and representatives from the Administering Authority in respect of Breaches of the Law.	Within 1 week of the request

2. Payments to the Fund

Function/Role	Performance Target
The Employer's Rate - Apply the employer contribution rate and deficit sum agreed with the Administering Authority on becoming an employer and adjust as instructed by the Administering Authority from a date determined by the Administering Authority.	Within 5 working days of receipt of information from the Administering Authority effective from a date determined by the Administering Authority following advice from the scheme actuary
The Employee's Rate - Calculate and review the correct employee contribution rate for all members at commencement and on 1st April each year. Also, to be reviewed at intervals during the year at the employer's discretion.	Within 5 working days of commencement, on 1st April each year and as per the employer's discretionary policy on adjusting the employee's contribution rate at intervals during the year

Assumed Pensionable Pay (APP) - Ensure the correct application of APP during periods of reduced/nil pay in accordance with the LGA's HR & Payroll Guides.	Review of eligibility for APP immediately upon a member moving to reduced/nil pay
Monthly Payment to the Pension Fund - Remit employee, employer and any additional contributions and submit the online contributions form to the Administering Authority.	By the 19th of the month after deduction from pay or date specified by the Administering Authority.
Payment of AVCs - Remit Additional Voluntary Contributions (AVCs) to the AVC provider(s).	By the 19th of the month following the deduction from pay
Make strain/shortfall payments to the Administering Authority in respect of early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Remit recharge payments in respect of pension members – e.g. Discretionary Compensation/Enhancement.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Payments in respect of FRS102 and IAS19 work carried out on behalf of employers by the Administering Authority and the Actuary.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Payments in respect of all other work carried out on behalf of the employer by the Actuary and connected data quality assurance undertaken by the Administering Authority.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Prompt payment of invoices issued by the Administering Authority for specific services provided e.g. admission agreement work.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Make payment of additional costs to the Administering Authority associated with non-compliance with performance standards of the scheme employer.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund

3. Year-End Return

Function/Role	Performance Target
Completing the Year-End Return - Provide a fully reconciled and completed Year-End Return to Peninsula Pensions in the format stipulated in the instructions issued each February.	By 19th April following the year-end unless employers are notified of an alternative date by the Peninsula Pensions
To resolve all queries returned from the Year-End Return.	To respond fully to all queries from Peninsula Pensions within 3 weeks of receipt of the query. In circumstances where an employer submits a late year-end return, limiting the time that Peninsula Pensions has to complete its duties, the timescales may be reduced, as advised by the Peninsula Pensions

4. Scheme Members Information

Function/Role	Performance Target
To notify Peninsula Pensions of all new scheme members, changes in personal details, e.g. name, working hours via Interface or Employer Self Service.	1 month
On cessation of membership determine the reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate. NB Where an employee is suffering from a Terminal Illness and limited life expectancy, employers should contact Peninsula Pensions for guidance without delay.	For members in receipt of regular pay, where the employer can accurately project pay to the date of retirement, up to 1 month prior, or within 1 week following final pay period. Leavers under age 55 within 1 month following final payday
Apply a scheme members election to opt out of the LGPS to the member's payroll record. Notify Peninsula Pensions in line with the process for leavers, as stated above.	Election applies from the 1st of the month for the next available payroll, except where an opt-out is made within 3 months of an employee joining the scheme. In such cases the opt-out is backdated to the joining date and all contributions refunded directly.
Where a member dies in service - determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Within 1 week of final pay period
Provide monthly CARE data within required format.	Within 2 weeks of pay run

Ensure members are notified of the option to pay Additional Pension Contributions following absences not covered by APP.	Within 2 weeks of the return to work, or as set out in the employer's discretion policy
Apply/adjust/cease the deduction of Additional Pension Contributions following an APC application from a scheme member and forward information via Interface or ESS to Peninsula Pensions.	In the month following receipt of election from scheme member
Notify Peninsula Pensions of periods of unpaid absence not covered by Assumed Pensionable Pay (APP).	Within 1 month
Arrange for the deduction of AVCs from scheme member's pay following election.	Commence deduction of AVCs in month following the month of election, as advised by AVC Provider
Provide end-of-year data within required format.	By date specified by Peninsula Pensions in January each year
In line with General Data Protection Regulations (GDPR) 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.	Ongoing requirement

Administering Authority Responsibilities

1. Peninsula Pensions

To complete cases in-line with the Disclosure Regulations, with at least 90% of cases completed within the internal targets.

Peninsula Pensions Responsibility	Disclosure regulations / Legal Requirement	Internal Targets
To accurately record and update member records on pension administration systems.	Within 3 months of effective date of change	2 weeks
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.	Within 2 months of joining the scheme or within 2 months of request being made	1 month
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	n/a	3 months

To produce annual benefit statements for all active members as at the preceding 31 st March and notify electronically or by post to member's home address.	31 st August	31 st July
To produce annual benefit statements for all preserved members, as at the preceding 31 st March, and notify electronically or by post to member's home address.	31 st August	30 th June
To provide information and quotations to scheme member about additional voluntary contribution (AVC) options.	Within 2 months of request being made	Within 10 working days
To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 2 months of request being made	Within 10 working days
To produce retirement estimates for employers, once in receipt of all the necessary information.	Within 2 months of request being made	Within 10 working days
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.	Within 2 months of receiving notification that pensionable service has ended or within 2 months of a request	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	Within 1 month following date benefit becomes payable (2 months if retiring before normal pension age)	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records and authorise payment of lump sum and set up of payroll record.	n/a	Within 10 working days
Under the General Data Protection Regulations 2018 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	n/a	Ongoing requirement, online security within databases regularly reviewed
Each Administering Authority is responsible for exercising the discretionary powers given to it by		Peninsula Pensions will maintain links to

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.		these discretions on their website
Notification of Pension Fund Triennial Valuation results including contribution rates.		Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

Director of Finance's report

Investment activity

During the 2019-2020 financial year, the planned-asset allocation of the fund was altered to reflect the pathway of transitioning assets to Brunel, this does not represent a major shift in the underlying exposures. We are continuing the process of transferring the management of the vast majority of our investment assets to our chosen LGPS pool, Brunel. During the year we have moved 2 mandates covering 15% of the assets to management by Brunel.

Further details regarding the investment objectives of the fund can be found in the Investment Strategy Statement, a copy of which can be found earlier in this annual report.

The current planned asset allocation is shown in the table below:

31 March 2020 Target %	Asset class	31 March 2021 Target %
30	Passive global equity	25
20	UK equity	20
10	Active global developed equity	10
0	Active global small cap. equity	5
5	Emerging market equity	5
65	Total listed equity	65
4	UK government gilts	4
4	UK government index-linked bonds	4
8	Sterling corporate bonds	8
3	High yield Corporate bonds	3
19	Total listed bonds	19
10	Property	10
5	Private Equity	5
15	Total alternatives	15
1	Cash	1
100		100

Further details are contained in the section earlier in this report describing the fund managers. The actual holdings of the fund at the start and end of the year are detailed as part of the financial statements, which can be found later in this annual report.

Investment market background

Interest rates

During the year the Bank of England maintained official UK base rate at 0.1% throughout the year.

Investment returns

Returns for the year were strongly positive for the whole fund over the whole year. Equities recovered quickly from the COVID-19 crisis falls seen in the year to March 2020 to post very strong returns. Bonds also performed well during the year.

Key market indicators

	Start of year	End of year	Percentage change for the year
Base rate	0.10%	0.10%	
Strength of sterling			
against US dollars	1.24	1.38	11%
euro	1.13	1.18	4%
yen	133.59	152.59	14%
Stock markets (quoted in local currency)			
FTSE 100 (UK)	5,672	6,714	18%
FTSE All Share (UK)	3,107	3,831	23%
Dow Jones (USA)	21,917	32,982	50%
S&P 500 (USA)	2,585	3,973	54%
FTSE Eurofirst 300 ex UK (Europe)	1,519	2,053	35%
Nikkei 225 (Japan)	18,917	29,179	54%
MSCI Emerging Market	849	1,316	55%

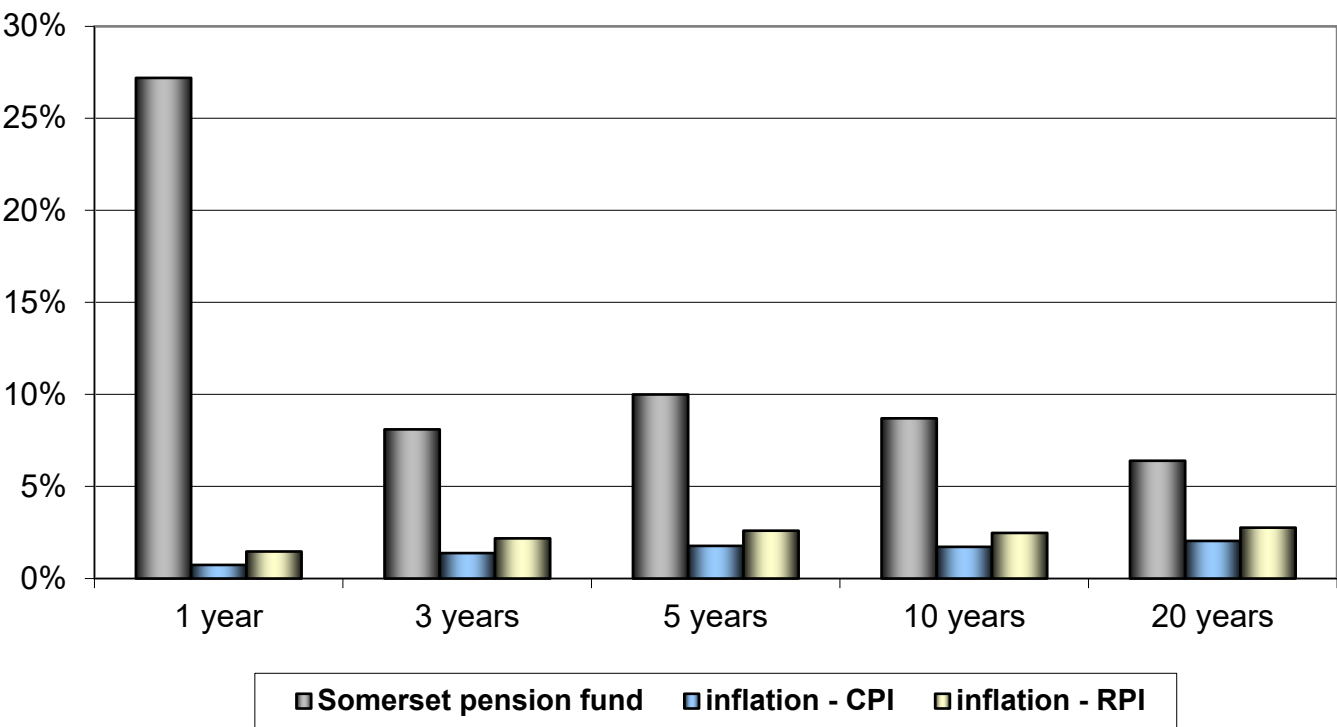
Source: Bank of England
Bloomberg

Investment performance

The success or failure of a pension fund depends largely on the performance of its investments. Benefits are worked out based on final salary for pre 2014 service and career average earnings for post 2014 service, and these benefits are ‘index-linked’ to protect their value over time. Taking the above into account, there is one simple but important comparison that can be made. This is to compare the growth in value of the fund with the rate of inflation.

For 2020/2021, the fund had a strongly positive return and this return was significantly above inflation. Looking back over five-, 10- and 20-year periods, we can see from the chart below that the fund has grown more strongly than inflation over the longer term.

Annualised fund investment performance in relation to inflation



Source: Somerset CC
Bloomberg

Overall fund performance

The fund's total return was positive for the financial year at a return of 27.2%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers. The return on our scheme-specific benchmark was 24.7% and the fund outperformed against this by 2.5%. The performance of each of the fund managers and the whole fund is shown in the table below net of all fees and charges.

1 year fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	35.8%	39.4%	-3.6%
Brunel	Passive global equity	39.4%	39.4%	0.0%
Brunel	Global high alpha equity	50.0%	39.1%	10.9%
Aberdeen Standard	UK equity	62.1%	26.7%	35.4%
Brunel	UK equity	27.5%	26.7%	0.8%
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	45.6%	42.3%	3.3%
Aberdeen Standard	Bonds	7.0%	6.2%	0.8%
LaSalle / Brunel	Property	-0.8%	2.5%	-3.3%
Neuberger Berman	Global private equity	21.5%	0.1%	21.4%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.1%	-0.1%
Somerset County Council	Cash	0.6%	0.1%	0.5%
Whole Fund		27.2%	24.7%	2.5%

Source: Somerset CC

3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	13.7%	13.8%	-0.1%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	11.3%	3.2%	8.1%
Brunel	UK equity	Initial investment in November 2018		
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	4.6%	4.4%	0.2%
LaSalle / Brunel	Property	0.8%	2.4%	-1.6%
Neuberger Berman	Global private equity	16.9%	0.5%	16.4%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.5%	-0.5%
Somerset County Council	Cash	0.8%	0.5%	0.3%
Whole Fund		8.1%	7.5%	0.6%

Source: Somerset CC

5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	14.9%	14.9%	0.0%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	11.5%	6.3%	5.2%
Brunel	UK equity	Initial investment in November 2018		
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	5.8%	5.5%	0.3%
LaSalle / Brunel	Property	2.9%	4.1%	-1.2%
Neuberger Berman	Global private equity	15.7%	0.4%	15.3%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.7%	0.4%	0.3%
Whole Fund		10.0%	9.4%	0.6%

Source: Somerset CC

10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	12.0%	12.1%	-0.1%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	8.6%	6.0%	2.6%
Brunel	UK equity	Initial investment in November 2018		
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	7.0%	6.9%	0.1%
LaSalle / Brunel	Property	5.1%	6.6%	-1.5%
Neuberger Berman	Global private equity	14.2%	0.4%	13.8%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.8%	0.4%	0.4%
Whole Fund		8.7%	8.3%	0.4%

Source: Somerset CC

Investment cost transparency

Direct investment management fees and transaction costs are included in note 8 of the Statement of Accounts. However, there has been an increasing focus on investment management costs, and a recognition that there are significant further costs that in the past have been hidden. The cost transparency agenda aims to ensure full disclosure of all costs involved in investment, as unless costs are identified they cannot be effectively managed. The effective management of investment costs should improve investment returns. The move toward investment fee transparency and consistency is seen by the LGPS Scheme Advisory Board as an important factor in the LGPS being perceived as a value led and innovative scheme.

The following table summarises investment management costs for 2020/21. It has been compiled from templates completed by each of the Fund's investment managers. The "Direct" costs column reconciles to the costs disclosed in note 8 within the Statement of Accounts, while "Indirect" costs are those costs that do not meet the criteria for inclusion in the accounts but do represent significant underlying costs to the Fund's investments.

The table below has been produced on a best efforts basis. Not all fund managers provided information to the same standard, it is likely that the total is understated because of this. Also, not all fund managers produced data for the correct time period, fund officers have aggregated time periods or done pro-rata calculations as applicable.

	Brunel asset pool				Non-asset pool				Whole fund	
	Direct £ m	Indirect £ m	Total £ m	bps	Direct £ m	Indirect £ m	Total £ m	bps	Total £ m	bps
Management fees										
Ad valorem	4.229		4.229	26.5	1.468		1.468	18.9	5.697	24.0
Performance			0.000	0.0			0.000	0.0	0.000	0.0
Research			0.000	0.0			0.000	0.0	0.000	0.0
Other charges	0.223		0.223	1.4			0.000	0.0	0.223	0.9
Asset pool shared costs	0.991		0.991	6.2			0.000	0.0	0.991	4.2
Transaction costs										
Taxes and stamp duty		0.267	0.267	1.7	0.033		0.033	0.4	0.300	1.3
Broker commission		0.183	0.183	1.1	0.040		0.040	0.5	0.223	0.9
Implicit costs		1.587	1.587	9.9			0.000	0.0	1.587	6.7
Entry/exit charges			0.000	0.0			0.000	0.0	0.000	0.0
Indirect transaction costs		0.729	0.729	4.6			0.000	0.0	0.729	3.1
Custody	0.164		0.164	1.0	0.035		0.035	0.5	0.199	0.8
Other										
Stock lending			0.000	0.0	-0.059		-0.059	-0.8	-0.059	-0.2
Other costs		0.224	0.224	1.4			0.000	0.0	0.224	0.9
Total	<u>5.607</u>	<u>2.990</u>	<u>8.597</u>	<u>53.8</u>	<u>1.517</u>	<u>0.000</u>	<u>1.517</u>	<u>19.6</u>	<u>10.114</u>	<u>42.6</u>

The different types of costs itemised in the above table are defined below:

- **Ad valorem** Fees are the management fees charged by the external fund managers based on the value of funds under their management. These may be invoiced or encashed from units held in pooled funds. Those shown as indirect relate to where fees are taken from underlying funds. All of these fees appear in note 8.
- **Performance fees** are fees based on the fund manager having achieved a level of performance that warrants additional fees. These will be based on the manager having achieved performance above a hurdle rate, either an absolute return or relative to a benchmark, and then being entitled to a share of the profit from the return achieved above the hurdle rate.
- **Other charges** comprise all payments made to parties providing services to the pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses, to the extent these are not included under transaction costs, and any other fees or levies deducted from the pooled fund.
- **Asset pool shared costs** comprise the charges levied by the Brunel Pension Partnership to meet the costs of running the company.
- **Taxes and stamp duty** comprise any taxes charged on asset transaction.
- **Broker commission** comprises payments for execution of trades. Levies, such as exchange fees, settlement fees and clearing fees are included within broker commissions.
- **Implicit costs** represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset. The precise methodologies for calculating implicit costs are still being deliberated by regulators. The costs included in the table are based on the recommendation that firms may calculate implicit costs by reference to appropriate measures of market spread and portfolio turnover.
- **Entry/exit charges** may arise when a holding in a pooled fund is bought or sold. The amount reported will be the actual amount incurred for each transaction and will include any dilution levies made in addition to the price and any amounts representing the difference between the transaction price and the net asset value per unit calculated by reference to the mid-market portfolio valuation.
- **Indirect transaction costs** are transaction costs incurred within pooled funds when they buy and sell their underlying investments.
- **Custody** – the costs levied by the Fund’s custodian.
- **Other costs** represent any additional charges that do not fit in any other category above.

As well as being transparent around costs the LGPS is striving to be more transparent about the effect of fund manager fees on investment performance. The following table shows, for each type of asset managed the performance gross of fund manager fees (the ad valorem fees and performance fees as per the definition above) and net of these fees. All of this performance is net of the transaction costs referred to above.

Asset class	1 year			3 year			5 year		
	Gross	Net	Benchmark	Gross	Net	Benchmark	Gross	Net	Benchmark
Brunel asset pool managed investments									
Passive global equity	39.4%	39.4%	39.4%						
UK equity	27.7%	27.5%	26.7%						
Global high alpha equity	50.4%	50.0%	39.1%						
Smaller companies equity*	24.6%	24.3%	27.0%						
Emerging market equity	46.1%	45.6%	42.3%						
Non-asset pool managed investments									
UK equity	62.6%	62.1%	26.7%	11.5%	11.3%	3.2%	11.7%	11.5%	6.3%
Bonds	7.1%	7.0%	6.2%	4.8%	4.6%	4.4%	5.9%	5.8%	5.5%
Property	-0.7%	-0.8%	2.5%	0.9%	0.8%	2.4%	3.1%	2.9%	4.1%
Global private equity	22.5%	21.5%	0.1%	17.9%	16.9%	0.5%	16.7%	15.7%	0.4%
Venture capital	1.4%	0.0%	0.1%	1.4%	0.0%	0.5%	1.4%	0.0%	0.4%
Cash	0.6%	0.6%	0.1%	0.8%	0.8%	0.5%	0.7%	0.7%	0.4%

The marked asset classes (*) have been managed for less than a year. Where the fund is invoiced for fees a full calculation has been done to remove the exact fees charged. Where the management fee has been deducted from a pooled fund the performance has been adjusted by adding back the percentage fee charged to the net performance.

Financial statements

Our responsibilities

As the administration authority of the fund, Somerset County Council must:

- appoint an officer to manage the fund's financial affairs – for us, that officer is the Director of Finance; and
- manage the fund's affairs to protect its assets and make sure resources are used economically, efficiently and effectively.

Responsibilities of the Director of Finance

The Director of Finance is responsible for preparing the pension fund's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the code'), must give a true and fair view on the financial position of the pension fund at the accounting date and its income and spending for the year ended 31 March 2021.

In preparing this statement of accounts, the Director of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and cautious; and
- followed the code.

The Director of Finance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

Fund Account

2019/2020		2020/2021		Notes
£ millions	£ millions	£ millions	£ millions	
	Contributions and other income			
21.186	Contributions from employees	22.585		4
82.132	Contributions from employers	88.932		4
3.301	Recoveries from member organisations	3.043		4
16.017	Transfer values received	8.408		5
122.636		122.968		
	Less benefits and other payments			
-81.657	Recurring pensions	-84.305		4
-15.654	Lump sum on retirement	-10.871		4
-2.515	Lump sum on death	-1.912		4
-11.386	Transfer values paid	-17.031		5
-0.304	Refund of contributions to leavers	-0.377		6
-111.516		-114.496		
11.120	Net additions from dealings with members		8.472	
	Management Expenses			
-1.285	Administrative expenses	-1.270		7
-6.228	Investment management expenses	-7.183		8
-0.662	Oversight and governance expenses	-0.681		9
-8.175		-9.134		
2.945	Net additions including management expenses		-0.662	
	Investment income			
29.629	Investment income received	15.109		10
4.173	Investment income accrued	4.037		10
-0.599	Less irrecoverable tax	-0.115		
33.203		19.031		
	Change in market value of investments			
161.409	Realised profit or loss	105.819		13
-321.123	Unrealised profit or loss	439.074		13
-159.714		544.893		
-126.511	Net return on investments		563.924	
	Net increase/ (decrease) in the net assets			
-123.566	available for benefits during the year		563.262	

Table continued on next page

Fund Account (continued)

2019/2020		2020/2021		Notes
£ millions	£ millions	£ millions	£ millions	
	Change in actuarial present value of promised retirement benefits			
197.881	Vested benefits	-1,265.728		14
<u>41.584</u>	Non-vested benefits	<u>4.219</u>		14
239.465	Net change in present value of promised benefits	-1,261.509		
	Net increase/(decrease) in the fund during the year	-698.247		
115.899				
-1,731.216	Add net liabilities at beginning of year	-1,615.317		
<u>-1,615.317</u>	Net liabilities at end of year	<u>-2,313.564</u>		

Net Asset Statement

On 31 March 2020 £ millions		On 31 March 2021 £ millions		Notes
	Investment assets and liabilities			
2,046.977	Investment assets	2,608.459		11
-0.271	Investment liabilities	-0.011		11
3.760	Other investment balances	3.937		15
	Current assets			
5.865	Contributions due from employers	4.432		
0.254	Cash at bank	0.501		
1.152	Other debtors	3.755		
	Current liabilities			
0.000	Unpaid benefits	0.000		
0.000	Bank overdraft	0.000		
-1.927	Other creditors	-2.001		
2,055.810	Net assets of the scheme available to fund benefits at end of year	2,619.072		
	Actuarial present value of promised retirement benefits			
-3,583.169	Vested benefits	-4,848.897		14
-87.958	Non-vested benefits	-83.739		14
-1,615.317	Net liabilities at end of year	-2,313.564		

Notes to the Accounts

Note 1: Description of the fund

The Somerset County Council pension fund is a defined benefit pension plan for the employees of the County Council and other employers in Somerset. The fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to the majority of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Education). The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police (police officers have a separate scheme) and employees of other member bodies. A full list of employers who paid into the fund during the financial year is contained in note 4 of the accounts.

Contributions by employees are based on nine-tiered contribution bands dependent on the individual employee's pay, the nine contribution bands range from 5.5% to 12.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of this valuation of the fund. The rates for the 2020-2021 financial year were the first year covered by the valuation of the fund as at 31 March 2019. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 18.1% for each of the years from 2020 to 2023 plus a fixed sum of £9.33m for 2020/2021, £9.67m for 2021/2022 and £10.03m for 2022/2023. This compares with a rate of 15.5% and a lump sum of £12.81m for the 2019/2020 year set under the 2016 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 24.3% at the 2019 valuation (22.9% at the 2016 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 24.3% is made up of a rate of 17.8% for new service and 6.5% for deficit funding. As part of the 2019 valuation all employers except academy schools have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund's assets covered 86% of the fund's liabilities.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-31 March 2014 service and to career average re-valued earnings (CARE) for service since 1st April 2014, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Note 2: Basis of preparation

The statement of accounts summarises the fund's transactions for the 2020/21 financial year and its financial position at 31 March 2021. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on a going concern basis.

Note 3: Accounting policies

The Fund account is prepared on a full accrual basis, with the exception of transfer values. As a result the following apply:

- investments and financial assets are included at fair value;
- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;
- fixed interest securities are valued excluding accrued income;
- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager of the respective pooled investment vehicle;
- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;
- The Neuberger Berman Crossroads 2010 fund, Neuberger Berman Crossroads XX fund, Neuberger Berman Crossroads XXI fund and Neuberger Berman Crossroads XXII fund are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Quarterly valuation statements for private equity investments are produced a significant length of time after the quarter end, and consequently the value we use for each unit of the private equity funds in the accounts is the audited value of the private equity funds at 31 December;
- the South West Regional Venture Fund is valued at cost;
- the fund's holding in the shares of Brunel Pension Partnership Ltd is valued at cost;
- contributions and benefits are accounted for in the period in which they fall due;
- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;

- interest on investments are accrued if they are not received by the end of the financial year;
- all dividends and interest on investments are accounted for on 'ex-dividend' dates;
- all settlements for buying and selling of investments are accrued on the day of trading;
- transfer values are accounted for when money is received or paid;
- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes; and
- Cash and cash equivalents on the Net Asset statement are restricted to 'cash at bank' and 'bank overdraft'. All cash (overdraft) not in the pensions fund's standard bank account with NatWest is treated as an Investment asset and is shown in note 11.

Note 4: Contributions and benefits

2020/2021	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.625	13.329	1.421	22.375
- Additional	0.092	0.109	0.009	0.210
Total	<u>7.717</u>	<u>13.438</u>	<u>1.430</u>	22.585
Employers' contributions				
- Normal	22.004	36.250	3.968	62.222
- Augmentation	0.143	0.529	0.030	0.702
- Deficit funding	9.330	13.218	3.460	26.008
Total	<u>31.477</u>	<u>49.997</u>	<u>7.458</u>	88.932
Recurring pension and lump sum payments	-45.845	-41.203	-10.040	-97.088
Money recovered from member organisations	1.523	1.505	0.015	3.043
	<u>-5.128</u>	<u>23.737</u>	<u>-1.137</u>	<u>17.472</u>

2019/2020	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	7.127	12.030	1.583	20.740
- Additional	0.198	0.226	0.022	0.446
Total	<u>7.325</u>	<u>12.256</u>	<u>1.605</u>	21.186
Employers' contributions				
- Normal	17.853	27.948	4.225	50.026
- Augmentation	0.635	1.020	0.610	2.265
- Deficit funding	12.806	14.295	2.740	29.841
Total	<u>31.294</u>	<u>43.263</u>	<u>7.575</u>	82.132
Recurring pension and lump sum payments	-47.493	-42.092	-10.241	-99.826
Money recovered from member organisations	1.848	1.385	0.068	3.301
	<u>-7.026</u>	<u>14.812</u>	<u>-0.993</u>	<u>6.793</u>

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	7.717	31.477	39.194
Police & Crime Commissioner			
Avon & Somerset	5.541	16.185	21.726
District councils			
Mendip	0.352	1.682	2.034
Sedgemoor	0.683	3.364	4.047
South Somerset	0.734	3.518	4.252
Somerset West & Taunton	1.165	5.309	6.474
Other bodies			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.131	0.502	0.633

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Parish and town councils			
Axbridge Town Council	0.001	0.006	0.007
Berrow Parish Council	0.001	0.003	0.004
Bishop Hull Parish Council	0.001	0.003	0.004
Bridgwater Town Council	0.009	0.034	0.043
Burnham & Highbridge Town Council	0.018	0.063	0.081
Castle Cary Town Council	0.002	0.009	0.011
Chard Town Council	0.017	0.060	0.077
Cheddar Parish Council	0.002	0.007	0.009
Coleford Parish Council	0.001	0.003	0.004
Comeytrove Parish Council	0.001	0.003	0.004
Creech St Michael Parish Council	0.001	0.003	0.004
Crewkerne Town Council & Burial Board	0.009	0.033	0.042
Frome Town Council	0.043	0.151	0.194
Glastonbury Town Council	0.013	0.048	0.061
Ilminster Town Council	0.007	0.022	0.029
Langport Town Council	0.004	0.007	0.011
Lower Brue Drainage Board	0.042	0.145	0.187
Minehead Town Council	0.008	0.031	0.039
Nether Stowey Parish Council	0.001	0.005	0.006
North Petherton Town Council	0.000	0.000	0.000
Parret Drainage Board	0.004	0.016	0.020
Shepton Mallet Town Council	0.009	0.029	0.038
Somerton Town Council	0.004	0.014	0.018
Street Parish Council	0.005	0.018	0.023
Watchet Town Council	0.004	0.006	0.010
Wellington Town Council	0.005	0.016	0.021
Wells Burial Board & Parish Council	0.022	0.075	0.097
West Coker Parish Council	0.001	0.002	0.003
Williton Parish Council	0.001	0.006	0.007
Wincanton Town Council	0.006	0.023	0.029
Yeovil Town Council	0.013	0.044	0.057

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Further-education colleges			
Bridgwater College	0.793	2.601	3.394
Richard Huish Sixth Form College	0.151	0.474	0.625
Strode College	0.164	0.581	0.745
Yeovil College	0.205	0.576	0.781
Academies			
Ansford Academy	0.036	0.141	0.177
Ashill Primary Academy	0.003	0.012	0.015
Avishayes Academy	0.018	0.076	0.094
Axbridge Academy	0.013	0.056	0.069
Barwick and Stoford School	0.000	0.001	0.001
Bath & Wells Academy Trust	0.321	1.288	1.609
Bishop Fox's Academy	0.057	0.232	0.289
Blackbrook Primary School	0.015	0.062	0.077
Brent Knoll Primary School	0.008	0.034	0.042
Bridgwater College Academy	0.152	0.561	0.713
Brookside Academy	0.062	0.255	0.317
Bruton Sexseys Academy	0.054	0.212	0.266
Brymore Academy	0.062	0.250	0.312
Buckland St. Mary Church of England School	0.003	0.015	0.018
Buckler's Mead Academy	0.055	0.199	0.254
Castle Academy	0.078	0.304	0.382
Castle Primary School	0.009	0.040	0.049
Charlton Horethorn School	0.003	0.015	0.018
Cheddar First School	0.020	0.083	0.103
Chilton Trinity Academy	0.041	0.163	0.204
Countess Gytha Primary School	0.013	0.055	0.068
Courtfields Academy	0.048	0.195	0.243

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Crispin Academy	0.053	0.205	0.258
Critchill School	0.026	0.114	0.140
Danesfield Academy	0.022	0.091	0.113
Draycott and Rodney Stoke First School	0.006	0.022	0.028
East Brent School	0.007	0.030	0.037
Enmore Academy	0.006	0.027	0.033
Fairlands Middle School	0.022	0.094	0.116
Hambridge Primary School	0.011	0.045	0.056
Hamp Academy	0.021	0.089	0.110
Hatch Beauchamp Primary School	0.002	0.009	0.011
Hayesdown Academy	0.017	0.074	0.091
Haygrove Academy	0.064	0.248	0.312
Hemington Primary School	0.003	0.015	0.018
Holy Trinity Church of England School	0.029	0.124	0.153
Holyrood Academy	0.069	0.284	0.353
Horrington Primary School	0.008	0.032	0.040
Hugh Sexey's School	0.030	0.125	0.155
Huish Academy	0.028	0.119	0.147
Huish Episcopi Academy	0.086	0.341	0.427
Huish Episcopi Primary Academy	0.011	0.048	0.059
Isambard Kingdom Brunel School	0.003	0.013	0.016
King Alfred School	0.064	0.281	0.345
King Arthur's School	0.021	0.085	0.106
King Edward Road Nursery	0.009	0.038	0.047
King Ina (Monteclefe)	0.022	0.092	0.114
Kings of Wessex Academy	0.070	0.260	0.330
Kings of Wessex Leisure	0.020	0.042	0.062
Kingsmead Academy	0.062	0.249	0.311

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Leigh On Mendip First School	0.007	0.028	0.035
Lympsham School	0.009	0.038	0.047
Maiden Beech Academy	0.021	0.084	0.105
Manor Court Primary School	0.025	0.113	0.138
Mark Academy	0.012	0.053	0.065
Mendip School	0.046	0.194	0.240
Middlezoy Primary School	0.006	0.021	0.027
Milford Junior School	0.030	0.120	0.150
Minehead First School	0.030	0.127	0.157
Minehead Middle School	0.056	0.217	0.273
Minerva Primary School	0.020	0.084	0.104
Neroche Primary School	0.003	0.013	0.016
North Cadbury School	0.007	0.029	0.036
Northgate Primary School	0.020	0.085	0.105
Nunney First School	0.004	0.015	0.019
Oakfield Academy	0.040	0.161	0.201
Old Cleeve Academy	0.011	0.048	0.059
Othery Primary School	0.004	0.017	0.021
Otterhampton Primary School	0.009	0.037	0.046
Pawlett Primary School	0.004	0.016	0.020
Pen Mill Academy	0.013	0.055	0.068
Preston Academy	0.057	0.233	0.290
Preston C of E Primary School	0.059	0.219	0.278
Primrose Lane Primary School	0.017	0.073	0.090
Priorswood Academy	0.013	0.055	0.068
Puriton Primary School	0.009	0.038	0.047
Redstart Academy	0.039	0.155	0.194
Ruishton Primary School	0.015	0.065	0.080

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Selwood Academy	0.033	0.135	0.168
Selworthy School	0.071	0.305	0.376
Shipham Church of England First School	0.006	0.027	0.033
Spaxton Primary School	0.005	0.023	0.028
St. Dunstan's Academy	0.018	0.076	0.094
St. Cuthbert's Academy	0.012	0.048	0.060
St. Michael's Academy	0.025	0.105	0.130
St. Michael's Church of England School	0.010	0.044	0.054
St. Peter's Academy	0.011	0.047	0.058
St Peters Nursery	0.008	0.032	0.040
Stanchester Academy	0.042	0.167	0.209
Steiner Academy, Frome	0.022	0.093	0.115
Stogursey Primary School	0.006	0.027	0.033
Tatworth Academy	0.009	0.037	0.046
Taunton Academy	0.116	0.479	0.595
The Blue School, Wells	0.102	0.408	0.510
Weare Academy	0.012	0.051	0.063
Wedmore Academy	0.018	0.078	0.096
Wellesley Park Primary School	0.017	0.074	0.091
West Monkton Primary School	0.051	0.204	0.255
West Somerset Community College	0.040	0.169	0.209
Westfield Academy	0.065	0.249	0.314
Westover Green Academy	0.037	0.158	0.195
Whitstone Academy	0.037	0.148	0.185
Willowdown Academy	0.022	0.093	0.115
Winsham Primary School	0.005	0.019	0.024
Woolavington Academy	0.015	0.063	0.078
Total other scheduled employers	<u>13.438</u>	<u>49.997</u>	<u>63.435</u>

Table continued on next page

Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Aster Communities Ltd	0.032	2.295	2.327
BAM FM	0.004	0.015	0.019
Capita	0.004	0.015	0.019
Dimensions	0.428	1.027	1.455
Edward and Ward Ltd	0.005	0.004	0.009
Glen Cleaning Company Ltd	0.002	0.012	0.014
Homes in Sedgemoor	0.137	0.398	0.535
Idverde Ltd	0.012	0.047	0.059
Imperial Cleaning	0.001	0.003	0.004
KGB South West	0.012	0.058	0.070
Learning South West	0.000	0.000	0.000
Leisure East Devon	0.013	0.027	0.040
Magna West Somerset Housing Association	0.058	0.251	0.309
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.000	0.158	0.158
MD Building Services	0.025	0.078	0.103
MITIE	0.001	0.000	0.001
National Autistic Society	0.009	0.048	0.057
NSL Ltd	0.019	0.072	0.091
Pabulum	0.004	0.018	0.022
RM Education	0.002	0.004	0.006
SASP	0.010	0.006	0.016
Shared Lives South West	0.004	0.014	0.018
Society of Local Council Clerks	0.036	0.121	0.157
Somerset Care Ltd	0.024	0.265	0.289
Somerset Skills & Learning	0.073	0.222	0.295
South West Audit Partnership	0.126	0.528	0.654
South West Heritage	0.054	0.161	0.215
South West Provincial Councils	0.039	0.318	0.357
Suez Recycling	0.022	0.083	0.105
Yarlington Housing Group	0.272	1.203	1.475
Total admitted employers	<u>1.430</u>	<u>7.458</u>	<u>8.888</u>
Total	<u><u>22.585</u></u>	<u><u>88.932</u></u>	<u><u>111.517</u></u>

Note 5: Transfer values

2019/2020 £ millions		2020/2021 £ millions
9.000	Group transfer values received	0.000
7.017	Individual transfer values received	8.408
16.017		8.408
0.000	Group transfer values paid	-7.955
-11.386	Individual transfer values paid	-9.076
-11.386		-17.031

Note 6: Refunds

2019/2020 £ millions		2020/2021 £ millions
-0.294	Contributions refunded to members who leave service	-0.377
-0.017	Interest accumulated on refunds agreed in the past	-0.014
-0.311		-0.391
-0.003	Deductions from contributions equivalent premium	0.000
0.010	Less payments to Department for Work and Pensions contributions equivalent premium	0.014
-0.304		-0.377

Note 7: Administrative expenses

2019/2020		2020/2021
£ millions		£ millions
0.000	Benefits administration costs charged by Somerset CC	0.000
-1.273	Benefits administration costs charged by Devon CC	-1.262
<u>-1.273</u>		<u>-1.262</u>
0.000	Legal advice costs charged by Somerset CC	0.000
-0.012	External legal advice	-0.008
<u>-0.012</u>		<u>-0.008</u>
0.000	Other expenses	0.000
<u>-1.285</u>		<u>-1.270</u>

Note 8: Investment management expenses

2019/2020 £ millions		2020/2021 £ millions
Fund manager fees		
-0.339	LaSalle	-0.184
-1.102	Jupiter*	0.000
-0.171	Maple-Brown Abbott*	-0.049
-0.135	Amundi	0.000
-0.041	Somerset County Council	-0.043
-0.590	Aberdeen Standard	-0.634
-0.855	Other fund managers	-0.558
-3.233		-1.468
Other expenses		
-0.094	Transaction costs	-0.073
-0.039	Custody fees	-0.035
-0.402	Property unit trust managers' fees	0.000
-0.535		-0.108
Pooling		
-0.979	Brunel Fees	-0.991
-1.429	3rd Party Fund Manager Fees	-3.143
0.000	Property unit trust managers' fees	-1.086
-0.048	Custody fees	-0.164
-0.004	Other costs	-0.223
-2.460		-5.607
-6.228		-7.183

The "other fund manager" fees identified above is an estimate of fund management fees that are deducted from within investments held by the pension fund but not invoiced to the fund.

*The fund manager fees for these managers may include performance related fees. The total performance related fees attributable to the 2020/2021 financial year are £0 (£739,000 in 2019/2020).

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel. Property unit trust manager fees has moved under Brunel's management during the year and the full year cost is shown here. The increase in costs in this respect is due to improvements in transparency achieved by Brunel rather than an increase in the actual amounts of fees deducted from pooled property funds.

The transaction costs shown above are broken down as follows:

2019/2020		Manager	Asset Class	2020/2021	
£ millions	£ millions			£ millions	£ millions
Broker comm- issions	Taxes and Fees			Broker comm- issions	Taxes and Fees
Purchase Costs					
0.001	0.002	Somerset County Council	Passive global equity	0.002	0.002
0.000	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.000	Somerset County Council	Passive US equity	0.000	0.000
0.005	0.007	Jupiter	European equity	0.000	0.000
0.017	0.004	Maple-Brown Abbott	Far East equity	0.005	0.002
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
<u>0.025</u>	<u>0.013</u>			<u>0.007</u>	<u>0.004</u>
Sales Costs					
0.002	0.001	Somerset County Council	Passive global equity	0.010	0.003
0.000	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.000	Somerset County Council	Passive US equity	0.000	0.000
0.007	0.000	Jupiter	European equity	0.000	0.000
0.022	0.022	Maple-Brown Abbott	Far East equity	0.023	0.026
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
<u>0.033</u>	<u>0.023</u>			<u>0.033</u>	<u>0.029</u>
<u>0.058</u>	<u>0.036</u>			<u>0.040</u>	<u>0.033</u>
	<u>0.094</u>				<u>0.073</u>

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

No attempt has been made to estimate transaction costs incurred within pooled funds.

Note 9: Oversight and governance expenses

2019/2020 £ millions		2020/2021 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.223	Investments administration costs charged by Somerset CC	-0.232
-0.233		-0.242
-0.177	Actuary's fees	-0.142
0.067	Recharge of Actuary's fees to employers	0.057
-0.110		-0.085
-0.027	External audit fees	-0.022
0.002	Refund	0.000
0.007	Recharge of audit fees to employers	0.000
-0.018		-0.022
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.081	Professional services and subscriptions	-0.078
-0.171	IT systems	-0.209
0.000	Performance measurement fees	0.000
0.000	External legal advice	0.000
-0.026	Voting advice fees	-0.022
-0.018	Pooling costs	-0.018
-0.005	Other expenses	-0.005
-0.662		-0.681

The pooling costs referred to in this note are costs that are related to pooling but not paid to Brunel or regarding anything that Brunel provides. Typically this is legal and other consulting work regarding pooling.

The external audit fees disclosed in the auditor's formal audit plan to the Fund for the 2020/2021 financial year are £37,121. The discrepancy relates to an invoice that was not accrued for, which will appear in the 2021/2022 accounts, and an estimate of an additional fee that our auditors are yet to agree with the PSAA. Similar discrepancies appear in the 2020/2021 audit plan relating to the 2019/20 fee, shown as £35,521.

Note 10: Investment income

2019/2020 £ millions		2020/2021 £ millions
10.448	Bonds	10.106
0.473	Index linked bonds	0.382
0.879	UK equities	0.132
7.760	Overseas equities	2.062
12.942	Property unit trusts	5.753
1.163	Cash invested internally	0.651
0.000	Private equity	0.000
0.137	Stock lending	0.059
33.802		19.145

Note 11: Investment assets and liabilities

31 March 2020				31 March 2021			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
UK equities							
1.490		0.1		0.000		0.0	
353.367		17.2		450.502		17.3	
7.995		0.4		12.994		0.5	
362.852		17.7		463.496		17.8	
Overseas equities							
91.714		4.5		0.000		0.0	
4.683		0.2		0.375		0.0	
2.321		0.1		0.000		0.0	
24.466		1.2		0.000		0.0	
2.331		0.1		0.000		0.0	
489.305		23.9		681.900		26.1	
240.564		11.7		360.872		13.8	
0.000		0.0		184.984		7.1	
69.184		3.4		122.078		4.7	
31.933		1.6		0.000		0.0	
956.501		46.7		1,350.209		51.7	
Bonds							
58.398		2.9		67.294		2.6	
89.507		4.4		108.801		4.2	
7.828		0.4		9.003		0.4	
1.193		0.1		0.557		0.0	
80.741		3.9		86.920		3.3	
26.239		1.3		39.441		1.5	
70.027		3.4		74.302		2.9	
0.798		0.0		0.795		0.0	
4.530		0.2		3.314		0.1	
339.261		16.6		390.427		15.0	
Property							
194.042		9.5		174.870		6.7	
0.023		0.0		0.020		0.0	
194.065		9.5		174.890		6.7	
Private equity							
6.219		0.3		10.399		0.4	
15.483		0.7		14.982		0.6	
22.145		1.1		22.313		0.9	
13.614		0.7		21.711		0.8	
0.000		0.0		0.574		0.0	
1.640		0.1		1.640		0.1	
0.840		0.0		0.840		0.0	
59.941		2.9		72.459		2.8	

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Note 11: Investment assets and liabilities (continued)

31 March 2020				31 March 2021			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
Derivatives							
1.415		0.1		0.529		0.0	
0.000		0.0		0.000		0.0	
0.000		0.0		0.000		0.0	
1.415		0.1		0.529		0.0	
Cash and others							
132.942		6.5		156.449		6.0	
132.942		6.5		156.449		6.0	
<u>2,046.977</u>		<u>100.0</u>	Investment assets	<u>2,608.459</u>		<u>100.0</u>	
Derivatives							
-0.271		0.0		-0.011		0.0	
0.000		0.0		0.000		0.0	
0.000		0.0		0.000		0.0	
-0.271		0.0		-0.011		0.0	
<u>-0.271</u>		<u>0.0</u>	Investment liabilities	<u>-0.011</u>		<u>0.0</u>	
<u>2,046.706</u>		<u>100.0</u>	Net investment assets	<u>2,608.448</u>		<u>100.0</u>	
Made up of							
2,051.729			Historical cost	2,174.397			
-5.023			Unrealised profit or loss	434.051			
<u>2,046.706</u>				<u>2,608.448</u>			

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (BPP Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd, with share capital invested by each fund of £840,000. The £840,000 investment shown as Brunel within private equity above refers to this value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2021 was £1,975,780,000. This investment is also disclosed separately from any other investment in note 13, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Note 12: Analysis of pooled fund investments

31 March 2020 £ millions		31 March 2021 £ millions	
	Unit trusts		
128.341	UK property funds	128.972	
	Unitised insurance policies		
489.305	Brunel passive global equity fund	681.900	
7.995	Standard Life smaller companies fund	12.994	
497.300		694.894	
	Limited liability partnerships		
0.000	UK property funds	0.000	
0.000	Overseas property funds	0.000	
6.219	Neuberger Berman Crossroads 2010 fund	10.399	
15.483	Neuberger Berman Crossroads XX fund	14.982	
22.145	Neuberger Berman Crossroads XXI fund	22.313	
13.614	Neuberger Berman Crossroads XXII fund	21.711	
0.000	Brunel private equity funds	0.574	
1.640	South West regional venture fund	1.640	
59.101		71.619	
	UK authorised contractual scheme		
353.367	Brunel UK equity fund	450.502	
240.564	Brunel global high alpha equity fund	360.872	
0.000	Brunel global smaller companies fund	184.984	
69.184	Brunel emerging market equity fund	122.078	
663.115		1,118.436	
	Other managed funds		
31.933	Nomura Japan fund	0.000	
65.701	UK property funds	45.898	
0.023	Overseas property funds	0.020	
97.657		45.918	
1,445.514	Total	2,059.839	

Note 13: Movement in investment assets

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2019/2020	Total	2,168.202	-69.939	1,610.774	-1,502.618	161.409	-321.122	2,046.706
Somerset County Council	Global equity	28.552	0.000	7.022	-43.689	15.465	-6.975	0.375
Aberdeen Standard	UK equity	7.995	0.000	0.000	0.000	0.000	4.999	12.994
Somerset County Council	US equity	73.111	0.000	0.414	-92.374	49.076	-30.227	0.000
Nomura	Japanese equity	31.933	0.000	0.000	-37.828	19.312	-13.417	0.000
Maple-Brown Abbott	Far East equity	25.342	0.000	3.295	-33.795	-0.735	5.893	0.000
Aberdeen Standard	Bonds	339.261	0.000	220.386	-174.032	3.993	0.819	390.427
Aberdeen Standard	Derivatives	1.144	0.000	1,315.804	-1,316.405	0.377	-0.402	0.518
LaSalle / Brunel	Property	194.065	0.000	8.120	-20.470	2.606	-9.431	174.890
Neuberger Berman	Global private equity	57.461	0.000	5.436	-6.104	1.608	11.004	69.405
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Company	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	353.367	0.000	0.000	0.000	0.000	97.135	450.502
Brunel	Pasive global equity	489.305	0.000	0.000	0.000	-0.038	192.633	681.900
Brunel	Global high alpha equity	240.564	0.000	0.000	0.000	0.000	120.308	360.872
Brunel	Global smaller co.'s	0.000	0.000	151.041	0.000	-0.034	33.977	184.984
Brunel	Emerging market equity	69.184	0.000	20.000	0.000	0.000	32.894	122.078
Brunel	Global private equity	0.000	0.000	0.374	0.000	0.000	0.200	0.574
Somerset County Council	Cash	132.942	9.654	0.000	0.000	14.189	-0.336	156.449
2020/2021	Total	2,046.706	9.654	1,731.892	-1,724.697	105.819	439.074	2,608.448

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2021 was £1,975,780,000. This investment is also disclosed separately from any other investment in note 11, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Note 14: Actuarial present value of promised retirement benefits

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

To assess the value of the Fund's liabilities at 31 March 2021, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019

The estimation of the present value of promised retirement benefits is subject to significant variances based on changes to the underlying assumptions. In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. The assumptions used are as follows:

31 March 2020		31 March 2021
Financial assumptions		
2.65%	RPI increases	3.20%
1.85%	CPI increases	2.85%
2.85%	Salary increases	3.85%
1.85%	Pension increases	2.85%
2.35%	Discount Rate	2.00%
Life expectancy (from age 65)		
23.3	Retiring today - Males	23.1
24.7	- Females	24.6
24.7	Retiring in 20 years - Males	24.4
26.2	- Females	26.0

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. The Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30-year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40-year point. This is consistent with the approach used at the last accounting date.

CPI is assumed to be 0.35% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods, recent independent forecasts and the duration of the Fund's liabilities. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration of 22 years. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30-year point). This is consistent with the approach used at the last accounting date.

A sensitivity analysis of the present value of promised retirement benefits to changes in these assumptions is provided in the table below.

	£ millions	£ millions
Actuarial present value of promised retirement benefits	4,932.636	
Sensitivity to	+0.1%	-0.1%
Discount rate	4,827.676	5,039.984
Salary increase	4,941.436	4,923.916
Pension increases and deferred revaluation	5,030.183	4,837.154
Sensitivity to	+ 1 year	- 1 year
Life expectancy assumptions	5,148.857	4,725.757

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

The change in financial assumptions item includes the change in derivation of future assumed RPI and CPI inflation as noted above. These changes have resulted in a loss of £199,109,000 on the defined benefit obligation; comprising a gain of £236,844,000 from the change in assumed RPI and a loss of £435,953,000 from the change in the assumed gap between RPI and CPI inflation.

The change in demographic assumptions figure in the table above reflects the update to use the CMI_2020 Model. The demographic assumptions used are consistent with those used for the most recent Fund valuation, which was carried out as at 31 March 2019, except for the CMI projection model. The post retirement mortality tables adopted are the S3PA tables with a multiplier of 90% for males and 100% for females. These base tables are then projected using the CMI_2020 Model, allowing for a long-term rate of improvement of 1.25% p.a., smoothing parameter of 7.5, an initial addition parameter of 0.5% p.a. and a 2020 weighting of 25%.

Although the post retirement mortality tables adopted are consistent with the previous accounting date, the mortality improvement projection has been updated to use the latest version of the Continuous Mortality Investigation's model, CMI_2020, which was released in March 2021. This update has been made in light of the coronavirus pandemic and reflects the latest information available from the CMI. The new CMI_2020 Model introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. Placing too much weight on the 2020 mortality experience would not be appropriate given the abnormality of the 2020 data, however, the overall outlook for best-estimate future mortality improvements looks less positive as a result of the pandemic. The CMI_2020 Model with a 2020 weight parameter of 25% has been used. At the last accounting date, the CMI_2018 Model was adopted. The effect on the Employer's liabilities of updating to the most recent model is reflected in the Change in demographic assumptions figure in the table below.

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. HM Treasury have confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes".

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016.

The valuation assumption for GMP was that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the calculations assume that the Fund will be required to pay the entire inflationary increase. This assumption is consistent with the consultation outcome and does not make any adjustments to the value placed on the liabilities as a result of the above outcome.

The calculations were adjusted for the outcome of the McCloud case in last year's accounts and this year's figures have been calculated in the same way.

2019/2020 £ millions	2020/2021 £ millions
118.814 Current service cost	125.726
93.137 Interest cost	85.430
-451.719 Change in financial assumptions	1,208.548
2.810 Change in demographic assumptions	-38.980
63.652 Experience loss/(gain) on defined benefit obligations	-47.028
0.000 Liabilities assumed/(extinguished) on settlements	0.000
-92.766 Estimated benefits paid net of transfers in	-95.258
7.057 Past service costs, including curtailments	0.472
19.550 Contributions by scheme members	22.599
-239.465	1,261.509

Note 15: Other investment balances

31 March 2020 £ millions		31 March 2021 £ millions
Assets		
4.173	- Accrued income	4.037
1.184	- Payments due on investments sold	8.316
0.945	- Cash collateral provided	1.063
6.302		13.416
Liabilities		
-2.345	- Payments not made on purchases and losses due on sales	-9.479
-0.197	- Cash collateral held	0.000
-2.542		-9.479
3.760		3.937

Note 16: Management structure

31 March 2020		Manager	Asset class	31 March 2021	
£ millions	%			£ millions	%
28.552	1	Somerset County Council	Passive global equity	0.375	0
7.995	0	Aberdeen Standard	UK equity	12.994	0
73.111	4	Somerset County Council	Passive US equity	0.000	0
31.933	2	Nomura	Japanese equity	0.000	0
25.342	1	Maple-Brown Abbott	Far East equity	0.000	0
340.405	17	Aberdeen Standard	Bonds	390.945	15
194.065	9	LaSalle	Property	0.020	0
57.461	3	Neuberger Berman	Global private equity	69.405	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
132.942	7	Somerset County Council	Cash	156.449	6
894.286	44	Not-pooled sub total		632.668	24
353.367	17	Brunel	UK Equity	450.502	17
489.305	24	Brunel	Passive global equity	681.900	26
240.564	12	Brunel	Global high alpha equity	360.872	14
0.000	0	Brunel	Global smaller companies	184.984	7
69.184	3	Brunel	Emerging market equity	122.078	5
0.000	0	Brunel	Property	174.870	7
0.000	0	Brunel	Global private equity	0.574	0
1,152.420	56	Pooled sub total		1,975.780	76
2,046.706	100	Net investment assets		2,608.448	100

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2021 was £1,975,780,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 30 and a written disclosure is made in note 24 with regard to related parties.

Note 17: Classification of financial instruments

31 March 2020 £ millions			31 March 2021 £ millions		
Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
Investment assets and liabilities					
2,046.977			2,608.459		
-0.271			-0.011		
	3.760			3.937	
Current assets					
	5.865			4.432	
	0.254			0.501	
	1.152			3.755	
Current liabilities					
		0.000			0.000
		0.000			0.000
		-1.927			-2.001
Net assets of the scheme available to fund benefits at end of year					
2,046.706	11.031	-1.927	2,608.448	12.625	-2.001

Note 18: Net gains and losses on financial instruments

2019/2020 £ millions		2020/2021 £ millions
-159.714	Fair value through profit and loss	544.893
0.000	Amortised cost - realised gains (losses) on derecognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
-159.714		544.893

Note 19: Major holdings

31 March 2020				31 March 2021		
Rank	£ millions	Stock	Description	Rank	£ millions	% of net investments
1	489.305	Brunel passive global equity fund	Pooled fund of developed market equities	1	681.900	26.1
2	353.367	Brunel UK equity fund	Pooled fund of UK equities	2	450.502	17.3
3	240.564	Brunel global high alpha equity fund	Pooled fund of developed market equities	3	360.872	13.8
-	0.000	Brunel global smaller companies fund	Pooled fund of developed market equities	4	184.984	7.1
4	69.184	Brunel emerging market equity fund	Pooled fund of emerging market equities	5	122.078	4.7
6	22.145	Neuberger Berman Crossroads XXI fund	Private equity fund	6	22.313	0.9
16	13.614	Neuberger Berman Crossroads XXII fund	Private equity fund	7	21.711	0.8
8	20.696	CBRE UK Property Fund	Pooled fund of UK property	8	20.464	0.8
9	19.865	Nuveen UK Property Fund	Pooled fund of UK property	9	20.027	0.8
11	16.583	IPIF	Pooled fund of UK property	10	18.762	0.7
10	17.943	Blackrock UK PUT	Pooled fund of UK property	11	17.592	0.7
12	16.085	Nuveen Central London Office fund	Pooled fund of UK property	12	15.946	0.6
13	15.781	AEW Real Return Fund	Pooled fund of UK property	13	15.057	0.6
14	15.483	Neuberger Berman Crossroads XX fund	Private equity fund	14	14.982	0.6
15	14.593	Octopus Healthcare fund	Pooled fund of UK property	15	14.935	0.6
20	7.995	Standard Life smaller companies fund	Pooled fund of UK equities	16	12.994	0.5
17	12.366	Lothbury	Pooled fund of UK property	17	12.287	0.5
22	6.219	Neuberger Berman Crossroads 2010 fund	Private equity fund	18	10.399	0.4
18	10.004	UNITE UK Student Accomodation fund	Pooled fund of UK property	19	9.800	0.4
19	8.591	Hermes Property fund	Pooled fund of UK property	20	8.354	0.3

The largest four holdings of the fund each make up more than 5% of the net investment assets. The percentage of net investment assets that each holding makes up is shown in the final column of the table above.

Note 20: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate more efficient portfolio management.

During the year the fund used forward foreign exchange contracts, bond futures, interest rate swaps and inflation rate swaps.

The year end value of derivatives is as follows:

31 March 2020 £ millions				31 March 2021 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
Forward foreign-exchange contracts						
1.415	-0.271	1.144	Aberdeen Standard fixed Interest	0.529	-0.011	0.518
1.415	-0.271	1.144		0.529	-0.011	0.518
Government bond futures						
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Australian bond future	0.000	0.000	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
0.000	0.000	0.000	US treasury future	0.000	0.000	0.000
0.000	0.000	0.000		0.000	0.000	0.000
Swaps						
0.000	0.000	0.000	Inflation swaps	0.000	0.000	0.000
0.000	0.000	0.000	Interest rate swaps	0.000	0.000	0.000
0.000	0.000	0.000		0.000	0.000	0.000
1.415	-0.271	1.144		0.529	-0.011	0.518

Aberdeen Standard hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or corporate bonds. Typically Aberdeen Standard chose to hedge 100% of their currency risk.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Aberdeen Standard to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Aberdeen Standard may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

Swaps are used by Aberdeen Standard to gain exposure to various interest rates and inflation exposures with lower trading costs and better liquidity than trading bonds with similar exposures. There are significant restrictions in how Aberdeen Standard may use swaps to ensure they do not increase the overall risk of the portfolio they are managing. The swaps are over the counter trades.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2020 £ millions				31 March 2021 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
Forward foreign-exchange contracts						
59.534	-58.390	1.144	Aberdeen Standard fixed Interest	57.552	-57.034	0.518
59.534	-58.390	1.144		57.552	-57.034	0.518
Government bond futures						
1.226	-1.226	0.000	UK gilt future	13.595	-13.595	0.000
0.000	0.000	0.000	European bond future	5.051	-5.051	0.000
0.668	-0.668	0.000	Australian bond future	6.876	-6.876	0.000
0.250	-0.250	0.000	Canadian bond future	0.000	0.000	0.000
6.904	-6.904	0.000	US treasury future	6.934	-6.934	0.000
9.048	-9.048	0.000		32.456	-32.456	0.000
Swaps						
0.212	-0.212	0.000	Inflation swaps	0.095	-0.095	0.000
0.450	-0.450	0.000	Interest rate swaps	0.734	-0.734	0.000
0.662	-0.662	0.000		0.829	-0.829	0.000
69.244	-68.100	1.144		90.837	-90.319	0.518

The exposure currencies of the forward foreign exchange contracts held by Aberdeen Standard are shown in the table below.

31 March 2020				31 March 2021		
£ millions				£ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
Aberdeen Standard fixed Interest						
49.702	-10.007	39.695	GB Pound	57.288	-0.264	57.024
0.290	-2.419	-2.129	Australia Dollar	0.000	-3.215	-3.215
7.904	-37.630	-29.726	Euro	0.264	-43.981	-43.717
1.638	-8.334	-6.696	US Dollar	0.000	-9.574	-9.574
<u>59.534</u>	<u>-58.390</u>	<u>1.144</u>		<u>57.552</u>	<u>-57.034</u>	<u>0.518</u>

Note 21: Capital commitments (investments)

As at 31 March 2021 the fund had outstanding capital commitments (investments) totalling £71.287m (31 March 2020 - £48.943m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the pooled private equity and pooled property fund elements of the investment portfolio. The amounts 'called' by these funds are irregular in both size and timing from the date of the original commitment due to the nature of the investments.

31 March 2020			31 March 2021	
£ millions			£ millions	
Total	Outstanding		Total	Outstanding
commitment	commitment		commitment	commitment
92.746	36.332	Neuberger Berman PE funds	83.351	27.651
48.500	12.611	Property funds	68.500	24.490
0.000	0.000	Brunel PE funds	19.523	19.146
141.246	48.943		171.374	71.287

Note 22: Stock lending

The fund's investment strategy sets the parameters for its stock-lending programme. The value of investments on loan as at 31 March 2021 is shown in the table below. These assets continue to be recognised in the fund's financial statements. No liabilities are associated with the loaned assets.

Counterparty risk is managed through holding collateral at the fund's custodian bank. Collateral consists of acceptable securities and government debt. Stock-lending commissions are remitted to the fund via the custodian. The value and type of collateral held at year end is shown in the table below.

During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

31 March 2020 £ millions		31 March 2021 £ millions	
34.058	Value of stock on loan		33.907
35.949	Value of collateral held against loaned stock		35.301

31 March 2020 %		31 March 2021 %	
Form of collateral provided			
46.5	UK Government debt		46.2
10.6	US Government debt		3.9
27.1	Euro area Governments debt		49.9
0.3	UK equities		0.0
15.5	Overseas equities		0.0
0.0	Other		0.0
100.0		100.0	

Note 23: Membership statistics

As at 31 March	2015	2016	2017	2018	2019	2020	2021
Active scheme members	22,020	22,649	21,550	21,151	20,485	20,877	20,605
Pensioners							
Current (in payment)	13,871	14,779	15,421	16,322	17,326	18,289	18,921
Deferred (future liability)	17,280	20,452	22,268	25,119	26,741	26,449	26,543
Undecided leavers	3,754	2,507	3,778	2,617	2,337	1,808	1,838
Total (active plus pensioners)	56,925	60,387	63,017	65,209	66,889	67,423	67,907
Active members for each current pensioner	1.59	1.53	1.40	1.30	1.18	1.14	1.09

Note 24: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Utmost Life and Pensions (formally Equitable Life) and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

31 March 2020 £ millions	31 March 2021 £ millions
Value of additional voluntary contributions	
4.074 Prudential*	
0.218 Utmost (formally Equitable Life)	0.201
4.292	0.201

2019/2020 £ millions	2020/2021 £ millions
Additional voluntary contributions paid during the year	
0.388 Prudential*	
0.000 Utmost (formally Equitable Life)	0.000
0.388	0.000

* Prudential have not provided AVC data regarding contributions in 2020/21 or the total value of assets as at 31 March 2021.

Note 25: Related parties

Committee members Gordon Bryant, Paul Butler and Mark Simmonds were active members of the scheme during the year and Committee member Sarah Payne was a deferred member of the scheme during the year.

Pension Board member Nigel Behan was an active members of the scheme during the year.

The fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are taken by Aberdeen Standard, Jupiter Asset Management, Nomura Asset Management, Amundi Asset Management and LaSalle for their parts of the fund, without referring to the county council, its officers or other member bodies. This is also the case for the fund managers that Brunel employee within the pooled funds we invest in. Decisions about suitable investments for the in-house funds are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 7, 8 and 9.

Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Somerset County Council own 10% of BPP Ltd.

The fund paid BPP Ltd £991,000 in fees for services in the 2020-2021 financial year as disclosed in note 8. The fund paid for fees in the 2020-2021 financial year before the end of the current year and as such £223,000 is within the other debtors amount of £3,755,000 shown on the Net Asset Statement.

During the year the fund did not add to the £840,000 paid for its shares in BPP Ltd during the 2017-2018 financial year. These accounts show this investment valued at cost and is disclosed separately from any other investment in note 11, note 13, note 16 and note 30.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 4 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 26: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in notes 7, 8 and 9 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2021 of any officer who undertake work for the fund and receives salary of greater than £60,000 is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work this officer undertakes for the pension fund.

Year to 31 March 2021						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2020/21 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2020/21 £
Director of Finance and Performance	119,000	-	-	119,000	21,500	140,500

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2019 is shown in the table below.

Year to 31 March 2020						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2019/20 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2019/20 £
Director of Finance and Performance	9,200	-	-	9,200	1,400	10,600
Interim Finance Director	176,400	-	-	176,400	-	176,400

The Director of Finance and Performance was appointed as a permanent post with effect from 1st March 2020. The annualised salary for this post is £110,000. Somerset County Council appointed an Interim Director of Finance on a consultancy basis for the period April 2019 to February 2020. The amount shown was the full cost for 2019/20

Note 27: Investment Strategy Statement

We have prepared an Investment Strategy Statement, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

Note 28: Contingent liabilities

There were no contingent liabilities as at 31 March 2021.

Note 29: Post balance sheet events

There were no post balance sheet events as at 30 November 2021.

Note 30: Nature and extent of risks arising from financial instruments

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure, financial instruments means all of the fund's investment assets and investment liabilities as shown in note 11 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2021 being £2,608m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 16 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of pooled funds stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in British pounds. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio over the long term.

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 20 of these accounts.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data used is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2021 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	463.496	17.90%	82.966	-82.966
Overseas equities	1350.209	15.30%	206.582	-206.582
UK bonds	185.098	7.70%	14.253	-14.253
Overseas bonds	130.232	13.20%	17.191	-17.191
UK index-linked bonds	75.097	7.20%	5.407	-5.407
Property	174.89	6.20%	10.843	-10.843
Private equity*	72.459	15.30%	11.086	-11.086
Derivatives	0.518	7.50%	0.039	-0.039
Cash	156.449	0.00%	0.000	0.000
Net investment assets	<u>2,608.448</u>		<u>348.366</u>	<u>-348.366</u>

* Includes level 3 assets, further details can be found in note 30 of these accounts.

Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by a custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of custodians.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £10m and all counterparties must be rated at least "A-" or higher by the three major rating agencies. In this context the fund's cash balances (including the cash held at bank or net of bank overdraft) of £156.4m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Details of the collateral held are provided within note 21 of these accounts.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet its obligations to the fund when it falls due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 20 of these accounts. During the year the exposure on some forward foreign exchange contracts moved to having collateral provided against this exposure. As at 31 March 2021 we held £0 of cash collateral and £1,063,000 has been provided to counterparties as collateral by the fund and these are included within the investment balances in note 11. As it is collateral we have a liability to pay this sum back unless the counterparty fails or receive it back where we have provided the collateral, as a result we have declared an equal liability or asset in other investment balances in note 15.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £450m of assets which could be realistically liquidated into cash in less than a week. The majority of the Brunel provided pooled funds provide weekly dealing, providing access to further liquidity should it be required.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 20 of these accounts.

The bond futures and swaps have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £20,000 and on occasion as large as £75,000 and therefore do not pose a significant liquidity risk to the fund.

Note 31: Fair value hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The basis for the valuation of each class of investment asset is set out below.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Market quoted equities and bonds	Level 1	Published closing bid prices ruling at year end	Not required	Not required
Exchange traded futures and forward foreign exchange contracts	Level 1	Published exchange prices at the year end	Not required	Not required

Table continued on next page

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled equity funds	Level 2	Published single price ruling at year end	Quoted prices of underlying holdings of the assets held within the pooled fund	Not required
Brunel pooled funds	Level 2	Closing bid price where bid and offer prices are available Closing single price where single price available	Quoted prices of underlying holdings of the assets held within the pooled fund	Not required
Pooled property funds	Level 2	Closing bid price where bid and offer prices are available Closing single price where single price available	Prices of the underlying property assets assessed by an independent valuer.	Not required
Private equity limited liability partnerships	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transaction prices	Market transactions, market outlook, cash flow projections, last financings and multiple projections	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Brunel share capital is valued at book cost	Earnings and revenue multiples, discount for lack of marketability, control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

The table below analyses the fund's investment assets at 31 March 2021 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities		12.994		12.994
Overseas equities	0.375			0.375
Brunel pooled equity funds		1,800.336		1,800.336
Bonds	390.427			390.427
Property funds		174.890		174.890
Private Equity funds			72.459	72.459
Derivatives	0.518			0.518
Cash	156.449			156.449
Net investment assets	<u>547.769</u>	<u>1,988.220</u>	<u>72.459</u>	<u>2,608.448</u>

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2020 is shown in the table below.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities		11.472		11.472
Overseas equities	503.503			503.503
Brunel pooled equity funds		958.643		958.643
Bonds	321.663			321.663
Property funds		184.347		184.347
Private Equity funds			49.993	49.993
Derivatives	-0.362			-0.362
Cash	138.943			138.943
Net investment assets	<u>963.747</u>	<u>1,154.462</u>	<u>49.993</u>	<u>2,168.202</u>

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2021.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2021.

Asset class	Fair Value as at 31 March 2020 £ millions	Transfers into Level 3 £ millions	Transfers out of Level 3 £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Fair Value as at 31 March 2021 £ millions
Global private equity	57.461	0.000	0.000	5.810	-6.104	1.608	11.204	69.979
UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	0.840	0.000	0.000	0.000	0.000	0.000	0.000	0.840
Total	59.941	0.000	0.000	5.810	-6.104	1.608	11.204	72.459

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2020 was £1,152,420,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 16 and a written disclosure is made in note 24 with regard to related parties.

Note 32: Accounting standards that have been issued but have not yet been adopted

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2019-20 accounts the Fund has yet to adopt the following accounting standards.

Definition of a Business: Amendments to IFRS 3 Business Combinations

The International Accounting Standards Board (IASB) issued Definition of a business (Amendments to IFRS 3) to make it easier for companies to decide whether activities and assets they acquire are a business or merely a group of assets.

The amendments are effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2020 and to asset acquisitions that occur on or after the beginning of that period. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2021.

Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7

The IASB published Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7), in response to the ongoing reform of interest rate benchmarks around the world. The amendments aim to provide relief for hedging relationships.

The amendments are effective for annual periods beginning on or after 1 January 2020. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2021.

Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

The IASB published Interest Rate Benchmark Reform Amendments to IFRS 9, IAS 39 and IFRS 7 representing the finalisation of Phase II of the project on 27 August 2020 to address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate.

The amendments are effective for annual periods beginning on or after 1 January 2021. We do not expect these amendments to have a material impact on our accounts when they are applied retrospectively from 1st April 2022.



Jason Vaughan
Director of Finance and Governance
30 November 2021

Actuary's statement as at 31 March 2021

Introduction

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £2,167m.
- The Fund had a funding level of 86% i.e. the assets were 86% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £362m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- any difference between each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 17.8% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.6% p.a.
Salary increases	3.6% p.a.
Discount rate	4.9% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date, we have assumed that Funds are required to pay the entire inflationary increases
Demographic assumptions	
Post-retirement mortality	Male / Female
<i>Member base tables</i>	S3PA
<i>Member mortality multiplier</i>	90% / 100%
<i>Dependant base tables</i>	S3DA
<i>Dependant mortality multiplier</i>	95% / 85%
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.5
<i>Initial addition to improvements</i>	0.5% p.a.

The mortality assumptions translate to life expectancies as follows:

Assumed life expectancies at age 65:	
Average life expectancy for current pensioners - men currently age 65	23.2 years
Average life expectancy for current pensioners - women currently age 65	24.7 years
Average life expectancy for future pensioners - men currently age 45	24.6 years
Average life expectancy for future pensioners - women currently age 45	26.1 years

Further details of assumptions used can be found in the relevant actuarial valuation report.

Updated position since the 2019 valuation

Assets

Returns over the year to 31 March 2021 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2021, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation assumptions.

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

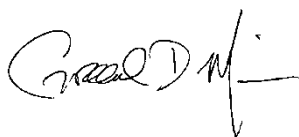
Overall position

On balance, we estimate that the funding position has weakened slightly when compared on a consistent basis to 31 March 2019 (but allowing for the update to the CPI inflation assumption).

The change in the real discount rate since 31 March 2019 is likely to place a higher value on the cost of future accrual which results in a higher primary contribution rate. Deficit contributions would also be slightly higher as a result of the worsening in the funding position.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to recent reductions and suspensions of dividends. There are also uncertainties around future benefits, relating to the McCloud & Sargeant cases and the ongoing cost cap management process.

We will continue to monitor the funding level on a quarterly basis as requested by the administering authority.

A handwritten signature in black ink, appearing to read 'Graeme D Muir' with a stylized flourish at the end.

Graeme D Muir FFA
Partner, Barnett Waddingham LLP
5th August 2021

Independent auditor's report to the members of Somerset County Council on the pension fund financial statements

Opinion

We have audited the financial statements of Somerset Pension Fund (the 'Pension Fund') administered by Somerset County Council (the 'Authority') for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2021 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Director of Finance's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Director of Finance's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Director of Finance with respect to going concern are described in the 'Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements' section of this report.

Other information

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements, or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact. We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Director of Finance is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant, which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.
- We enquired of senior officers and the Audit Committee, concerning the Authority's policies and procedures relating to:
 - the identification, evaluation and compliance with laws and regulations.
 - the detection and response to the risks of fraud; and
 - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Audit Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

- We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to journals, accounting estimates and critical judgements made by management.
- Our audit procedures involved:
 - evaluation of the design effectiveness of controls that the Director of Finance has in place to prevent and detect fraud;
 - journal entry testing, with a focus on management override of control;
 - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of level 3 investments and IAS 26 pensions liability valuations;
 - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
 - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
 - knowledge of the local government pensions sector
 - understanding of the legal and regulatory requirements specific to the Pension Fund including:
 - the provisions of the applicable legislation
 - guidance issued by CIPFA, LASAAC and SOLACE
 - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
 - the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
 - the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barrie Morris

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

Date: 30 November 2021

Independent auditor's report to the members of Somerset County Council on the consistency of the Somerset County Council Pension Fund financial statements included in the Pension Fund annual report

Opinion

The pension fund financial statements of Somerset Pension Fund (the 'pension fund') administered by Somerset County Council (the "Authority") for the year ended 31 March 2021 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2021 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements, in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 and applicable law.

Pension Fund Annual Report – Pension fund financial statements

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

The audited financial statements and our report thereon

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 30 November 2021.

Director of Finance's responsibilities for the pension fund financial statements in the Pension Fund Annual Report

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 20120/21.

Auditor's responsibility

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose.

To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Barrie Morris

Barrie Morris, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor
Bristol

30 November 2021

Glossary of terms

Absolute annual investment return

An investment return that is an exact amount, for example 7%, rather than a return compared to a benchmark.

Accrual (to accrue)

An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

Active members

Members of the pension fund who are currently working and contributing to the fund.

Actuary

An independent consultant who advises the fund and reviews the financial position of the fund every three years.

Actuarial present value of promised retirement benefits

A calculated value for the amount of money needed today to meet the pension payments the fund will make in the future. In calculating this value the actuary takes account of factors such as investment returns, inflation and life expectancy.

Actuarial valuation

A valuation to check that the funding is on track to cover liabilities and review employers' contributions.

Administering authority

The organisation that runs the pension fund.

Admitted organisations

An organisation that takes part in the pension scheme under an 'admission agreement' (that is, an agreement and terms under which they are allowed to join our scheme).

Annualised return

The average yearly return over a period of more than one year.

Asset allocation

The percentage of the fund set aside for each type of investment.

Augmentation

Payments to provide new benefits or improved benefits such as early retirement.

Benchmark

An index (for example, the FTSE 100) or peer group that the fund, or a section of the fund, is measured against to work out whether the fund has performed well.

Bid price

The price at which investments can be sold.

Bid-offer spread

The difference between the bid price and the offer price.

CIPFA

Chartered Institute of Public Finance and Accountancy

Co-investment

Investing alongside someone else in the same investment.

Collateral

Assets placed with a lender as security against a borrower failing to make agreed payments. For example, in the case of a mortgage, the house would usually be the collateral against which the bank lent money to an individual.

Common contribution rate

The normal contributions of member authorities and organisations must meet 100% of benefits. The common contribution rate is the future service cost of members' contributions, including an allowance for expenses.

Corporate governance

The system by which companies are controlled and directed, and the way they respond to their shareholders, employees and society.

Currency hedges

Assets that are owned to reduce the effects of foreign-exchange movements on the fund.

Deferred benefits

Built-up pension rights, for ex-employees, that are kept in the pension fund.

Deferred pension

The pension benefit that is paid from the normal retirement date to a member of the fund who no longer pays contributions as a result of leaving employment or opting out of (leaving) the pension scheme before their retirement age.

Derivatives

A type of investment that is linked to another asset. Examples of derivatives are options, forwards and futures.

Developed markets

Countries that index providers (such as FTSE or MSCI) have decided have strong regulation and large investment markets that are well developed.

Dividend

The distributed profits of a company.

Emerging markets

Countries that index providers (such as FTSE or MSCI) have decided have weak regulation and new or small investment markets.

Employer of sound covenant

An employer who is unlikely to become insolvent (unable to pay its debts).

Engagement

Discussions between investors or their fund managers and companies about corporate governance or socially responsible investment.

Equities

Ordinary shares in a company.

Ethical investments

Investments that are moral and are not linked to companies that, for example, are involved in trading weapons, exploiting developing countries or contributing to climate change.

Ex-dividend

A share is 'ex-dividend' on a date set by a company when current shareholders are entitled to a dividend on their holding. Even if the holding is sold, the previous owner will receive the income. On that date, the market price of a share will be adjusted to reflect the income due to the holder. (For example, a share which goes ex-dividend with a dividend of 10p will see the market price reduce by that amount.) Stock may be sold ex-dividend (without dividend entitlement) or 'cum-div' (with dividend entitlement).

Full-funding basis

When the future value of assets matches the future value of liabilities. At the last actuarial valuation, which was carried out as at 31 March 2007, the fund was 95% funded. This means that the value of the assets was 95% of the estimated value of the liabilities.

Futures or forwards

Buying or selling a package of shares, currency or commodities (for example, coffee or metal) at a specific point in the future at a price agreed when the contract is taken out.

Hedging

A process of reducing or removing the risk of a portfolio by buying or selling assets that act in an opposite way to those already owned.

Historical cost

The amount paid for an investment when it was bought.

Index-linking

When pension benefits are updated in line with inflation.

Liquid assets

Assets that can be sold to provide cash very quickly.

Mandate

An agreement with an investment manager to manage a particular type of asset.

Mid price

The price halfway between the bid price and the offer price.

Myners

Paul Myners was commissioned by the Government to review and report on UK institutional investment.

Option

The right to buy or sell shares within a set timescale at a price confirmed at the time the option is bought.

Over-the-counter trades

A trade for an investment that has not taken place on a stock exchange and has been made to meet the particular needs of the investor.

Passive management or passive investment

Tracking an index and not taking active investment decisions.

Peer group

Other local-authority pension funds.

Pooled investments

Investments where the assets are not held directly by the investors, but are held in a 'pool'. Examples of pooled investments are unit trusts, life funds, open-ended investment companies and limited liability partnerships.

Portfolio

A collection of stocks, shares and other securities.

Preserved benefits

The benefits to which members would be entitled if they left service, based on the service they had completed up to the date they left. As long as members had enough service, the benefits they had earned up to the date they left would be held (preserved) in the fund for them and would be paid when they retired. Between leaving service and retirement, the benefits would be increased broadly in line with price inflation.

Projected unit method

One of the common methods actuaries use to estimate the cost of future benefits from a pension scheme. The method works out the cost of the benefits members are expected to earn over a period (often one year) following the valuation date, allowing for predicted future increases in pay until members retire or leave service. The cost is set out as a percentage of members' contributions. As long as the distribution of members remains stable (that is, new members join the scheme to replace scheme members who have left), the cost is expected to remain stable.

Quantitative analysis system

A computer model to help analyse share holdings and make investment decisions.

Quoted investment

A company listed on a stock exchange.

Realised profit

A realised profit is the profit (or loss) when an investment is sold and is the difference between what it was sold for and what was paid for it.

Recoverable tax

Tax that has been paid but can be claimed back.

Recurring pension

A pension that is paid regularly, usually every month.

Real discount rate

The discount rate is the return that the actuary uses to work out how much money needs to be saved today to pay future liabilities. For example, if the discount rate is 5.25% then you need to save £95 today to have £100 in a year's time. The real discount rate is a discount rate where the effects of inflation have been removed.

Safe custody

The responsibility for keeping the fund's financial assets safe, settling transactions, collecting income, and other procedures relating to investments.

Scheduled organisations

Local-government organisations which have the automatic right to take part in the pension scheme.

Secondary investments

A private equity fund that is bought from an existing investor, rather than being an investor when the fund was first created.

Settle transactions

Swapping money for assets when you buy or sell shares or bonds. Financial assets usually settle two or three days after the trade is agreed.

Shareholder engagement

Where the owners of shares try to influence a company's behaviour by campaigning in the press, voting at company meetings or talking to company managers. Typical issues that might be raised are the company's effect on the environment, their labour standards and pay for the board of managers.

Smoothed market value, smoothing mechanism

Most shares and bonds that the fund owns change value every few minutes and the price can vary quite a lot. The fund's actuary will make an adjustment for this when valuing the fund so that extreme highs and lows are ignored.

Solvency

Whether the assets of the fund are greater than the liabilities.

Specific ethical investment

Investing in companies that do not invest in, for example, the arms trade, third-world exploitation, animal testing or tobacco, or in companies which promote environmentally-friendly products, education and training, waste management and so on.

S&P 500

A broad-based equity index made up of the 500 largest equity stocks quoted in the US.

Statutory instrument

Secondary legislation made by government ministers.

Statutory pension scheme

A pension scheme established by an Act of Parliament and run in line with statutory instruments.

Stock lending or securities lending

Shares owned are lent on the stock market to generate income. The owner keeps all benefits, except for the voting rights.

Tender

A process of assessing and choosing a business to do work on your behalf.

Time-weighted return

Estimating the performance of a fund, taking into account the effect of money coming into, or leaving the fund, during the period of time you are looking at, so those money movements don't give an inaccurate return.

Transfer value

The capital payment made from one pension fund to another when the person paying contributions changes to another pension scheme.

Transition management

Organising the complex movements of assets that happen when a scheme changes its investments or its asset managers.

Unlisted shares

Shares for companies not listed on the stock exchange.

Unrealised loss

An unrealised loss is the loss suggested when an asset was bought for more than it is currently worth, but the loss is not 'available' (or 'realised') until the asset is sold.

Unrealised profit

An unrealised profit is the profit suggested when an asset was bought for less than it is currently worth, but the profit is not 'available' (or 'realised') until the asset is sold.

Venture capital

Investments in small companies that are not listed on a stock exchange.

Vested benefits

Benefits due now and in the future to members of the fund that are already drawing their pension.

WM Company

The company appointed by most local authorities to collect performance statistics.

Yield

The yearly interest paid by a bond divided by its price. When we refer to yields, this usually means the yield on UK government bonds.

Contacts

If you would like more information, please contact one of the following people.

- About the pensions or benefits
Peninsula Pensions
Great Moor House
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Sowton Industrial Estate
Exeter
EX2 7NL
Phone: 01392 383000 (ask for 'pensions')
E-mail: pensions@devon.gov.uk
- About the investments or accounts
Anton Sweet
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- The auditor
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Web Links

The following web links provide further information and documents related to the Fund.

Further details relating to member administration, including details of the scheme can be found on Peninsula Pensions website.

www.peninsulapensions.org.uk

Further details relating to Brunel Ltd and how it is helping the Fund achieve its pooling obligations can be found on Brunel's website.

<https://www.brunelpensionpartnership.org/>

The pensions committee page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

<http://democracy.somerset.gov.uk/mgCommitteeDetails.aspx?ID=200>

The pension board page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

<http://democracy.somerset.gov.uk/mgCommitteeDetails.aspx?ID=226>

These accounts are also available on the internet at.

<https://www.somerset.gov.uk/our-information/pensions/>

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.