Public Document Pack

Pensions Committee (virtual meetings from June 2020 due to Coronavirus)
Friday 5 June 2020
10.00 am Virtual Meeting

To: The Members of the Pensions Committee (virtual meetings from June 2020 due to Coronavirus)

Cllr G Noel (Chair), Cllr S Coles, Cllr James Hunt, Cllr J Parham, Cllr Ross Henley, Gordon Bryant, Sarah Payne and Mark Simmonds

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 28 May 2020

For further information about the meeting, please contact Laura Rose/Mike Bryant 07811 313837 or democraticservices@somerset.gov.uk.

Guidance about procedures at the meeting follows the printed agenda.

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

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

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AGENDA

Item Pensions Committee (virtual meetings from June 2020 due to Coronavirus) - 10.00 am Friday 5 June 2020

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

1 **Apologies for absence**

2 **Declarations of Interest**

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

3 **Minutes from the previous meeting held on 13 December 2019** (Pages 9 - 14)

The Committee is asked to confirm the minutes are accurate.

4 **Public Question Time**

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

5 **Independent Investment Advisor's Report**

To receive a verbal update on developments in financial markets.

6 **Review of Investment Performance** (Pages 15 - 38)

To conisder this report from the Funds & Investments Manager.

7 **Review of Administration Performance** (Pages 39 - 44)

To consider this report from the Head of Peninsula Pensions.

8 **Business Plan Update** (Pages 45 - 52)

To consider this report from the Funds & Investment Manager.

9 **Finance and Membership Statistics Update** (Pages 53 - 56)

To consider this report from the Funds & Investments Manager.

10 **Review of Pension Fund Risk Register** (Pages 57 - 62)

To consider this report from the Funds & Investments Manager.

11 **Abatement Policy** (Pages 63 - 64)

To consider a temporary change to the Fund's abatement policy.

12 **Administration Strategy** (Pages 65 - 88)

To consider a new Administration Strategy for adoption by the Committee.

13 **Funding Strategy Statement** (Pages 89 - 114)

To consider a new Funding Strategy Statement for adoption by the Committee.

14 **Resources Review, Financial Forecast Setting and Committee Objective Setting** (Pages 115 - 120)

To consider this report from the Funds & Investments Manager.

15 **Cash Management Strategy** (Pages 121 - 130)

To consider this report from the Funds & Investments Manager.

16 **Any other urgent items of business**

The Chairman may raise any items of urgent business.

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Guidance notes for the meeting

1. **Council Public Meetings**
The Local Authorities and Police and Crime Panels (Coronavirus) (Flexibility of Local Authority and Police and Crime Panel Meetings) (England and Wales) Regulations 2020 have given local authorities new powers to hold public meetings virtually by using video or telephone conferencing technology.

2. **Inspection of Papers**

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at democraticservices@somerset.gov.uk or telephone 07790 577336/ 07811 313837/ 07790 577232
They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers.
Printed copies will not be available for inspection at the Council's offices and this requirement was removed by the Regulations.

3. **Members' Code of Conduct requirements**

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: Code of Conduct

4. **Minutes of the Meeting**

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

5. **Public Question Time**

If you wish to speak, please contact Democratic Services by 5pm 3 clear working days before the meeting. Email democraticservices@somerset.gov.uk or telephone 07790577336/ 07811 313837/ 07790577232.

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

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

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

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

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

In line with the council's procedural rules, if any member of the public interrupts a meeting the Chair will warn them accordingly.

If that person continues to interrupt or disrupt proceedings the Chair can ask the Democratic Services Officer to remove them as a participant from the meeting.

6. **Meeting Etiquette**

- Mute your microphone when you are not talking.
- Switch off video if you are not speaking.
- Only speak when invited to do so by the Chair.
- Speak clearly (please state your name before speaking)
- If you're referring to a specific page, mention the page number.
- Switch off your video and microphone after you have spoken.

7. **Exclusion of Press & Public**

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

If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, remove the participant from the meeting.

8. **Recording of meetings**

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

A copy of the Council's Recording of Meetings Protocol is available from the Committee Administrator for the meeting.

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Pensions Committee

Minutes of a meeting of the Pensions Committee held on Friday 13 December 2019 at 2.00pm in the Mendip Room, Shire Hall, Taunton.

Present:

Cllr G Noel (Chairman)
Cllr James Hunt
Cllr L Leyshon
Cllr J Parham
Mrs S Payne
Mrs C Burton (Independent Adviser)

1 **Minutes of the Previous Meeting** - agenda item 1

The Committee agreed and the Chairman signed the Minutes of the meeting held on 7 June 2019 as a correct record.

2 **Apologies for Absence** - agenda item 2

Mr G Bryant and Mr M Simmonds.

3 **Declarations of Interest** - agenda item 3

Cllr Leyshon and Mrs Payne declared personal interests by virtue of being members of LGPS. Mrs Payne also declared a personal interest by virtue of holding assets in Jupiter Asset Management.

4 **Public Question Time** - agenda item 4

There were no public questions.

5 **Report of the Actuary** - agenda item 5

The Committee received a presentation from Mr G Muir, Partner at Barnett Waddingham, the Somerset Pension Fund's appointed firm of actuaries, on the results and assumptions from the 2019 valuation of the Fund.

The presentation covered matters including: key valuation questions; and key assumptions about inflation, discount rate, asset returns, employer contributions and mortality. Key 'takeaways' (a mix of positive and negative) were: good asset performance; improved funding position - some decreases in secondary rates; slowdown in mortality improvements; many employers seeing stable results;

reductions in real discount rate; increase in primary rate; and lots of remaining uncertainty.

Matters discussed with Mr Muir included; local authority contribution rates; possible change to valuation term (from 3 to 4/5 years); retirements on ill health grounds; and factors taken into account is assessing longevity.

The Funds and Investments Manager indicated that results from the triennial review were being circulated to employers and officers would respond to any queries.

6 **LGPS Pooling of Investments** - agenda item 6

The Committee considered a report by the Funds and Investments Manager on progress with the transition of the Pension Fund's investment assets to Brunel Pension Partnership Ltd under work involving the pooling of the Fund's investment assets with other funds in the South West.

Progress to date had included: the transfer of: £507.8m of passive equity assets on 11 July 2018; £436.5m of active UK equity assets on 21 November 2018; £83.7m of emerging market equity from management by Amundi on 9 October 2019 which would be followed by remaining equity portfolios; the private markets team having been fully established and taken some initial commitments from funds; and preparations for the move of Somerset's property assets.

The report referred to the next cycle of commitments to private market portfolios being sought by Brunel for investment from 1 April 2020 and the Committee's intention to allocate 5% of the total Fund to private equity in the long-term. Based on the current overall size of the Fund and the frequency of commitment windows from Brunel a commitment of £50m was proposed, for formal approval by the Committee, as being consistent with this long-term strategic allocation. The Funds and Investments Manager and the Independent Advisor responded to queries and comments about the nature of the investment involved and returns,

The report also covered consultations undertaken under the project.

The Funds and Investments Manager updated the Committee on recent changes in management personnel at Brunel and related matters.

The Committee noted the report and **RESOLVED** unanimously to approve a commitment of £50m to the Brunel Private Equity Cycle beginning 1 April 2020.

7 **Independent Investment Advisor's Report** - agenda item 7

Mrs C Burton, the Fund's Independent Advisor, gave an overview of the situation in the UK and overseas, referring to the strong recovery by sterling and rise in the stock market following the result of the General Election on 12 December 2019, involving a large overall majority for the Conservative Party. However, Mrs Burton pointed out that this might be a short-term reaction only, referring to the significant continuing uncertainty about the UK's relationship with the EU post-Brexit and other, global issues, and anticipated a continued cautious approach by investors while a clearer picture emerged.

The Funds and Investments Manager referred to recent positive dialogue between the USA and China which had seen a rise in world markets.

The Committee noted the update.

8 **Review of Investment Performance** - agenda item 8

The Committee considered a report by the Funds and Investments Manager on the performance of the Pension Fund's investments for the quarter ended on 30 September 2019 and related matters.

The Funds and Investments Manager commented, and responded to questions on: the performance of managed and remaining in-house funds against benchmarked performance and targets; factors behind underperformance by Jupiter (continental European equities) and Aberdeen Standard Investments (UK equities); market conditions; and the impact of the on-going transfer of funds to Brunel.

The Committee noted the report.

9 **Review of Administration Performance** - agenda item 9

The Committee considered a report by the Head of Peninsula Pensions providing an update on administrative performance against internal targets and Disclosure Regulations, and employer bodies covered by the Fund,

The report was presented by the Funds and Investments Manager who referred to the positive impact of recruitment, training and new ways of working on Peninsula Pensions' performance.

The Committee noted the report and the request that any queries should be emailed to the Head of Peninsula Pensions.

10 **Business Plan Update** - agenda item 10

The Committee considered a report by the Funds and Investments Manager on progress with implementing, and amendments to, the Business Plan for 2020 - 21 prepared to ensure that the Committee met its responsibilities and considered all necessary issues. The report also set out a workplan of items of business for its meetings during the next 12 months.

Work areas included: LGPS pooling of investments; production of the accounts (which had received an unqualified audit opinion); completion, approval and publication of the Fund's annual report; the triennial valuation; standard quarterly reviews of investment performance; and monitoring of legal and regulatory requirements and their implications for Fund policies and statements.

The Committee noted the report.

11 **Budget and Membership Statistics Update** - agenda item 11

The Committee considered a report by the Funds and Investments Manager on the position of the Pension Fund budget at 30 September 2019, covering transaction costs and membership changes, and the projected outturn against budget to 31 March 2020.

The statistics largely reflected existing trends, although investment income was significantly higher than expected partly due to factors associated with the transfer of investment assets to Brunel.

The Committee noted the report.

12 **Review of Pension Fund Risk Register** - agenda item 12

The Committee considered a report by the Funds and Investments Manager reviewing the Pension Fund's risk register.

The Funds and Investments Manager referred to:

- a change to the Register involving the addition of a risk for cyber security (PF11) - which would be more fully assessed in terms of the level of risk and appropriate mitigating actions
- the timetabling of a more comprehensive review (with Pensions Board members) of the risks currently on the Register, in line with CIPFA guidance.

The Funds and Investments Manager responded to issues raised by Committee members about management of risks associated with his own or colleagues' absence from work, commenting that the level of exposure was mitigated by staffing structures and systems in place.

The Committee noted the report.

13 **Administration Strategy** - agenda item 13

The Committee considered a report by the Funds and Investments Manager on a revised administration strategy for the Somerset Pension Fund to that introduced in April 2015.

A Pension Administration Strategy provided a mechanism to formulate a service level agreement between the administering authority and the Scheme employers and helped to improve governance arrangements. The review followed the restructure of Peninsula Pensions and reflected the growth in membership and demands of Scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring. The Funds and Investments Manager commented during discussion that the revised Strategy would provide a robust framework for the management of the Fund.

Fund employers would be consulted on the revised Strategy before it was brought back to the Committee for formal approval.

The Committee noted the report and expressed support for the revised Strategy.

14 **Exclusion of the Press and Public** - agenda item 14

The Committee **RESOLVED** under Section 100A (4) of the Local Government Act, 1972 that the press and public be excluded for the remainder of the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure to them of exempt information of the following description: Information relating to the financial or business affairs of any particular person (including the Authority) and in accordance with Section 36 of the Freedom of Information Act, 2000 by virtue of the fact that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

15 **Urgent Business** - agenda item 14

Transition Costs

Mrs Burton expressed concern regarding costs associated with the transfer of investment funds to Brunel. The Funds and Investments Manager responded by explaining the basis of the charges. It was agreed that Mrs Burton should be provided with further information on transition costs and that the matter should be discussed at the next meeting.

(The meeting ended at 4.48pm)

CHAIR

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Agenda item 6

Somerset County Council
Pensions Committee

Review of Investment Performance

Lead Officer:	Jason Vaughan: Director of Finance
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 asweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 The report attached as appendix A is to inform the committee about the performance of the Pension Fund's investments for the quarter ended 31 March 2020 and related matters.

2. Issues for consideration

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

3. Background

None

4. Consultations undertaken

None

5. Financial Implications

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

6. Background Papers

None

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

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Item 6
Appendix A

Review of Investment Performance for the Quarter to 31st March 2020

1. Somerset County Council (Passive Global Equity)

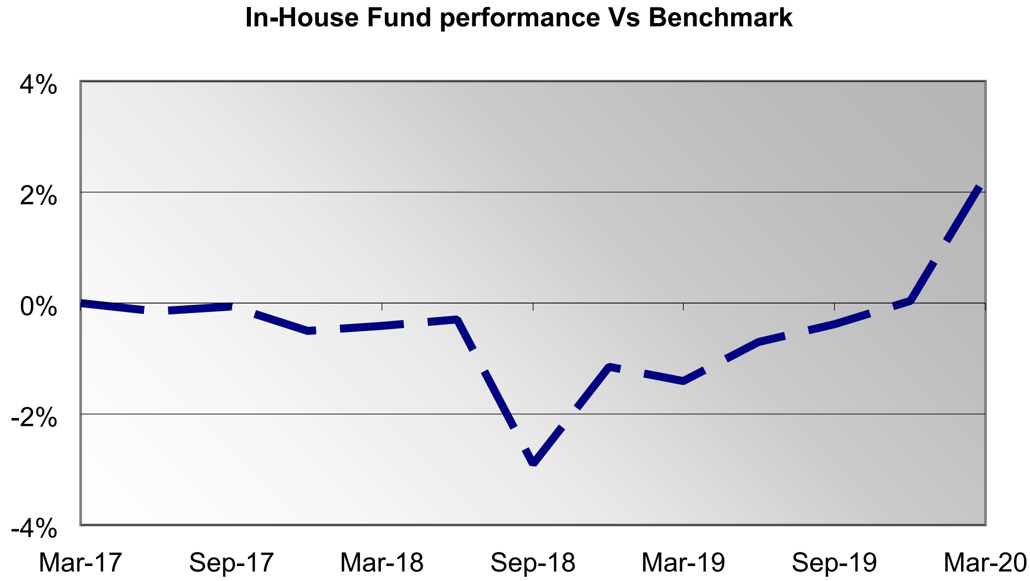
1.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
28.6	**Global equities**	**-14.6**	**-15.6**	**+1.0**
0.0	**Cash**			
28.6	**Total**	**-13.8**	**-15.6**	**+1.8**

1.2 The majority of the stock was transferred to a LGIM managed passive pooled fund in July 2018. The LGIM funds are the pooled solution chosen by Brunel. We have held on to a small residual position to use as a source of cash in the short term and to help manage the overall transition to Brunel managed funds.

1.3 The fund outperformed the benchmark during the quarter. As part of significantly reducing the size of the portfolio we have reduced the number of assets held and this may give rise to greater volatility of relative returns.

1.4 Absolute returns for the quarter were strongly negative.



1.5 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-2.2**	**-5.4**	**+3.2**
3 years	**3.4**	**2.6**	**+0.8**
5 years	**8.0**	**7.6**	**+0.4**
10 years	**9.5**	**9.2**	**+0.3**

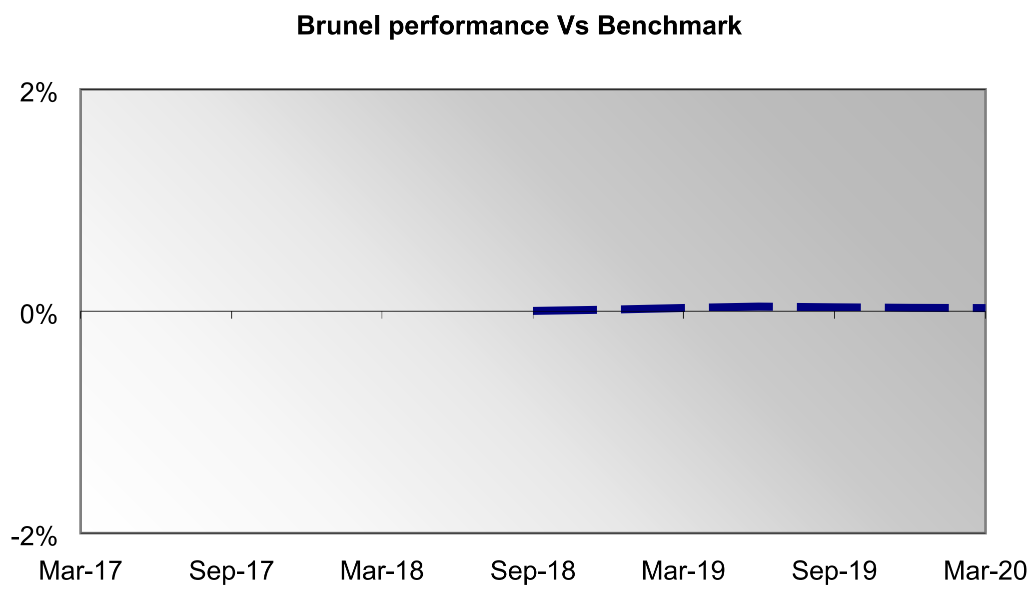
2. Brunel - LGIM (Passive Global Equity)

2.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
489.3	**Global equities**	**-15.6**	**-15.6**	**+0.0**

2.2 The LGIM passive fund matched the performance of the benchmark for the quarter. Absolute performance was strongly negative.

2.3



2.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	**Benchmark % p.a.**	**Relative to Benchmark % p.a.**
1 year	**-5.4**	**-5.4**	**+0.0**
3 years	Initial investment in July 2018		

3. Brunel - (Global High Alpha Equity)

3.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
240.6	**Global equities**	**-11.8**	**-15.5**	**+3.7**

3.2 The Brunel Global High Alpha portfolio is managed by a combination of Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London Asset Management.

3.3 The fund significantly outperformed during the quarter. Absolute returns were strongly negative.

4. Aberdeen Standard Investments (UK Equities)

4.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
8.0	**UK**	**-27.8**	**-25.1**	**-2.7**

4.2 The transfer of the majority of this mandate to the equivalent Brunel offering took place in November 2018. The residual holding is in a smaller companies fund and will be used as a source of cash as necessary.

4.3 Aberdeen Standard had a poor quarter relative to their benchmark. Absolute returns were strongly negative. Smaller companies significantly underperformed during the quarter and the Aberdeen Standard fund outperformed the smaller companies benchmark.

5. Brunel (UK Equities)

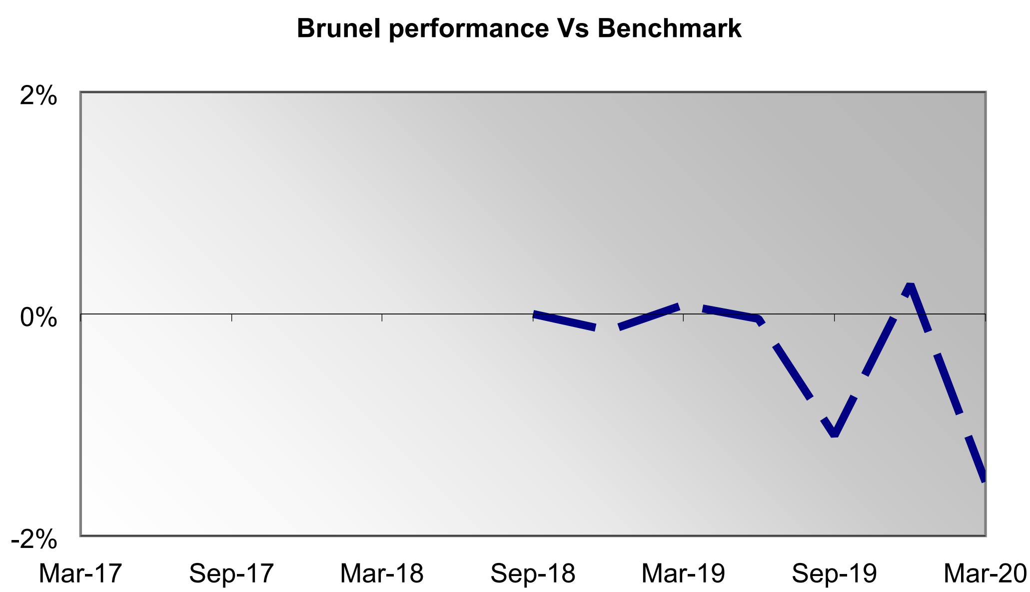
5.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
			Performance	
Value as at 31 Mar £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
353.4	UK	-26.6	-25.1	-1.5

5.2 The Brunel UK portfolio is managed by a combination of Invesco, Baillie Gifford and Aberdeen Standard.

5.3 The portfolio underperformed the benchmark during the quarter. Absolute performance was strongly negative.

5.4



5.5 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-20.0**	**-18.5**	**-0.5**
3 years	Initial investment in November 2018		

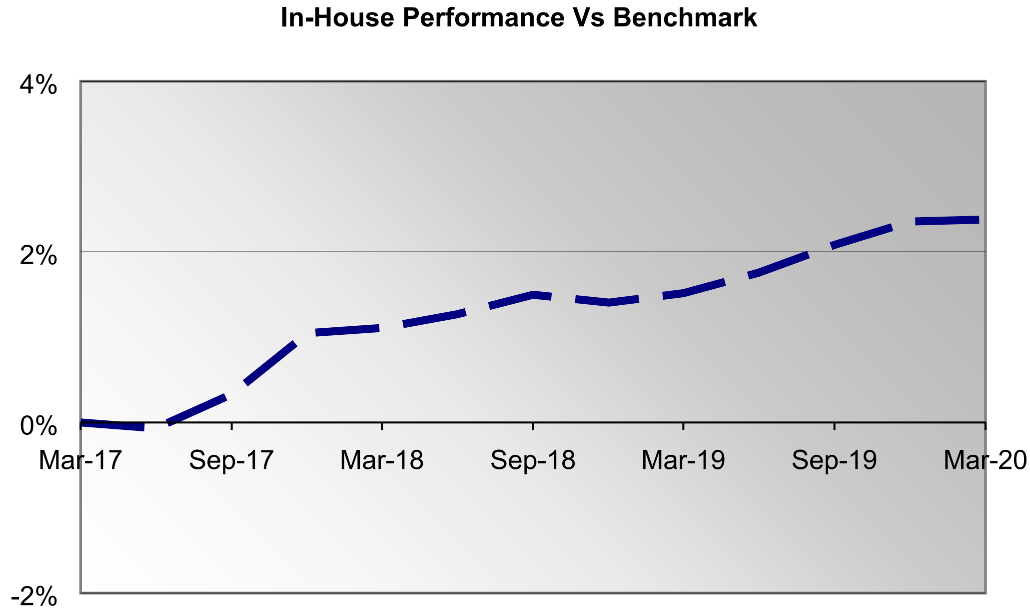
6. <u>Somerset County Council (North American Equities)</u>

6.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
73.1	**North America**	**-13.9**	**-14.1**	**+0.2**
0.3	**Cash**			
73.4	**Total**	**-13.8**	**-14.1**	**+0.3**

6.2 The in-house fund outperformed the benchmark for the quarter.

6.3 Absolute levels of performance during the quarter were strongly negative.



6.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-1.5**	**-2.2**	**+0.7**
3 years	**6.1**	**5.4**	**+0.7**
5 years	**11.3**	**10.6**	**+0.7**
10 years	Initial investment in December 2011		

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

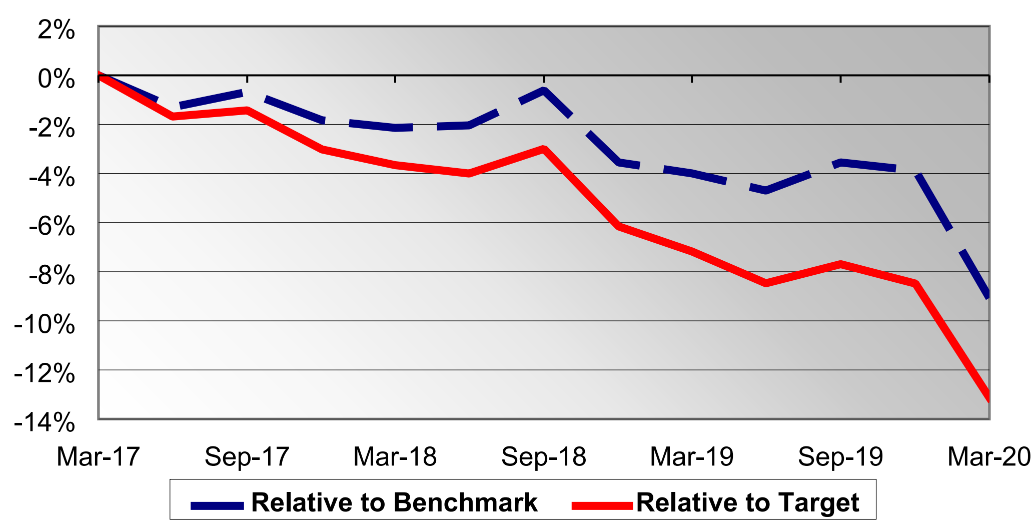
7.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
25.3	Pacific (ex Japan)	-27.3	-21.3	-6.0
0.6	Cash			
25.9	Total	-26.9	-21.3	-5.6

7.2 Maple-Brown Abbott had a poor quarter relative to their benchmark. Poor stock selection in Australia and Hong Kong significantly contributed to the underperformance. Absolute returns were strongly negative.

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

Maple-Brown Abbott Performance Vs Benchmark & Target



7.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-23.2**	**-17.6**	**-5.6**
3 years	**-7.6**	**-4.2**	**-3.4**
5 years	**0.5**	**2.7**	**-2.2**
10 years		Initial investment in July 2014	

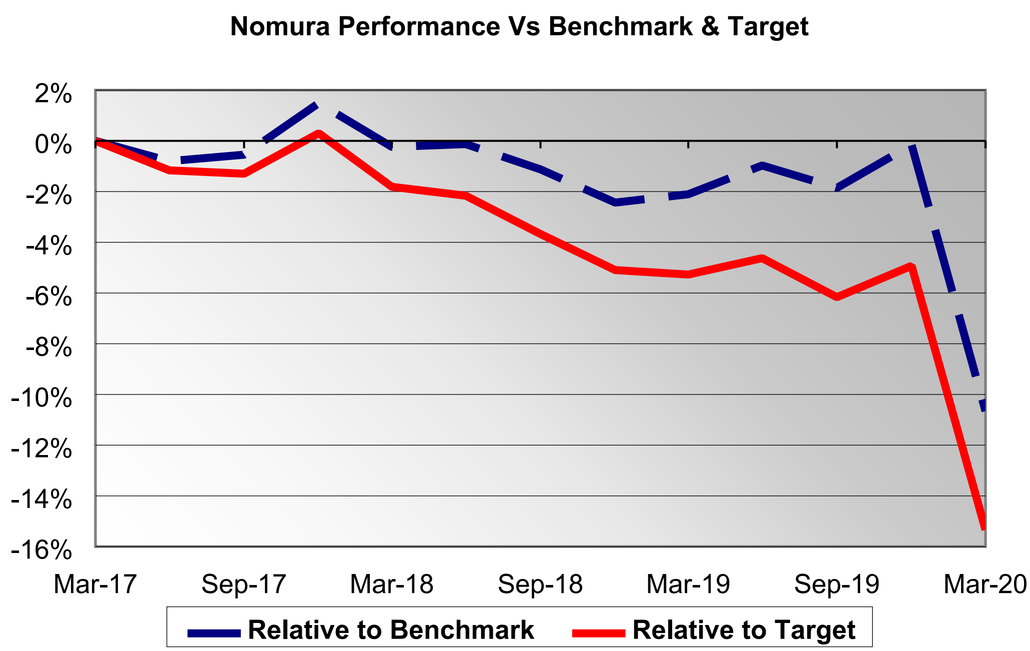
8. Nomura (Japanese Equity)

8.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
			Performance	
Value as at 31 Mar £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
31.9	**Japan**	**-20.2**	**-11.2**	**-9.0**

8.2 Absolute performance was strongly negative. Relative performance was also strongly negative. Poor stock selection in Retail and Chemicals was a significant contributor to the underperformance.

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



8.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-10.7**	**-2.5**	**-8.2**
3 years	**-2.4**	**1.2**	**-3.6**
5 years	**0.5**	**2.7**	**-2.3**
10 years	**5.5**	**6.6**	**-1.1**

9. Brunel (Emerging Market Equity)

9.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
69.2	**Emerging Market**	**-20.4**	**-18.4**	**-2.0**

9.2 The Brunel Emerging Market portfolio is managed by a combination of Genesis Investment Management, Wellington Management and Investec Asset Management.

9.3 The Brunel portfolio underperformed during the quarter. Absolute performance was strongly negative.

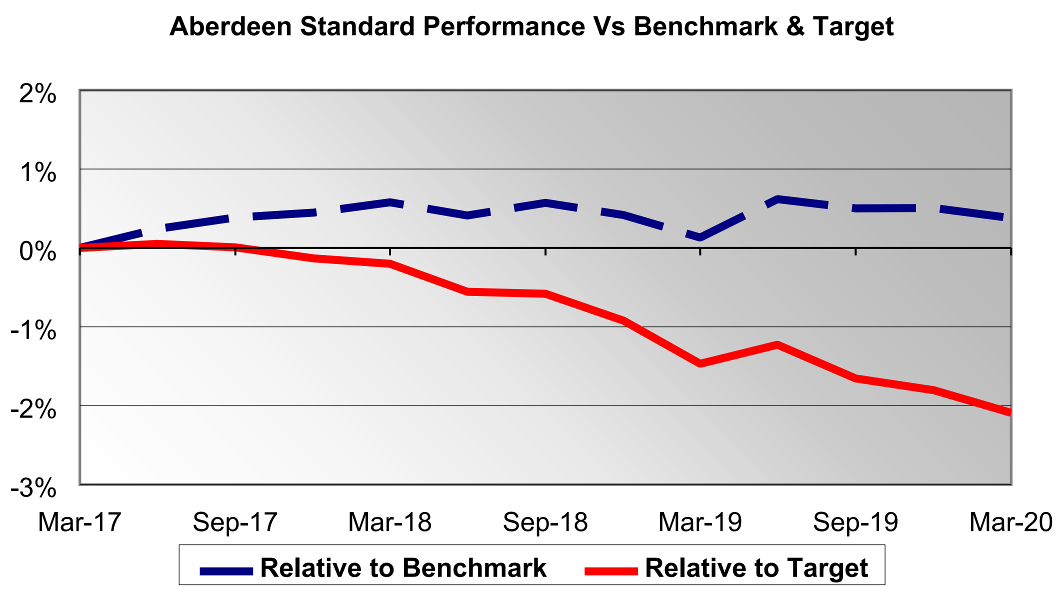
10. Aberdeen Standard Investments (Fixed Interest)

10.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
58.7	**UK Gilts**	**6.9**	**6.3**	**+0.6**
70.9	**Index Linked**	**1.5**	**1.6**	**-0.1**
172.6	**Corporate Bonds**	**-4.5**	**-4.5**	**+0.0**
34.5	**High Yield Debt**	**-10.2**	**-11.4**	**+1.2**
1.2	**Foreign Gov't Bonds**	**6.7**		
4.5	**F Gov't Index Linked**	**-8.6**		
1.2	**Currency Instruments**			
9.4	**Cash**			
353.0	**Total**	**-2.6**	**-2.5**	**-0.1**

10.2 Aberdeen Standard underperformed their benchmark for the quarter. Absolute returns were negative. Outperformance in Gilts and high yield was negated by being overweight corporate bonds and underweight Gilts.

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



10.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**2.7**	**2.5**	**+0.2**
3 years	**3.0**	**2.9**	**+0.1**
5 years	**4.5**	**4.4**	**+0.1**
10 years	**6.8**	**6.9**	**-0.1**

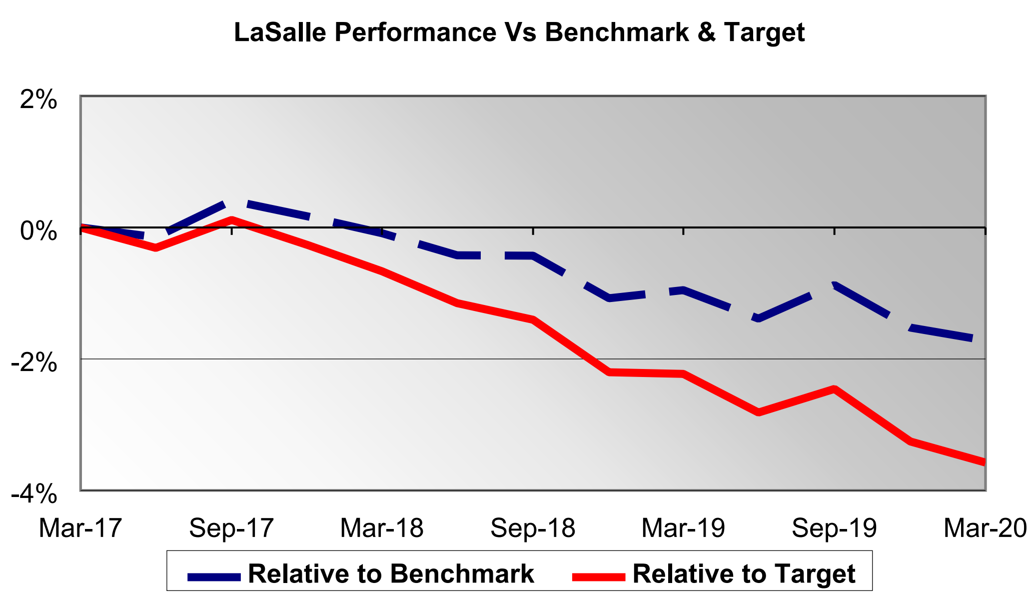
11. LaSalle (Property Fund of Funds)

11.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
194.0	**UK Property**	**-1.6**	**-1.3**	**-0.3**
0.0	**European Property**	**4.2**		
17.0	**Cash**			
211.0	**Total**	**-1.5**	**-1.3**	**-0.2**

11.2 Property returns from the UK market were negative for the quarter. The fund underperformed relative to the benchmark.

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



11.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-0.7**	**0.0**	**-0.7**
3 years	**4.3**	**4.9**	**-0.6**
5 years	**4.5**	**5.7**	**-1.2**
10 years	**6.1**	**7.2**	**-1.1**

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
57.5	**Private Equity**	**2.9**	**0.2**	**+2.7**

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

12.3 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 29.5%.

12.4 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 8.2%.

12.5 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was -1.7%.

12.6 The Crossroads XXII fund is still very young. The return for the quarter, excluding currency movements, was 0.0%. The fund is showing a profit overall.

12.7 The table below shows annualised performance over a range of time periods, unlike in the table above a broad global equity index has been used as the benchmark as over long time periods this is more appropriate:

	Fund % p.a.	**Benchmark % p.a.**	**Relative to Benchmark % p.a.**
1 year	**12.2**	**-5.4**	**+17.6**
3 years	**12.2**	**2.6**	**+9.6**
5 years	**13.1**	**7.6**	**+5.5**
10 years	**8.3**	**9.2**	**-0.9**

13. South West Ventures Fund

13.1 The fund continues to make reasonable progress.

14. Combined Fund

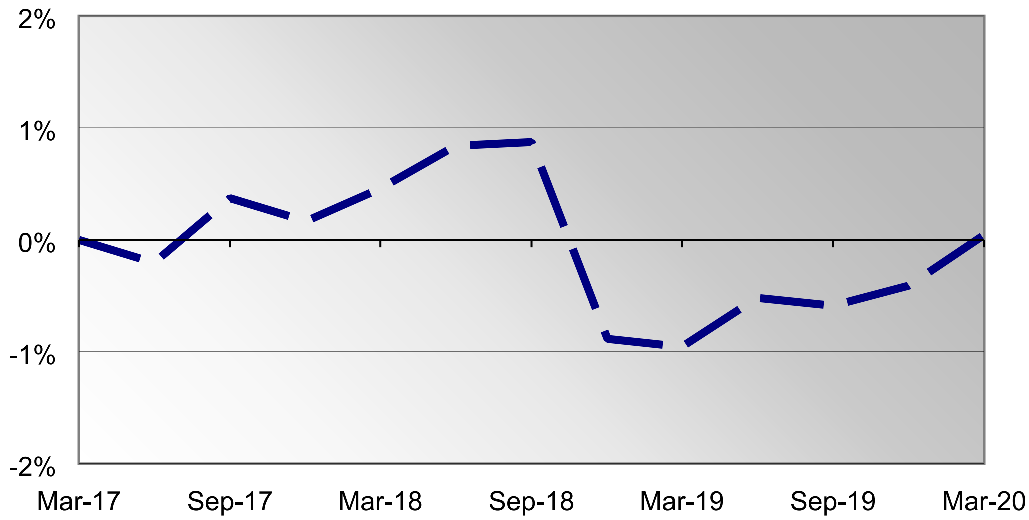
14.1 The performance for the quarter to 31st March 2020 is summarised in the following table:

Quarter to 31 March 2020				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
28.6	In-House (Global Eq)	-13.8	-15.6	+1.8
489.3	Brunel (Passive Gl Eq)	-15.6	-15.6	+0.0
240.6	Brunel (GHA Eq)	-11.8	-15.5	+3.7
8.0	ASI (UK Eq)	-27.8	-25.1	-2.7
353.4	Brunel (UK Eq)	-26.6	-25.1	-1.5
73.4	In-House (US Eq)	-13.8	-14.1	+0.3
25.9	Maple-Brown Abbott	-26.9	-21.3	-5.6
31.9	Nomura	-20.2	-11.2	-9.0
86.9	Brunel (EM Eq)	-20.4	-18.4	-2.0
353.0	ASI (FI)	-2.6	-2.5	-0.1
211.0	LaSalle	-1.5	-1.3	-0.2
1.6	SWRVF	0.0	0.2	-0.2
57.5	Neuberger Berman	2.9	0.2	+2.7
0.8	Brunel	0.0	0.2	-0.2
104.5	Cash	0.2	0.2	+0.0
2,048.7	Whole Fund	-13.4	-13.7	+0.3

14.2 The fund, as a whole, outperformed its benchmark during the quarter. The level of absolute return was strongly negative.

14.3 Outperformance was generated by good asset allocation, being overweight cash and underweight UK and emerging market equity was positive. Overall stock selction by managers was negative with poor performance from Brunel on emerging markets and UK, Nomura and M-BA outweighing good performance from Brunel on the global high alpha.

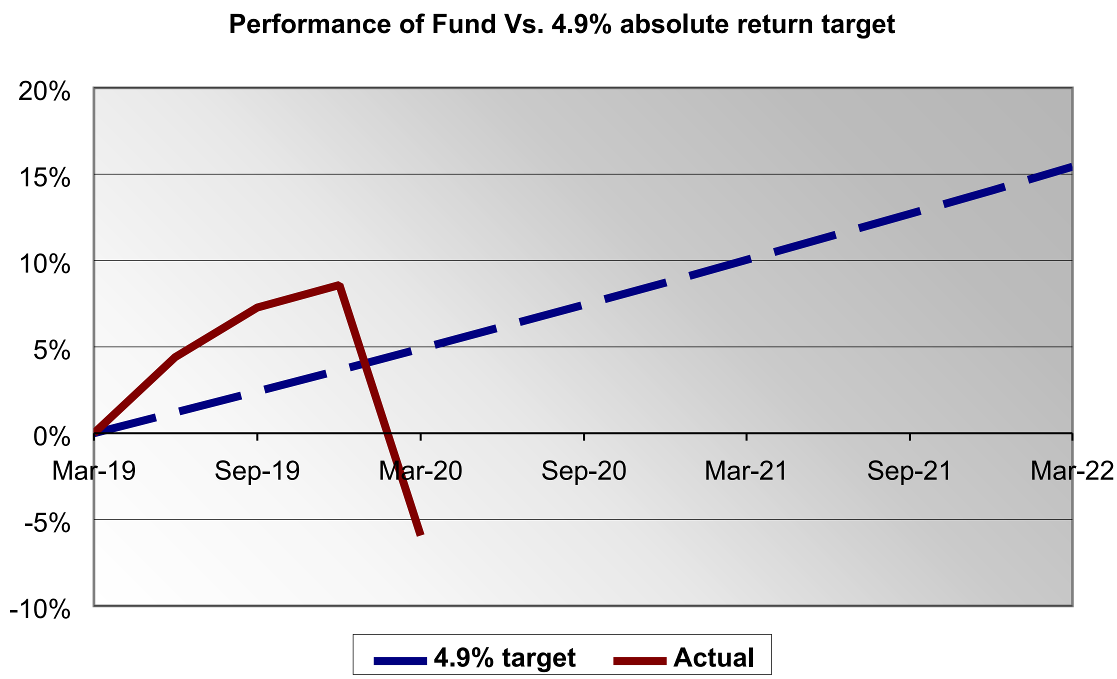
Whole Fund Performance Vs Benchmark



14.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-5.9**	**-6.8**	**+0.9**
3 years	**1.0**	**1.0**	**+0.0**
5 years	**4.7**	**4.7**	**+0.0**
10 years	**6.9**	**6.9**	**+0.0**

14.5 At the March 2020 committee meeting it was proposed that the committee adopted an absolute return target of 4.9% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2019 valuation. Progress against this target for the 2019 to 2022 actuarial cycle is shown in the graph below.



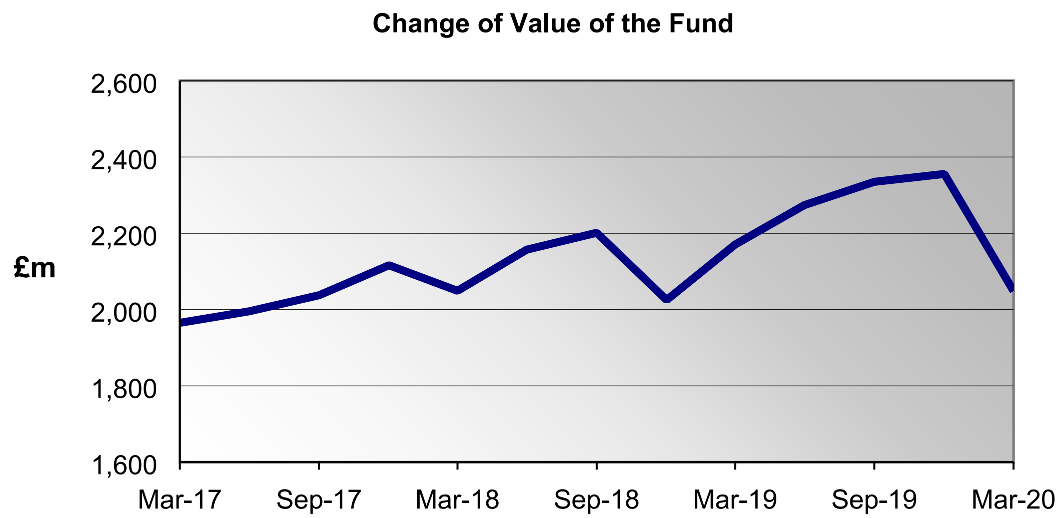
14.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Dec		Value as at 31 Mar		Strategic Weighting
	£m	**%**	**£m**	%	**%**
In-House (Global Eq)	**33.6**	1	**28.6**	2	**0**
Brunel (Passive Gl Eq)	**579.5**	25	**489.3**	24	**23**
Brunel (GHA Eq)	**272.7**	12	**240.6**	12	**0**
ASI (UK Eq)	**11.1**	0	**8.0**	0	**0**
Brunel (UK Eq)	**481.6**	20	**353.4**	17	**23**
In-House (US Eq)	**85.8**	4	**73.4**	4	**5**
Jupiter	**0.0**	0	**0.0**	0	**5**
Maple-Brown Abbott	**35.7**	2	**25.9**	1	**3**
Nomura	**40.0**	2	**31.9**	2	**3**
Brunel (EM Eq)	**86.9**	5	**69.2**	3	**5**
ASI (FI)	**362.1**	15	**353.0**	17	**19**
LaSalle	**214.6**	9	**211.0**	10	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**57.3**	2	**57.5**	3	**3**
Brunel	**0.8**	0	**0.8**	0	**0**
Cash	**92.3**	4	**104.5**	5	**1**
Whole Fund	**2,355.6**	100	**2,048.7**	100	**100**

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

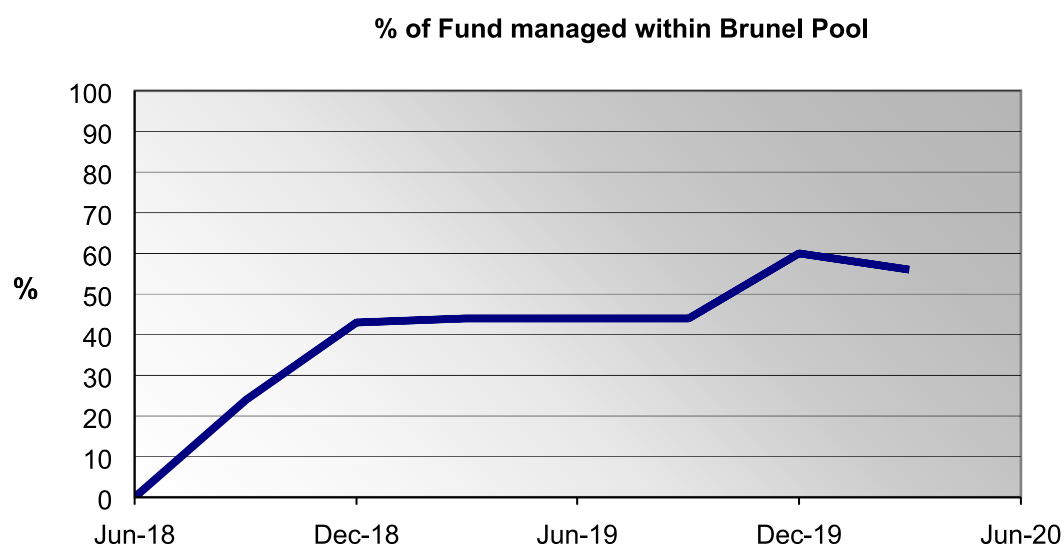
- £0.4m was withdrawn from the in-house global equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £0.6m was withdrawn from the in-house US equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £1.5m was divested from the Neuberger Berman's Private equity mandate as funds returned capital.

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



14.9 Progress on moving to pooling can be seen in the table and graph below

	Value as at 31 Dec		Value as at 31 Mar	
	£m	**%**	**£m**	%
Pooled assets	**1,420.7**	60	**1,152.5**	56
Retained assets	**934.9**	40	**896.2**	44
Whole Fund	**2,355.6**	100	**2,048.7**	100

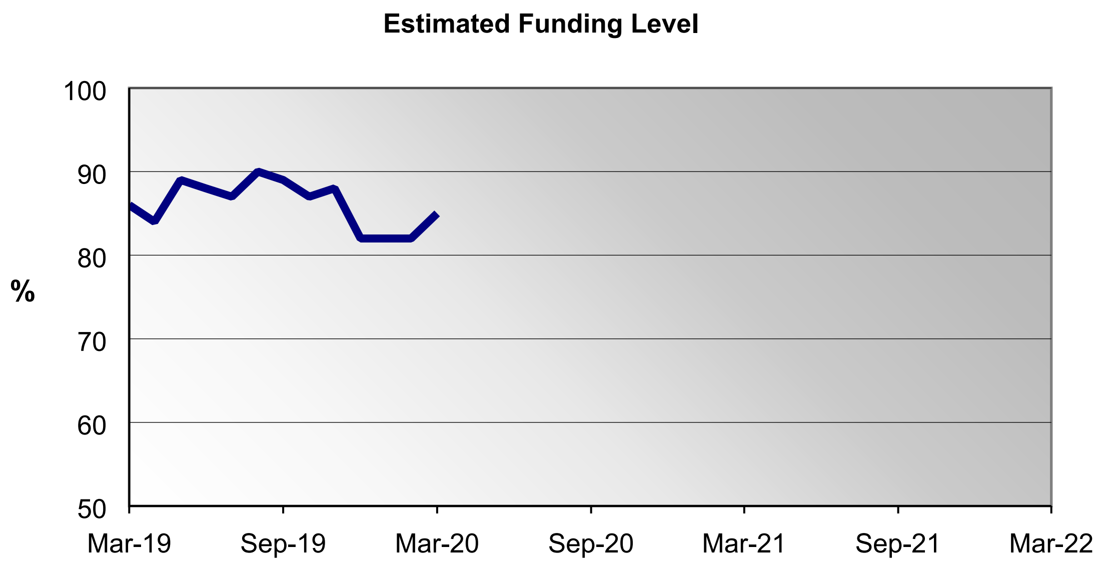


14.10 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2020 is 85.2% and the average required employer contribution would be 25.3% of payroll assuming the deficit is to be paid by 2039.
- This compares with the reported (smoothed) funding level of 85.7% and average required employer contribution of 24.3% of payroll at the 2019 funding valuation.

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



Agenda item 7

Somerset County Council
Pensions Committee

Review of Administration Performance

Lead Officer: Jason Vaughan: Director of Finance
Author: Dan Harris: Head of Peninsula Pensions
Contact Details: (01392) 383000
daniel.harris@devon.gov.uk
Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Background

1.1 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.

1.2 In addition to the internal targets, Peninsula Pensions also 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. This additional reporting element was introduced in 1st January 2019.

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

1.4 This report also encompasses an update on employer bodies covered by the Fund.

2. Issues for consideration

2.1 The Committee note the report and actions being undertaken by officers to ensure compliance and best practice.

3. Administration team performance

3.1 Performance against internal targets for the quarter ending 31st March 2020 remained consistent at 89%, bringing the total performance for the financial year 2019/20 to 88% (compared with 76% for 2017/18 and 82% for 2018/19).

3.2 Following a change to reporting methods, we are now able to monitor our performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Our total performance against the Disclosure Regulations for the financial year 2019/20 was 93%.

3.3 Appendix 1 of the report shows a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 31st March 2020 and total performance for the financial year 2019/20 against Peninsula Pensions' internal targets and against the Disclosure Regulations.

3.4 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st January 2018 to 31st March 2020.

4. Employer updates

4.1 New Admitted Bodies:

- Pabulum Catering was awarded the catering contract for the Priory Learning Trust with effect from 1st January 2020.
- Suez was awarded the contract for waste collection for the Somerset Waste Partnership commencing 1st April 2020.

Academies:

- Maiden Beech Academy joined the Bridgwater and Taunton College Trust on 1st December 2019.
- Cheddar First School joined the Wessex Learning Trust on 1st April 2020.
- Shipham Church of England First School, Fairlands Middle School and Draycott & Rodney Stoke Church of England First School joined the Wessex Learning Trust on 1st April 2020.
- St Mary & St Peter Church of England Primary School and Shepton Beauchamp Church of England Primary School joined the Bath and Wells Multi Academy Trust on 1st April 2020.

5. Background Papers

5.1 None

Appendix 1

Administration Performance – 1st April 2019 – 31st March 2020

Performance Summary

		Q4 2019/20		Total for 2019/20	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	7,855	92%	93%	89%	91%
Medium Priority Procedures	10,964	88%	93%	89%	95%
Low Priority Procedures	2,976	87%	91%	83%	93%
TOTAL	**21,795**	**89%**	**93%**	**88%**	**93%**

High Priority Cases

		Q4 2019/20		Total for 2019/20	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	2,085	99%	99%	99%	100%
Complaints (Member)	21	100%	100%	100%	100%
Complaints (Employer)	0	-	-	-	-
Deaths	650	94%	94%	77%	85%
Payroll	1,667	99%	99%	98%	99%
Refunds	494	100%	100%	100%	100%
Retirements (Active)	1,291	75%	76%	67%	73%
Retirements (Deferred)	1,647	87%	87%	85%	86%
TOTAL	**7,855**	**92%**	**93%**	**89%**	**91%**

Medium Priority Cases

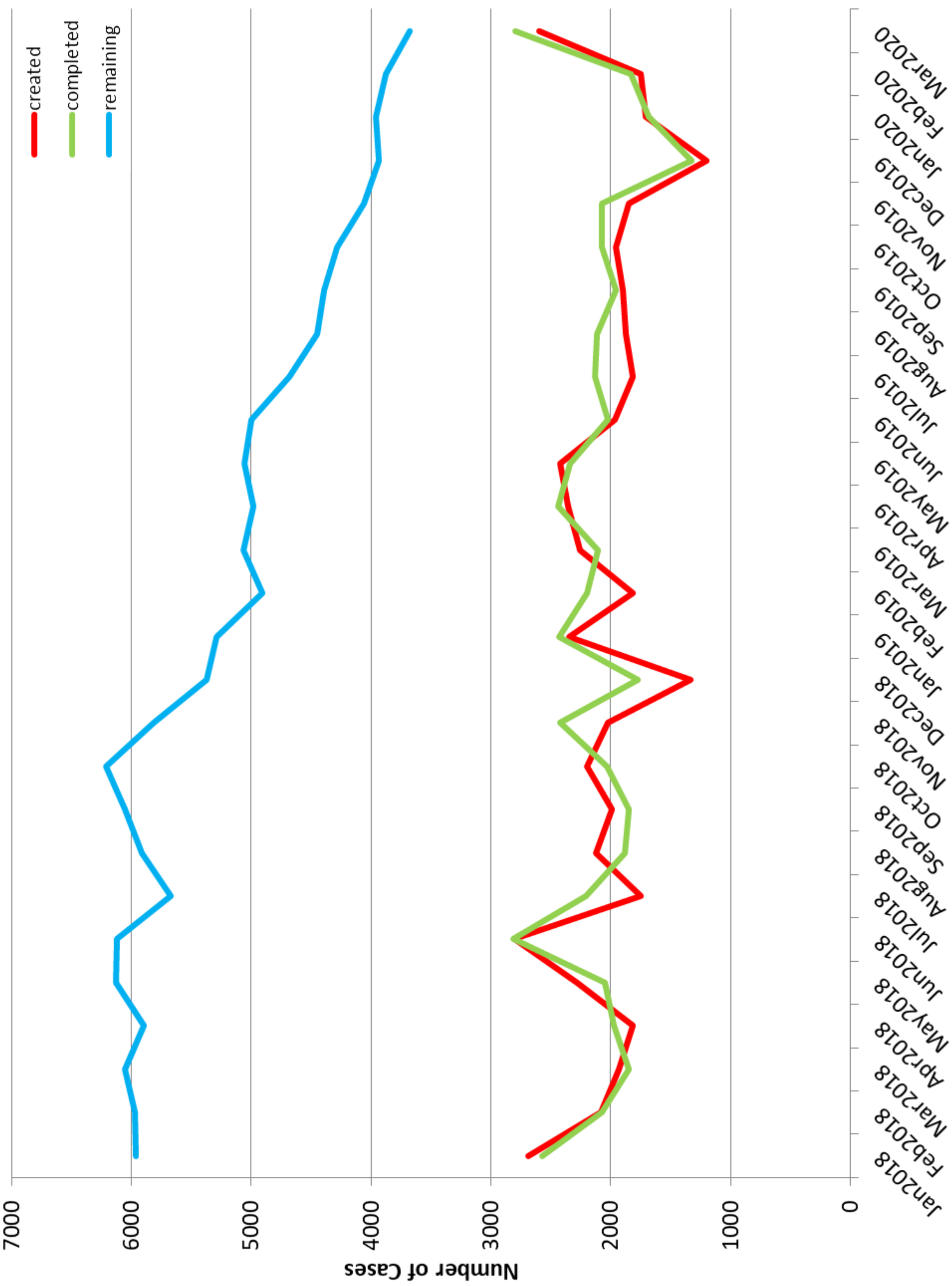
		Q4 2019/20		Total for 2019/20	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamation of Records	1,668	69%	92%	68%	93%
Deferred Benefit Calculations	1,926	65%	68%	79%	85%
Divorce Calculations	180	97%	97%	97%	97%
Employer Queries	1,559	56%	89%	82%	96%
Estimates (Bulk)	0	0%	-	-	-
Estimates (Employer)	158	100%	100%	100%	100%
Estimates (Member)	522	96%	96%	97%	97%
General	1,368	99%	100%	99%	100%
HMRC	42	100%	0%	88%	86%
Member Self-Service	3,541	100%	100%	100%	100%
TOTAL	**10,964**	**88%**	**93%**	**89%**	**95%**

Low Priority Cases

		Q4 2019/20		Total for 2019/20	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	145	73%	73%	74%	77%
GMP Queries	11	100%	100%	100%	100%
Interfund Transfers In	195	61%	77%	44%	84%
Interfund Transfers Out	293	64%	83%	46%	85%
Pension Top Ups	386	96%	96%	96%	97%
Frozen Refunds	1,215	96%	96%	96%	96%
New Starters	22	100%	100%	100%	100%
Pension Transfers In	411	94%	98%	76%	95%
Pension Transfers Out	298	89%	90%	87%	93%
TOTAL	**2,976**	**87%**	**91%**	**83%**	**93%**

Appendix 2

Administration Performance (1st Jan 2018 – 31st March 2019)



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Agenda item 8

Somerset County Council
Pensions Committee

Business Plan Update

Lead Officer:	Jason Vaughan: Director of Finance
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 asweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

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

2. Issues for consideration

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

3. Background

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

3.2 To meet its responsibilities in this respect the County Council has delegated executive decision making powers for the Fund to the Pensions Committee. A business plan has been produced to help ensure that the Pensions Committee meet their responsibilities and consider all necessary issues. Under the Scheme of Delegation put in place by the Committee day to day running of the fund has been largely delegated to officers.

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

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

4. Progress since last report

4.1 Work on the LGPS pooling work within the Brunel Pension Partnership continues.

4.2 Work on the triannual valuation is complete. We are in discussions with the actuary around standard post valuation work.

4.3 Officers continue to monitor legal and regulatory developments such as the conclusion of the courts' consideration of the McCloud case and its implications for the LGPS and the SAB governance review project.

4.4 Officer time has been pressured so there has been no progress on the proposed full review of the risk register.

4.5 A wider review of Committee's skills and Knowledge and the structure of Committee meetings is due.

4.6 Officers are working on the accounts and once completed will move on to the external audit and production of the annual report.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

None

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

Pensions Committee Business Plan for 2020 to 2021

Key:

Change since last time

Completed
Not yet due
In progress and on time
In progress but late
Overdue

Topic Area		Training needs	Timing	Implementation Timing	Progress
Regulations	Consultation and implementation on new regulations as they arise	Medium	**Unknown - Determined by Central Gov't**		
Fund Governance	Re-apporve all Strategies and policies post election	Medium	**Ongoing**		Agreed at June 2017 meeting
Review of Independent Advisor	Following an internal Audit review of the Fund's governance it was agreed that the role and performance of the Independent Advisor should be reviewed by Committee at least once every 4 years	Low	**Summer 2019**	Unknown	Incumbent will continue at least until transfer of assets to Brunel is substantially complete
Fund Governance	Review Investment Strategy Statement	Medium	**Summer 2019**		Delayed to allow for further progress on pooling and possible regulatory change. Anticipated for Summer 2020
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	**By end of 2019**		
Fund Governance	Review of risk register	Medium	**By end of 2019**		
Fund Governance	Review of investment strategy and allocations to Brunel Portfolios	Medium	**Autumn 2020**		
Fund Governance	Review of ESG investment	High	**Autumn 2020**		

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
17-Sep-20	**FORMAL MEETING**	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2020.	**AS**
	4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	5. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	6. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2020.	**AS**
	7. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	8. Annual Accounts and Investment Performance 2019/2020 To consider the accounts and investment performance for the year to 31 March 2020.	**AS**
	9. Funding Strategy Statement To consider a new Funding Strategy Statement for adoption by the Committee.	**AS**
Autumn 2020 TBC	**ANNUAL EMPLOYERS MEETING**	
	Annual Employers' Meeting of the Pension Fund This event may be postponed or cancelled depending on the Government Covid warning level at the time.	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
Autumn 2020 TBC	<u>**Informal/Training Session**</u> - Risk - Knowledge & Skills This event may be postponed or cancelled depending on the Government Covid warning level at the time.	
04-Dec-20	<u>**FORMAL MEETING**</u>	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2020.	**AS**
	4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	5. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	6. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2020.	**AS**
	7. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	10. Review of Investment Strategy To review the Brunel portfolios that the Fund invests in and whether they remain the preferred mix going forward.	**AS**
	11. Review of Ethical, Governance and Social Investment Policy To review the Fund's policy on ESG.	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
12-Mar-21	**FORMAL MEETING**	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2020.	**AS**
	4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	5. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	6. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2020.	**AS**
	7. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	8. Review of Committee Knowledge & Skills To agree a framework for assessing Committees Knowledge and Skills and a training programme	**AS**
	9. Resources review, Financial target setting and committee objectives setting To conduct a review of the resources available to the fund and to adopt a financial forecast, committee performance objectives for the 2020-2021 financial year and review the overal performance target for 2020 to 2023.	**AS/SM**
	10. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.	**AS**
	11. Future Meetings To agree meeting dates for 2022	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
11-Jun-21	**<u>FORMAL MEETING</u>**	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2021.	**AS**
	4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	5. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	6. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2021.	**AS**
	7. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	8. Fund Policies To review and where necessary update the fund's policies and documents.	**AS**

Agenda item 9

Somerset County Council
Pensions Committee

Finance and Membership Statistics Update

Lead Officer: Jason Vaughan: Director of Finance
Author: Anton Sweet: Funds and Investments Manager
Contact Details: (01823) 359584
asweet@somerset.gov.uk
Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

1.1 This report updates the committee on the position of the Pension Fund's year to date financial position at 31 March 2020 and related matters. This is a standard item of committee business.

2. Issues for consideration

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

3. Financial position

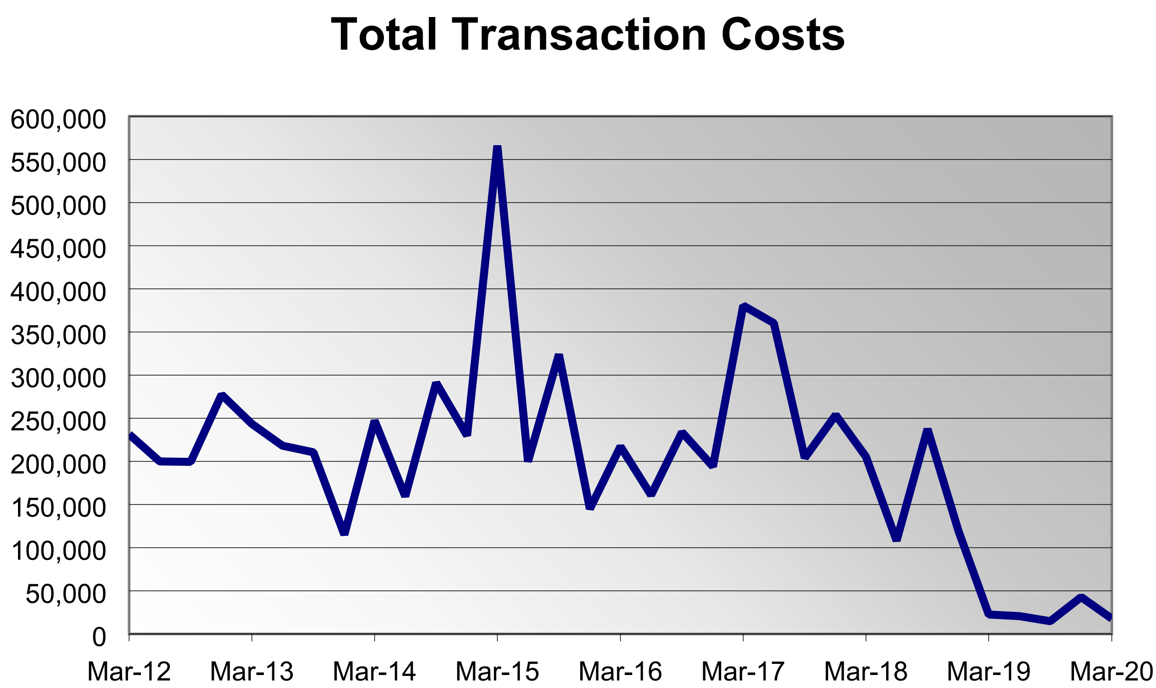
3.1 The outturn position for the financial year to 31st March 2020 against the original forecast is shown in appendix A.

4. Transaction costs

4.1 Transaction costs for the quarter for segregated mandates were as follows:

Manager	Asset Class	Fund Size £m
In-House	Global equity	28.6
ASI	UK equity	8.0
In-House	US equity	73.4
Jupiter	European equity	0.0
M-BA	Pacific equity	25.9
ASI	Bonds	353.0

		Purchases		Sales		
Manager	**Asset Class**	**Commission £**	**Expenses £**	**Commission £**	**Expenses £**	**Total £**
In-House	Global equity	620	1,041	586	195	**2,443**
ASI	UK equity	0	0	0	0	**0**
In-House	US equity	368	0	442	56	**866**
Jupiter	European equity	0	0	0	0	**0**
M-BA	Pacific equity	4,955	862	5,906	2,709	**14,433**
ASI	Bonds	0	0	0	0	**0**
Total		**5,943**	**1,903**	**6,934**	**2,960**	**17,741**

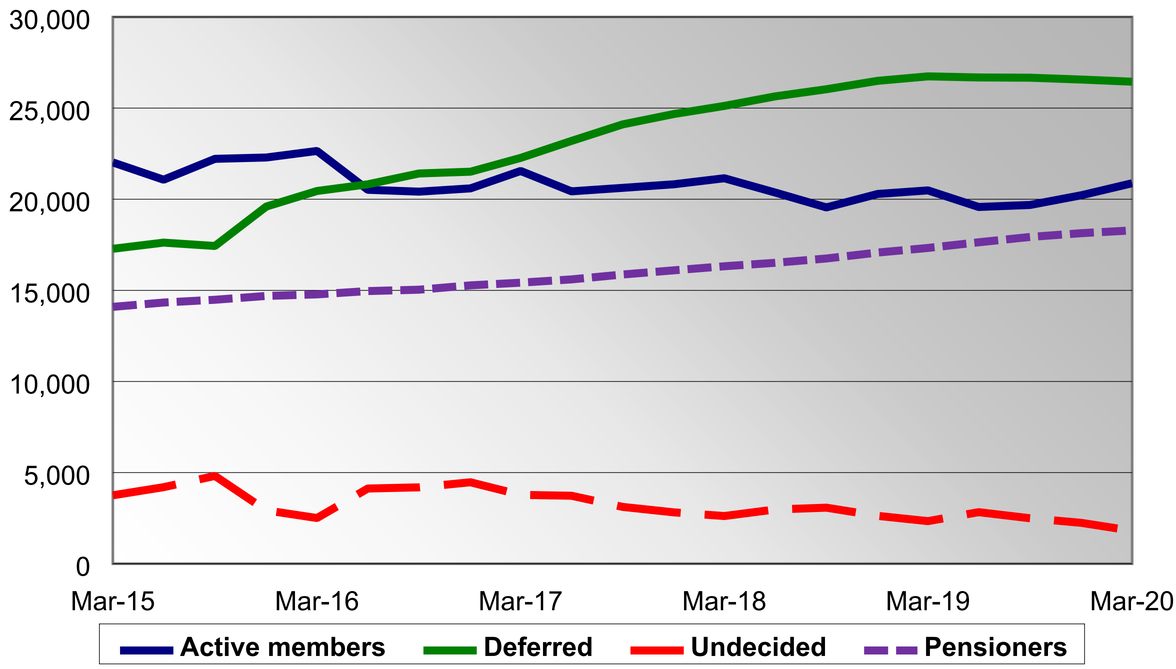


5. Membership Statistics

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

	31 Dec	31 Mar	Change
Active members	20,218	20,877	**+659**
Deferred	26,567	26,449	**-118**
Undecided	2,243	1,808	**-435**
Pensioners	18,137	18,289	**+152**
Total	**67,165**	**67,423**	**+258**

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



6. Background Papers

None

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

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Agenda item 10

Somerset County Council
Pensions Committee

Review of Pension Fund Risk Register

Lead Officer: Jason Vaughan: Director of Finance
Author: Anton Sweet: Funds and Investments Manager
Contact Details: (01823) 359584
asweet@somerset.gov.uk

Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

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

2. Issues for consideration

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

2.2 It is suggested that a more thorough review of the risk register should be undertaken by Committee with the help of the Pension Board with a full review of the risks currently on the register and consideration of risks which are not currently covered. This has been added to the workplan for the end of 2020.

3. Changes since last meeting

3.1 The risk score for risk PF2 has been re-assessed in light of the results of the 2019 valuation exercise. The improvement in funding level from 77% to 86% is deemed insufficient to allow for a lowering of the likelihood assessment of the risk score.

3.1 Following the addition of cyber security as a stand-alone risk at the last meeting we have now explored the mitigation and controls in place within Peninsula Pensions and reduced the risk score accordingly.

3.2 There have been no further changes to the risk register.

4. Background

4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund's risks in a single document.

4.2 Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

4.3 Following on from CIPFA's guidance the Committee has indicated that it wishes to adopt a risk register. The Committee have agreed that rather than have a static register that is reviewed periodically that the register should be discussed at every meeting and changes agreed and implemented as necessary.

4.4 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

5. Consultations undertaken

None

6. Financial Implications

6.1 No direct implications

7. Background Papers

None

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

Somerset County Council Pension Fund Risk Register - June 2020

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	Current Risk Score I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function. Monthly review of asset allocation and cash levels	2	4	8		2	4	8		on-going with quarterly review		
1. PF2 2. Pensions Committee	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement Investment Strategy Statement	3	5	15	The triennial valuation includes provision for restoring the fund to full funding over 19 years The current risk score partly reflects that the fund was 86% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10		Review again at next Valuation - 2022		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance. There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible.
1. PF3 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements Guarantee bonds	3	3	9	Ensure the on-going suitability of the guarantees in place with a review after each formal valuation Review of actuarial results to consider employer specific funding ratios and employer 'Hot Spots'	2	2	4	Stephen Morton	on-going with quarterly review		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period.

Somerset County Council Pension Fund Risk Register - June 2020

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	Current Risk Score I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF4 2. SCC Section 151 Officer	Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.	None, other than experience of other staff within the sections	3	3	9		2	3	6		on-going with quarterly review	Updated to include positive impact of pooling September 2016	Shared service with Devon makes this less of an issue with respect to benefits administration staff. The move to pooling of investments should make the fund less reliant on a small number of internal officers
1. PF5 2. SCC Section 151 Officer	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SCC IT support	As IT systems are refreshed or replaced build in support mechanisms	3	4	12		2	3	6		on-going with quarterly review		Shared service with Devon makes this less of an issue with respect to benefits administration IT. Pooling will also remove the need for some systems.
1. PF6 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with MHCLG and other interested stakeholders	4	4	16		2	3	6		on-going with quarterly review		The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme.
1. PF7 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Internal audit coverage Annual report to committee with feedback from stakeholders Internal procedures and checks	3	3	9		2	3	6		on-going with quarterly review		The greater resiliance gained from the Peninsula Pensions shaed service has been balanced by greater complexity coming into the sceme benefits.

Somerset County Council Pension Fund Risk Register - June 2020

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF8 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12		2	4	8		on-going with quarterly review	Updated June 2017 to reflect turnover of Committee folliowing County Council elections	
1. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian	2	4	8		2	4	8		on-going with quarterly review		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration. As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption
		Review of credit worthiness and inherent business risk of custodian at tender phase			0				0				
1. PF10 2. Pensions Committee	Failure of Brunel to deliver either Fee savings or investment performance	Representation on the Brunel Client Group and Oversight Board.	2	4	8		2	4	8		on-going with quarterly review		Added as per Committee request at September 2017 meeting.
1. PF11 2. SCC Section 151 Officer	A breach of cyber security	Peninsula Pensions have assessed that relevant administrators and service providers have measures in place to avoid cyber security breaahces and have addequate back up and business continuity plans.	3	4	12		2	4	8		on-going with quarterly review		Added December 2019

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Agenda item 11

Somerset County Council
Pensions Committee

Abatement policy

Lead Officer:	Jason Vaughan: Director of Finance
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 asweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Background

1.1 The abatement policy refers to the treatment of benefits of current pensioners of the fund if they become re-employed by an LGPS employer. Depending on the circumstances their pension maybe reduced.

1.2 The Somerset Fund's current policy is:

1. New re-employments post 01/04/2014 will only have their pension abated if their original employer incurred a cost on the retirement (e.g. redundancy, interests of efficiency, ill-health, other early retirement where there was a strain cost0.
2. Pre 01/4/2014 re-employments abate all pensions on re-employment, except where the pension is less than £2,500pa.

1.3 In the current Covid crisis there is a heightened possibility of re-employment and the abatement policy coming into play as the public sector seeks ways to meet additional demand for services.

1.4 Officers are in the process of gathering further evidence to the amount of abatement cases in general the fund has had in the recent past to ascertain the impact of the current policy and the costs of a permanent change to the policy.

2. Issues for consideration

2.1 Committee is asked to consider whether the following should be added to the current abatement policy:

No abatement will be applied to cases where re-employment took place after 1st March 2020 until further notice.

3. Background

None

4. Consultations undertaken

None

5. Financial Implications

5.1 It is anticipated that the number of cases involved will be relatively few and therefore the financial impact on the fund will not be significant.

6. Background Papers

None

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

Agenda item 12

Somerset County Council
Pensions Committee

Pension Administration Strategy

Lead Officer:	Jason Vaughan: Director of Finance
Author:	Dan Harris: Head of Peninsula Pensions
Contact Details:	(01392) 383000 daniel.harris@devon.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Background

1.1 Pension Administration Strategies (PAS) were first introduced into the LGPS regulations in 2008, and now fall under Regulation 59 of the LGPS 2013 Regulations.

1.2 Although they are not a legal requirement, a PAS provides a mechanism to formulate a service level agreement between the administering authority and employers. They cover a number of areas including procedures for liaison and communication, and set out the performance standards and expectations for the administering authority and employers.

1.3 A 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.

1.4 Peninsula Pensions introduced a PAS in April 2015, following review and approval from the Pensions Committee.

1.5 Regulation 59 states that the strategy must be kept under review and revised as appropriate. An administering authority must consult with employers and such other persons as it considers appropriate during this process.

2. Issues for consideration

2.1 The Committee is asked to formally adopt the new Administration Strategy. It was originally intended to gain Committee's approval of the new strategy at the cancelled March meeting, with a view to going live in April 2020. The strategy will go live once approval has been granted.

3. Strategy Revision

3.1 The review of the PAS followed the restructure of Peninsula Pensions, and reflects the growth in membership and demands of Scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring.

3.2 Following review by the Somerset and Devon Pension Boards and Pensions Committees, the draft PAS was circulated to employers on 16th December 2019. Employers were invited to review and to provide comment on the draft PAS by 19th January 2020. Employers were also provided with the opportunity to provide feedback on the PAS at a series of PLOG (Pension Liaison Officer Group) events held during February 2020.

3.3 Feedback and comments from employers were collated by officers and incorporated into the final draft PAS which is attached at Appendix 1.

4. Summary of Amendments

4.1 A summary of amendments to the PAS, following the consultation with employers, is set out below:

- The PAS has been reviewed to ensure that a consistent use of terminology has been used throughout the document.

- Additional text has been added to Section 3 (Record Keeping) which provides greater clarification regarding communication to employers in respect of proposed changes to systems, processes, legislation and data requirements.

- Additional information has also been included within Section 3 regarding The Pension Regulator.

- A paragraph has been added to Section 4 (Roles and Responsibilities) concerning reportable breaches arising as a result of failing to comply with any of the duties set out in Appendix A.

- Within the ‘Underperformance Fees’ heading of Section 5 (Performance Monitoring), the process for liaising with an employer who fails to engage with Peninsula Pensions following the identification of underperformance has been added.

- Within the ‘Feedback from Employers’ heading of Section 5 (Performance Monitoring), a paragraph has been inserted informing employers that they are able to raise any issues of concern regarding the performance of Peninsula Pensions via an Employer Representative of the Pension Board.

- A link to our website for a glossary of terms used within the document has been included in Appendix A for information.

- Other minor changes have been made to the wording of the PAS which have no impact on the strategy.

4.2 Following a recommendation from the Devon Investment and Pension Fund Committee on 28th February 2020, additional text has been added to the ‘Record Keeping’ section on page 3 to strengthen requirements under General Data Protection Regulations (GDPR).

5. Background Papers

5.1 None

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LOCAL GOVERNMENT PENSION SCHEME

Somerset Pension Fund Administration Strategy

April 2020

peninsula pensions

Contents

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 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
- 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.

Each party shall duly observe all its obligations under all applicable laws which apply to the handling of personal data, including the General Data Protection Regulation (Regulation (EU) 2016/679) and the Data Protection Act 2018 as may be amended, extended or replaced from time to time.

The Administering Authority and the employers agree to comply with the obligations set out in the 'Memorandum of Understanding regarding Compliance with Data Protection Law between the Administering Authority and all employers within the Fund' (the "MOU"), a copy of which is published on the Peninsula Pensions website. The Administering Authority reserves the right to amend, update or replace the MOU from time to time.

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 Investment and Pension Fund 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

<u>Underperformance Fees</u>

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 user name and password to access the employer section of the Peninsula Pensions website

Peninsula Pensions will employ a multi-channel approach in liaising and communicating with 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 Investment Team, Investment and Pension Fund 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.

Pensions Committee
Somerset County Council

Date………………….

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 31st March and notify electronically or by post to member's home address.	31st August	31st July
To produce annual benefit statements for all preserved members, as at the preceding 31st March, and notify electronically or by post to member's home address.	31st August	30th 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 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.		Peninsula Pensions will maintain links to 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

A comprehensive glossary of the terms referred to within this document can be found on our website:

https://www.peninsulapensions.org.uk/

Agenda item 13

Somerset County Council
Pensions Committee

Funding Strategy Statement

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Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

1.1 The Fund is required under section 58 of the LGPS Regulations (2013), as amended, to publish and maintain a Funding Strategy Statement (FSS). The FSS sets out the Somerset Fund's strategy for its funding. The FSS is drafted in consultation with the Fund's actuary (Barnett Waddingham) and is typically refreshed immediately after the triannual valuation exercise to reflect the most recent valuation.

1.2 In addition to a general refresh of the FSS for the first time it reflects the Fund's position on exit credits. The draft attached as appendix A incorporates the Fund's proposed position including being in line with the latest amendment regulations laid before parliament on 27th February which came into force on 20th March 2020.

1.3 It is a requirement for us to consult with employers on the FSS and as such this is a pre-consultation draft. It is anticipated that the FSS will come back to the September meeting for formal adoption following the consultation exercise.

2. Issues for consideration

2.1 The Committee is asked to note the revised Funding Strategy Statement (attached at appendix A) and to consider whether it wishes to make any comments prior to consultation with Fund Employers.

3. Next Steps

3.1 The next stage will be to launch a consultation with Fund employers. It is anticipated that the consultation will run through part of June and all of July 2020. Employers will be invited to review and comment on the revised FSS.

3.2 Once any comments have been received, a further report will be brought to the Committee, outlining any suggested revisions, and the Committee will be asked to approve the revised FSS.

3.3 It is anticipated that the FSS will be brought back to Committee at the September 2020 meeting.

4. Consultations undertaken

None

5. Financial Implications

5.1 The FSS is a key component of managing the funding level of the Fund and ensuring in the long term sufficient assets are built up to cover the Fund's liabilities.

6. Background Papers

None

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

Somerset County Council Pension Fund
Funding Strategy Statement

[DRAFT]

Contents

Introduction

This is the Funding Strategy Statement for the Somerset County Council Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (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's employers and the Fund Actuary, Barnett Waddingham LLP, have 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 (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) 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(6) 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 purpose 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 purpose of the Fund is 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 and invest 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 rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- 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; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

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 in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- 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 participate in the Fund.

The responsibilities of each 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 Ministry of Housing, Communities and Local Government (MHCLG).

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 and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect 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 their 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 2019. The results of the 2019 valuation are set out in the table below:

2019 valuation results	
Surplus (Deficit)	(£362m)
Funding level	86%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 17.8% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2019 valuation report.

The actuarial valuation involves a projection of future cashflows 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. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates 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.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- 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 and pensions. 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 the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one 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 total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial 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 or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance. However, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

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 price 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 demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing 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, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. The RPI assumption adopted as at 31 March 2019 was 3.6% p.a.

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 1.0% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2019 was 2.6% p.a.

Future pay increases

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 increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

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 2019 valuation was 4.9% 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 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 set to 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 does 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.

It may be appropriate for an alternative discount rate approach to be taken to reflect an individual employer's situation. This may be, for example, to reflect an employer targeting a cessation event or to reflect the administering authority's views on the level of risk that an employer poses to the Fund. The Fund Actuary will incorporate any such adjustments after consultation with the administering authority.

A summary of the financial assumptions adopted for the 2019 valuation is set out in the table below:

Financial assumptions as at 31 March 2019	
RPI inflation	3.6% p.a.
CPI inflation	2.6% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.9% p.a.

Asset valuation

For the purpose 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. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2019 valuation report.

McCloud/Sargeant judgements

The McCloud/Sargeant judgements were in relation to two employment tribunal cases which were brought against the government in relation to possible age and gender discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. These judgements were not directly in relation to the LGPS, however, do have implications for the LGPS.

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

Further details of this can be found below in the Regulatory risks section.

At the time of drafting this FSS, it is still unclear how this will affect current and future LGPS benefits. As part of the Fund's 2019 valuation, in order to mitigate the risk of member benefits being uplifted and becoming more expensive, the potential impact of McCloud was covered by the prudence allowance in the discount rate assumption. As the remedy is still to be agreed the cost cannot be calculated with certainty, however, the Fund Actuary expects it is likely to be less than 0.05% of the discount rate assumption.

Guaranteed Minimum Pension (GMP) indexation and equalisation

As part of the restructuring of the state pension provision, the government needs to consider how public service pension payments should be increased in future for members who accrued a Guaranteed Minimum Pension (GMP) from their public service pension scheme and expect to reach State Pension Age (SPA) post-December 2018. In addition, a resulting potential inequality in the payment of public service pensions between men and women needs to be addressed. Information on the current method of indexation and equalisation of public service pension schemes can be found here.

On 22 January 2018, the government published the outcome to its *Indexation and equalisation of GMP in public service pension schemes* consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching SPA before 6 April 2021. HMT published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016. Details of this outcome and the Ministerial Direction can be found here.

The 2019 valuation assumption for GMP is 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, it is assumed that the Fund will be required to pay the entire inflationary increase.

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. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a surplus or deficit then the levels of required employer 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 2019 valuation varied from 3 years to 19 years. This represents a reduction of five years from the maximum 24 year recovery period set at the 2016 valuation. The ultimate aim is to reach 100% funding, and a reduction of in the recovery period since the 2016 valuation demonstrates that the Fund is progressing towards that goal. Please note that recovery periods varied between individual employers. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount. 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 (including any security in place) 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 funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate and have the same funding level
Small Scheduled bodies	Past and future service pooling	All town and parish councils in the pool pay the same primary rate but pay a secondary

		rate bespoke to their position
NSL Ltd	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
BAM FM	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

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

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

At the 2019 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

Funding at start of contract

Generally, when a new admission body joins the Fund, they will become responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. This is known as a full risk transfer. In these cases, it may be appropriate that the new admission body is allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

However, there may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although a full risk transfer (as set out above) is most common, subject to agreement with the administering authority where required, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that all or part of the pensions risk remains with the letting authority.

Although pensions risk may be shared, it is common for the new admission body to remain responsible for pensions costs that arise from:

- above average pay increases, including the effect on service accrued prior to contract commencement; and
- redundancy and early retirement decisions.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2019 valuation.

Where an academy joins an existing multi-academy trust in the Fund, additional contributions will be certified for the multi-academy trust in respect of the academy.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be paid from the Fund to the employer as an exit credit, subject to the agreement between the relevant parties and any legal documentation. Further detail on the Fund's exit credit policy is outlined below.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

Exit credit policy

Under advice from MHCLG, administering authorities should set out their exit credit policy in their Funding Strategy Statement. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of "pass-through" arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.

- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.

- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.

- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer the specific details surrounding the employer's cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the regulations surrounding an employer's exit from the Fund. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving 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 long-term 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 long-term 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 (i.e. the difference between the discount rate assumption and the price inflation assumption). 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 p.a.

However, the Pensions 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. For the 2019 funding valuation, the Fund commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health 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.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

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.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- The potential effects of GMP equalisation between males and females, if implemented, are not yet known.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgements, the cost cap mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgements and cost cap

The 2016 national Scheme valuation was used to determine the results of HM Treasury's (HMT) employer cost cap mechanism for the first time. The HMT cost cap mechanism was brought in after Lord Hutton's review of public service pensions with the aim of providing protection to taxpayers and employers against unexpected changes (expected to be increases) in pension costs. The cost control mechanism only considers "member costs". These are the costs relating to changes in assumptions made to carry out valuations relating to the profile of the Scheme members; e.g. costs relating to how long members are expected to live for and draw their pension. Therefore, assumptions such as future expected levels of investment returns and levels of inflation are not included in the calculation, so have no impact on the cost management outcome.

The 2016 HMT cost cap valuation revealed a fall in these costs and therefore a requirement to enhance Scheme benefits from 1 April 2019. However, as a funded Scheme, the LGPS also had a cost cap mechanism controlled by the Scheme Advisory Board (SAB) in place and HMT allowed SAB to put together a package of proposed benefit changes in order for the LGPS to no longer breach the HMT cost cap. These benefit changes were due to be consulted on with all stakeholders and implemented from 1 April 2019.

However, on 20 December 2018 there was a judgement made by the Court of Appeal which resulted in the government announcing their decision to pause the cost cap process across all public service schemes. This was in relation to two employment tribunal cases which were brought against the government in relation to possible discrimination in the implementation of transitional protection following the introduction of the reformed 2015 public service pension schemes from 1 April 2015. Transitional protection enabled some members to remain in their pre-2015 schemes after 1 April 2015 until retirement or the end of a pre-determined tapered protection period. The claimants challenged the transitional protection arrangements on the grounds of direct age discrimination, equal pay and indirect gender and race discrimination.

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case. A remedy is still to be either imposed by the Employment Tribunal or negotiated and applied to all public service schemes, so it is not yet clear how this judgement may affect LGPS members' past or future service benefits. It has, however, been noted by government in its 15 July 2019 statement that it expects to have to amend all public service schemes, including the LGPS.

At the time of drafting this FSS, it is not yet known what the effect on the current and future LGPS benefits will be.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. This results of the national Scheme valuation are used to test the cost control cap mechanism and HMT believed that all public sector scheme should have the cost cap test happen at the same time with the next quadrennial valuation in 2020 and then 2024.

Managing employer exits from the Fund

The consultation covers:

- Proposals for flexibility on exit payments. This includes:
    - Formally introducing into the Regulations the ability for the administering authority to allow an exiting employer to spread the required exit payment over a fixed period.
    - Allowing employers with no active employers to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities (deferred employer status).
- Proposals for further policy changes to exit credits. MHCLG issued a partial response to this part of the consultation on 27 February 2020 and an amendment to the Regulations comes into force on 20 March 2020, although have effect from 14 May 2018. The amendment requires Funds to consider the exiting employer's exposure to risk in calculating any exit credit due (for example a pass through employer who is not responsible for any pensions risk would likely not be due an exit credit if the amendments are made to the Regulations) and to have a policy to exit credits in their FSS which has been included earlier in this version

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

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.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

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 most recent valuation was carried out as at 31 March 2019, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2020 to 31 March 2023.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2022 but the period for which contributions will be certified remains unconfirmed.

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

Agenda item 14

Somerset County Council
Pensions Committee

Resources Review, Financial Projection Setting and Committee Objective Setting

Lead Officer:	Jason Vaughan: Director of Finance
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 356854 asweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 Best practice within LGPS funds is to annually set objectives for the fund, the agreeing of the resources necessary to attain those objectives and a definition or measurement mechanism for success.

2. Issues for consideration

2.1 Committee are required to set objectives for the 2020-21 financial year for the fund, agree the resources required to meet the objectives and agree criteria by which attainment of the objectives can be measured. To this end committee are asked to:

- Agree a fund financial projection for the 2020-21 financial year.
- Review the absolute return target for the investment return of the fund.
- Consider defining criteria for measuring the success in meeting the Committee's objectives for the year.
- Consider the resources Committee requires to meet their objectives for the year.

3. Background

3.1 It is generally considered good practice for LGPS Fund's to review their objectives regularly, both for the fund as a whole and for the activity of the Pensions Committee. The setting of objectives is included in the Committee's workplan as an annual item. In setting objectives the Committee need to consider the necessary resources needed to reasonably meet those objectives and define how success is to be measured.

4. Fund Objectives

4.1 The funds overall objectives are stated in the Funding Strategy Statement and are:

- 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.

How each of these aims is to be achieved in broad terms is explained in the Funding Strategy Statement.

4.2 The delivery of constant employer rates and management of liabilities is undertaken in collaboration with the Fund's actuary and centres around the tri-annual valuation process.

4.3 In order to ensure that sufficient resources are available to meet all liabilities as they fall due over the next 12 months, and the costs associated with this aim and the running of the fund in general are managed, a draft financial projection has been produced for the 2020-21 financial year and is attached as appendix A. Committee is asked to review the draft financial projection and approve its adoption subject to any amendments they agree on.

4.4 The maximisation of investment return within reasonable risk is achieved through the management of the investment fund, principally through the creation of the Investment Strategy Statement. To measure the performance of the fund we have a fund specific benchmark that we aim to outperform. Performance of the fund relative to this benchmark is monitored and disclosed quarterly to the committee in the standard performance report, it is proposed that this continues. CIPFA's key themes also state that it is good practice for the fund to set an absolute return target for the fund. Since the discount rate utilised by the actuary is in effect the investment return needed by the fund to achieve the objective of full funding within the deficit recovery period it would be sensible to set an absolute return target consistent with the discount rate. The discount rate used in the 2019 valuation results is 4.9% pa. The current adopted target is 5.4% as this was the discount rate used in the 2020 valuation.

5. Committee Objectives

5.1 The committee's objectives for the forthcoming year are highlighted within the Committee business plan and forward work plan. As part of the business plan update (item 8) committee will reaffirm the objectives set within the business plan.

5.2 Committee are asked to consider how it will assess its performance in meeting the objectives of the business plan. This may involve setting criteria against which success can be measured.

6. Resources

6.1 Committee are asked to consider the resources that they as a committee require to meet the needs of the business plan and work plan. This assessment should include consideration of training needs, facilitation time and whether sufficient formal meeting time is available within the work plan to deliver the objectives.

6.2 The Committee is committed to 4 formal meetings a year. There is a presumption of at least one informal meeting or training session per year and officers believe they have the resources to support further meetings should Committee request them.

6.3 Benefits administration is provided by Peninsula Pensions, a shared service with Devon CC.

6.4 The Investments team of Somerset CC provide investment administration and accounting for the fund along with the bulk of the support of Committee and Pension Board. Currently 2.6 full time equivalent (FTE) employees are charged to the fund and this is currently deemed appropriate by the managers involved. This level of resource was reduced by 1 FTE in July 2018 following the movement of investment funds to Brunel and will continue to be reviewed as more funds move to Brunel.

6.5 1 FTE in the Somerset CC corporate accounting team is charged to the fund to cover accounting for benefits and contributions.

6.6 Additional support of the Committee and Pension Board is provided by the Community Governance team, specifically the arrangement and support of formal Committee and Board meetings.

7. Consultations undertaken

None

8. Financial Implications

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

9. Background Papers

None

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

Pension Fund Financial Projection

2020-2021

	2018-2019 Full Year	2019-2020 Full Year			2020-2021 Full Year
	Actual (a)	Original Budget (b)	Projected Outturn (c)	Variance (d)	Proposed Projection (e)
	£m	£m	£m	£m	£m
Contributions and other income					
Contributions	105.980	100.000	100.000	0.000	102.000
Recoveries from employers	2.699	2.100	2.100	0.000	2.100
Transfer values received	5.672	4.500	12.000	7.500	4.500
	114.351	**106.600**	**114.100**	**7.500**	**108.600**
Less benefits and other payments					
Recurring pensions	-76.008	-81.000	-81.000	0.000	-85.000
Lump sum on retirement	-17.761	-18.000	-18.000	0.000	-18.000
Lump sum on death	-2.088	-2.500	-2.500	0.000	-2.500
Transfer values paid	-5.951	-6.000	-7.500	-1.500	-15.000
Contribution refunds	-0.383	-0.400	-0.400	0.000	-0.400
	-102.191	**-107.900**	**-109.400**	**-1.500**	**-120.900**
Contributions after payments	**12.160**	**-1.300**	**4.700**	**6.000**	**-12.300**
Management Expenses					
Administrative expenses	-1.170	-1.300	-1.300	0.000	-1.300
Investment management expenses	-6.178	-5.500	-5.500	0.000	-5.700
Oversight and governance expenses	-0.608	-0.775	-0.775	0.000	-0.750
	-7.956	**-7.575**	**-7.575**	**0.000**	**-7.750**
Investment Income					
Investment income	45.712	25.000	27.000	2.000	12.000
Net Increase / Decrease (-) in fund	**49.916**	**16.125**	**24.125**	**8.000**	**-8.050**

Agenda item 15

Somerset County Council
Pensions Committee

Investment of Pension Fund Cash

Lead Officer:	Jason Vaughan: Director of Finance
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Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 The legal position regarding how the fund can invest cash was revised by the Government with the introduction of the LGPS (Management and Investment of Funds) Regulations 2009, which came into force from 1st January 2010. Since 1st April 2010 the pension fund cash has been managed by the SCC investments team on a completely segregated basis.

1.2 As a matter of good governance the Committee is asked annually to review the arrangements for the management of the Fund's cash and approve the strategy and counterparty criteria.

2. Issues for consideration

2.1 Review the arrangements for the management of the Pension Fund sterling cash balances from the following options:

1. Re-appoint the in-house team to manage these balances on a segregated basis.
2. Appoint an external cash manager.

If the committee wish to appoint an external manager the current in-house management arrangements would remain in place whilst a competitive tender process is undertaken.

2.2 Review and adopt a cash management strategy, the current strategy is attached as appendix A.

2.3 Adopt a revised counterparty criteria for the investment of sterling cash balances, a suggested criteria is attached as appendix B.

3. Background

3.1 The sterling balances of the Fund are managed with a daily sweep undertaken with the Fund's custodian to clear sterling balances back to the fund's bank account. The balances are a mix of sterling money which has been allocated to fund managers but they are choosing not to invest (frictional cash) and the cash balances of the fund that are being received monthly from employers and paid out to pensioners. These balances do vary. A graph showing the daily value of cash balances since December 2013 is below.

3.2 The current practice of the Fund is to leave non-sterling balances in the bank accounts supplied to us by the Global Custodian (JP Morgan), these balances do earn interest but at very low rates. Typically these funds are mostly made up of US Dollars and Euros within Standard Life's fixed interest mandate along with small amounts in a range of other currencies. Typically these balances are less than £4m in total.

3.4 Officers are proposing a similar counterparty policy to the one adopted for 2019-20 (attached as appendix B).

4. Consultations undertaken

None

5. Financial Implications

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

6. Background Papers

None

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

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Item 15
Appendix A

Pension Fund Cash Management Strategy

Introduction

The following is the cash management strategy adopted by the Somerset County Council Pension Fund as adopted by the Pensions Committee and sets a broad framework for the management of all cash positions of the fund.

Short-Term Borrowing

The Pension Fund will maintain overdraft facilities on all cash accounts in all currencies at the Global Custodian (JP Morgan) and on its main sterling bank account (NatWest). These facilities are to be used to ensure the clearing of un-anticipated payments from time to time and all overdraft positions, however incurred, should be cleared at the earliest possible opportunity.

It is not envisaged that any borrowing will be required above the overdraft facilities highlighted above however it is prudent to allow the borrowing of funds via a broker from banks, building societies and other local authorities to provide flexibility if unexpected cash flows are incurred. Any borrowing will be limited to a maximum of 1 calendar month in duration and should be limited to a level no higher than cash deposits not instantly realisable (the fund should not incur a net negative cash position).

Investments

Certain balances under the control of fund managers are left in various non-sterling currencies and these are deposited in the cash accounts of the Global Custodian (JP Morgan). The cash does attract interest in these accounts but at a low level.

All sterling funds in the cash accounts at the custodian are the subject of a daily sweep back to the Pension Fund's account with its main bank (NatWest). These funds will then be placed on deposit with counterparties in accordance with the counterparty criteria. The cash fund manager will maintain a list of acceptable counterparties, which meet the counterparty criteria and they intend to utilise, on an on-going basis.

In common with other local authority cash management best practice the emphasis when making deposits will be on security of the principal deposited and liquidity. Only once these criteria are met will the highest yield consistent with these priorities be sought.

Given that the vast majority of the cash funds of the Pension Fund could be required either by fund managers or to meet pension payments and transfers at relatively short notice it is anticipated that a significant level of cash at any time will be invested via time deposits with a short term (a month or less) or deposited in instant access call accounts or money market funds. Should cash flow be such that an amount of funds are identified that are not immediately required these can be deposited for periods up to a maximum of 1 year (370 days). Where time deposits are made these can be made via direct contact with the respective counterparty or via a broker.

The only allowable instruments for the investment of cash are time deposits with suitable counterparties, deposits in interest bearing bank and building society accounts, investments in appropriate Money Market Funds and investments in appropriate UK government bond funds and Sterling short dated investment grade corporate bond funds.

Benchmark

The cash investment portfolio will be benchmarked against Bank of England base rate.

Item 15
Appendix B

Pension Fund Cash Lending Counterparty Criteria

The following criteria will be used to manage counterparty risks to Somerset County Council Pension Fund for cash deposits from 20th March 2020 (subject to adoption by the SCC Pensions Committee): -

Financial Institutions

Any Financial Institution that is authorised by the FCA to accept deposits, or is a passported EEA institution, which is entitled to accept deposits in the UK, or is a UK Building Society can be lent to, subject to the following rating criteria at the time of the deposit: -

Rating of Counterparty

The following long term ratings are the minimum acceptable level:

Fitch A-
S&P A-
Moody's A3

The maximum deposit amount for any authorised counterparty that has at least two out of the three ratings above will be £10m.

Operational Bank Accounts

Amounts contained in operational bank accounts with the Pension Fund's main Bank (currently Nat West) will not count in the calculation of Nat West's limit as defined above. In the event of unexpected receipts after 2pm on any given working day, money may be placed in an instant access Nat West call account overnight, in breach of the above limits. Whenever this occurs the total lending to Nat West must be reduced to back within their limit on the following working day.

If the Pension Fund's main bank (currently Nat West) have their ratings downgraded below minimum criteria, the instant access Call Account facility may still be used for short-term liquidity requirements and business continuity arrangements.

Public Sector Bodies

Any UK Local Authority or Public Body will have a limit of £10m. Any employer member of the fund may not be used

The UK Government Debt Management Office (DMADF) will be unlimited.

The table below gives a definition and rough comparison of various ratings by the three main agencies: -

Definitions of Rating Agency Ratings

	Fitch		Moody's		S&P	
Short-Term	F1+	Exceptionally strong	P-1	Superior	A-1+	Extremely strong
	F1	Highest quality			A-1	Strong
	F2	Good quality	P-2	Strong	A-2	Satisfactory
	F3	Fair quality	P-3	Acceptable	A-3	Adequate
	B	Speculative	NP	Questionable	B and below	Significant speculative characteristics
	C	High default risk				
	(+) or (-)		(1,2, or 3)		(+) or (-)	
Long-Term	AAA	Highest quality	Aaa	Exceptional	AAA	Extremely strong
	AA	V High quality	Aa	Excellent	AA	Very strong
	A	High quality	A	Good	A	Strong
	BBB	Good quality	Baa	Adequate	BBB	Adequate capacity
	BB	Speculative	Ba	Questionable	BB and below	Significant speculative characteristics
	B	Highly Speculative	B	Poor		
	CCC	High default risk	Caa	Extremely poor		

Financial Groups

For Financial Groups (where two or more separate counterparties are owned by the same eventual parent company) a consolidated limit equal to the limit of a single counterparty (£10m) will apply to the group.

Money Market Funds

With regulatory changes now effected, previously titled Constant Net Asset Value (CNAV) Money Market Funds have been converted into Low Volatility Net Asset Value (LVNAV) funds. Any LVNAV Fund used must be rated by at least two of the main three ratings agency, and must have the following, (or equivalent LVNAV) ratings.

Fitch AAAmmf Moody's Aaa-mf Standard & Poor's AAAm

UK Government bond funds and Sterling short dated investment grade corporate bond funds may also be used.

Subject to the above, deposits can be made with the following limits: -

The lower of £10m or 0.5% of the total value for individual Funds.

Diversification

At least three counterparties/financial groups must be used if total funds invested are greater than £10m, with each having an investment of at least £1m. No more than 50% of total funds invested can be placed with any single counterparty/financial group.

Other Indicators

The Fund will use a range of indicators, not just credit ratings. Among other indicators to be taken into account will be: -

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Government Guarantees and Support, including ability to support.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Other macroeconomic factors.

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