Public Document Pack

Pensions Committee (virtual meetings from June 2020 due to Coronavirus)

Friday 18 September 2020
10.00 am Virtual meeting on line

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, Richard Parrish, Gordon Bryant, Sarah Payne and Mark Simmonds

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 10 September 2020

For further information about the meeting, please contact Michelle Brooks on MBrooks@somerset.gov.uk or Michael Bryant on 01823 359048 or mbryant@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 18 September 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** (Pages 9 - 16)

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 **LGPS Pooling of Investments** (Pages 17 - 20)

To consider the report from the Funds & Investment Manager.

6 **Independent Investment Advisor's Report**

To receive a verbal update on developments in financial markets.

7 **Review of Investment Performance** (Pages 21 - 46)

To consider the report from the Head of Peninsula Pensions.

8 **Review of Administration Performance** (Pages 47 - 52)

To consider the report from the Head of Peninsula Pensions.

9 **Business Plan Update** (Pages 53 - 62)

To consider the report from the Funds & Investments Manager.

10 **Finance and Membership Statistics Update** (Pages 63 - 68)

To consider the report from the Funds & Investments Manager.

11 **Review of Pension Fund Risk Register** (Pages 69 - 74)

To consider the report from the Funds & Investments Manager.

Item Pensions Committee (virtual meetings from June 2020 due to Coronavirus) - 10.00 am Friday 18 September 2020

12 **Annual Report including the accounts and investment performance** (Pages 75 - 80)

To approve the publication of the annual report for the Fund.

13 **Funding Strategy Statement** (Pages 81 - 110)

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

14 **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 5th June at 10.00pm Microsoft Teams Virtual Meeting

Present:

Cllr G Noel
Cllr J Hunt (Chair)
Cllr J Parham
Mrs S Payne
Mr M Simmonds
Mrs C Burton (Independent Advisor)

1 **Election of Chair for the Meeting**

Due to a technical issue Cllr Graham Noel was unable to Chair the meeting.

On the nomination of Cllr J Parham, Cllr James Hunt was elected as Chair for the meeting.

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

Cllr Simon Coles

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

Mrs Payne and Mr Simmonds declared an interest by virtue of being a member of the LGPS.

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

The Committee agreed and the Chair signed the Minutes of the meeting held on 13 Dec 2019 as a correct record.

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

The Chair welcomed those Members of the public who were present and invited those who had registered to speak to address the Committee.

The Committee heard from Mr Reimers who raised a number of points including: the longer-term global impact of the Coronavirus pandemic and associated risks regarding investments in certain sectors including the fossil fuel industry. Mr Reimers questioned what changes in its current investment policy does the Committee and Brunel Pensions Partnership envisage will be necessary in order to mitigate this risk.

At the Chairs invitation, The Funds and Investment Manager – Anton Sweet, thanked Mr Reimers for his question and noted that a full written response would be sent in due course.

6 **Independent Investment Advisor Report**- agenda item 5

The Independent Advisor, Caroline Burton, addressed the Committee noting: the difficulties faced by many fund managers, including those used by Somerset County Council and the Brunel Partnership.

Members of the Committee posed a number of questions to the Independent Advisor, including: Brunel transition costs; likely medium term investment performance trends; and potential impacts on the Pension Funds portfolio including a potential re-consideration of current investments.

The Independent Advisor responded to the points raised, noting: potential changes in investment styles; that value lost by some investments may not return; and the move away from investing in 'hard assets'. The Independent Advisor further noted: the actions taken provides reassurance regarding Brunel transition costs.

The Independent Advisors update was accepted.

7 **Review of Investment Performance**- agenda item 6

The Funds and Investments Manager, Anton Sweet addressed the Committee, noting: the Investments Team continue to work remotely without issue; that between April and May the funds investments had increased in value by 10% which partly off-set the 13% fall in the first quarter.

The Funds and Investment Manager further updated the Committee regarding the next phase of Brunel transitions which would include Maple Brown Abbott and Namura, highlighting that currently all transitions were suspended until September to allow markets to normalise.

The Committee posed a number of questions to the Funds and Investments Manager, including: transitions timescales; if transitions at this time expose the fund to market volatility; and comparisons between the FTSE and American markets potential rebounds.

The Funds & investment Manager responded to the points raised, noting: transitions usually take between one and two days, but that considerable planning will have been undertaken in advance.

The Committee noted the report.

8 **Review of Administration Performance**- agenda item 7

The Committee considered this report from the Head of Peninsula Pensions which detailed a review of the administrations performance. Highlights included: that performance against internal targets for the quarter ending 31st March 2020 was 89%, an increase on previous years. The Committee were further informed of the 2018 staffing restructure and associated streamlining of activities; that potential impacts of working from home in the longer term were unknown; and the increased levels of 'portal' access by fund members.

There were no questions raised by members of the Committee.

The Committee noted the report.

9 **Business Plan Update**- agenda item 8

The Committee considered this report that provided members with progress on and amendments to the Committees Business Plan.

The Funds and Investments Manager, Anton Sweet noted that the current pandemic would mean that some work would have to be completed outside of the normal committee setting and the some tasks may have to be re-prioritised due to external influences.

The report and attached business plan and meeting workplan were accepted.

10 **Finance and Membership Statistic Update**- agenda item 9

The Committee considered an annual report by the Funds and Investment Manager which highlighted the outturn position for the financial year to 31st March 2020 against the original forecast as detailed in Appendix A to the report.

The Committee noted the report.

11 **Review of Pension Fund Risk Register**- agenda item 10

The Committee considered a report by the Funds and Investments Manager, Anton Sweet, reviewing the Pension Fund's risk register. The Funds and Investments Manager questioned the need for a specific COVID-19 risk, noting that he was happy for this to be added should this be the Committees wish.

The Committee discussed and noted their support for a specific Covid-19 risk and it was agree this would be added to the risk register.

The Funds and Investments Manager responded to issues raised noting the risks to both SCC's and Brunel's staffing capacity.

12 **Abatement Policy** - agenda item 11

The Committee considered a report by the Funds and Investments Manager, Anton Sweet regarding the funds Abatement Policy and as such the treatment of benefits of current pensioners of the fund if they become re-employed by an LGPS employer.

The Committee were informed of details of the Somerset Fund's current policy including: that new re-employments post 01/04/2014 would only have their pension abated if their original employer incurred a cost on the retirement; and that pre 01/4/2014 re-employments abate all pensions on re-employment, except where the pension is less than £2,500pa. It was further noted that during the current pandemic there was a greater possibility of re-employment and the abatement policy coming into play as the public sector seeks ways to meet additional demand for services, and that officers are in the process of gathering further evidence to the amount of abatement cases, and potential costs of any changes to the policy.

The Committee discussed the points raised and agreed it would complete a further review of the Policy in six months' time.

Having been proposed by Cllr James Hunt and seconded by Cllr Graham Noel the Committee further agreed 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.

The report was accepted.

13 **Administration Strategy**- agenda item 12

The Committee considered a report by the Head of Peninsula Pensions, Dan Harris, which highlighted that: whilst not a legal requirement the Strategy provided a mechanism to formulate a service level agreement between the administering authority and employers. It was noted that Peninsula Pensions introduced an Administration Strategy in April 2015, following review and approval from the Pensions Committee.

The Committee were asked to formally adopt the new Administration Strategy, and it was noted that the Strategy was 'go live' once approval had been granted.

The recommendations were proposed by Cllr Graham Noel and seconded by Cllr John Parham, at which point the Committee agreed to formally adopt the new Administration Strategy.

The Committee accepted the report.

14 **Funding Strategy Statement**- agenda item 13

The Committee considered a report by the Funds and Investments Manager, Anton Sweet, which highlighted a refresh of the Funding Strategy Statement. It was noted that the Fund is required under section 58 of the LGPS Regulations (2013), as amended, to publish and maintain a Funding Strategy Statement (FSS).

The Committee noted the revised Funding Strategy Statement.

The Committee noted the report.

15 **Resources Review, Financial Forecast Setting and Committee Objective Setting** - agenda item 14

The Committee considered a report by the Funds and Investments Manager, Anton Sweet, who noted: this paper was considered annually by the Committee; and that it was anticipated dividend income would be lower than expected, with particular reference to property funds.

It was highlighted that the committee are required to set objectives for the 2020-21 financial year to agree the resources required to meet the objectives and agree criteria by which attainment of the objectives can be measured. To this end committee were 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; and to consider the resources Committee requires to meet their objectives for the year.

The Committee noted the report.

16 **Investment of Pension Fund Cash -** agenda item 15

The Committee considered a report by the Funds and Investments Manager, Anton Sweet which highlighted that the legalities of how the fund can invest cash was revised by the Government with the introduction of the LGPS (Management and Investment of Funds) Regulations 2009. It was noted that as 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.

Members discussed the report, questioning the why there was such considerable sums of cash which had not been invested.

The Funds and Investment Manager noted that more cash was being held that is usual, but that there were benefits to holding cash including for Brunel transition costs, and of late a benefit in percentage performance. It was further noted that the intention is to reduce cash balances considerably, but that this would be dependant upon a number of circumstances.

The Committee accepted the report.

17 **Any Other Business** - agenda item 16

The Committee were informed that the Pension Board scheduled to be held on this rise of this meeting had been cancelled.

(The meeting ended at 11.50am)

CHAIR

Somerset County Council
Pensions Committee

LGPS Pooling of Investments

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 Under guidance published by the Government on "LGPS: Investment Reform Criteria and Guidance" in November 2015 we are required to work towards the pooling of the Fund's investment assets with other LGPS funds with pooling beginning in April 2018.

1.2 For the purposes of pooling SCC has aligned itself with 9 other funds in South West England and is working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).

2. Issues for consideration

2.1 Elect a representative of the Somerset Pensions Committee to the Brunel Oversight Board.

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

3. Progress in transition of assets to Brunel

3.1 £507.8m of passive equity assets were transferred from management by the internal team to Brunel (sub-managed by LGIM) on 11th July 2018.

3.2 £436.5m of active UK equity assets were transferred from management by Aberdeen Standard Investments to Brunel (sub-managed by Aberdeen Standard Investments, Baillie Gifford and Investec) on 21st November 2018.

3.3 £83.7m of emerging market equity were transferred from management by Amundi to Brunel (sub-managed by Genesis Investment Management, Wellington and Investec) on the 9th October 2019.

3.4 £268.7m of equity assets were transferred from a number of legacy mandates to the Brunel Global High Alpha fund. (sub-managed by Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London Asset

Management) on the 18th November 2019.

3.5 The final equity portfolio we are due to invest in is the Global Small Cap equity portfolio. The transition for this fund is in the latter stages of planning and will go live during the autumn.

3.6 As agreed by Committee at the December 2019 meeting the Fund has committed £50m to the private equity cycle starting 1st April 2020.

3.7 Preparations for the move of our Property assets from LaSalle to Brunel are at an advanced stage and transfer is planned for the autumn.

4. Governance review

4.1 Brunel is now over three years old and it has become clear that some areas of the governance model set up at the outset of the pooling project are no longer meeting the needs of the partnership. A governance review is now underway. It is likely that this will result in a number of votes for shareholders on reserve matters.

5. Representation on Brunel Oversight Board

5.1 Part of the governance model of the partnership is the Brunel Oversight Board (BoB). This is a non-decision-making board with representatives from each of the Brunel partnership LGPS funds' Pension Committees. It acts in a similar way to a Council Scrutiny Committee and is a key part of Pension Committees gaining assurance over the activity of Brunel Pension Partnership Ltd., the company set up by the 10 partnership funds to manage the Pool's assets.

5.2 Somerset's current BoB representative has stood down from Pensions Committee so it is necessary for Committee to agree a new representative.

5.3 Typically BoB meets 4 times a year. These meetings are currently taking place via video conference, prior to the COVID-19 crisis the meetings took place at Brunel's offices in Bristol with a phone dial in option.

6. Consultations undertaken

6.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point. This now includes consultation with Committee and Board whenever SCC utilises its shareholder voting powers in relation to Brunel.

6.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.

6.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30th November 2016.

7. Financial Implications

7.1 It is anticipated that the Brunel Pensions Partnership will allow the fund to make significant saving over time with the Somerset County Council Pension Fund estimated to make savings of £27.8m in the period to 2036 after costs. A significant portion of the likely costs are front loaded and it is anticipated that the Somerset Fund will breakeven in 2024.

7.2 By definition these are forecasts and there are significant risk to their timing and delivery. They are based on a core set of assumptions and actual savings could be significantly greater or smaller over time.

8. Background Papers

8.1 None

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

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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 30 June 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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Appendix A

Review of Investment Performance for the Quarter to 30th June 2020

1. Somerset County Council (Passive Global Equity)

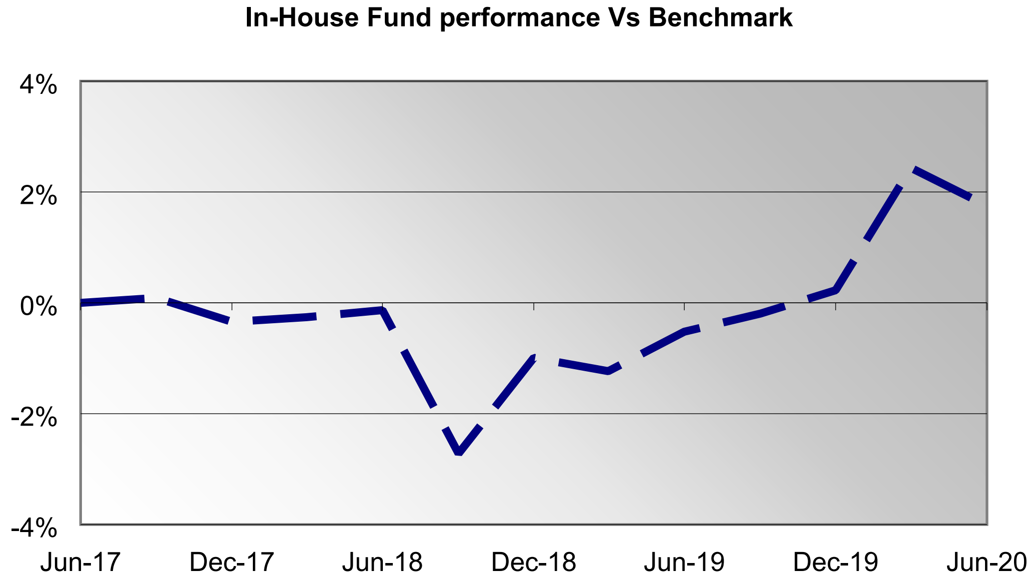
1.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
33.7	**Global equities**	**18.8**	**19.9**	**-1.1**
0.1	**Cash**			
33.8	**Total**	**18.8**	**19.9**	**-1.1**

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 underperformed 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 positive.



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	8.5	6.5	+2.0
3 years	9.3	8.8	+0.5
5 years	13.0	12.8	+0.2
10 years	12.8	12.6	+0.2

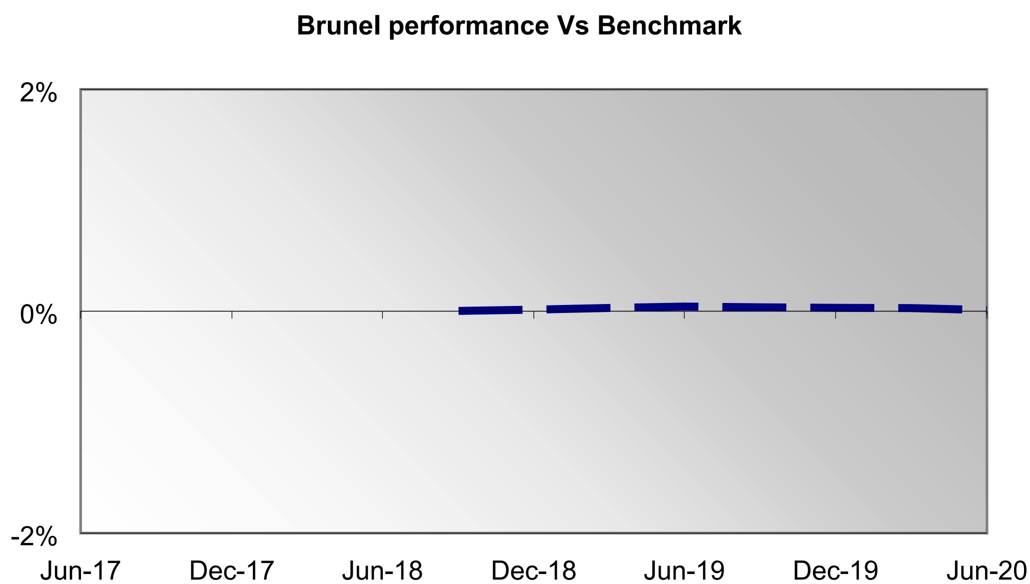
2. Brunel - LGIM (Passive Global Equity)

2.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
586.3	**Global equities**	**19.8**	**19.9**	**-0.1**

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

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	**6.4**	**6.5**	**-0.1**
3 years	Initial investment in July 2018		

3. Brunel - (Global High Alpha Equity)

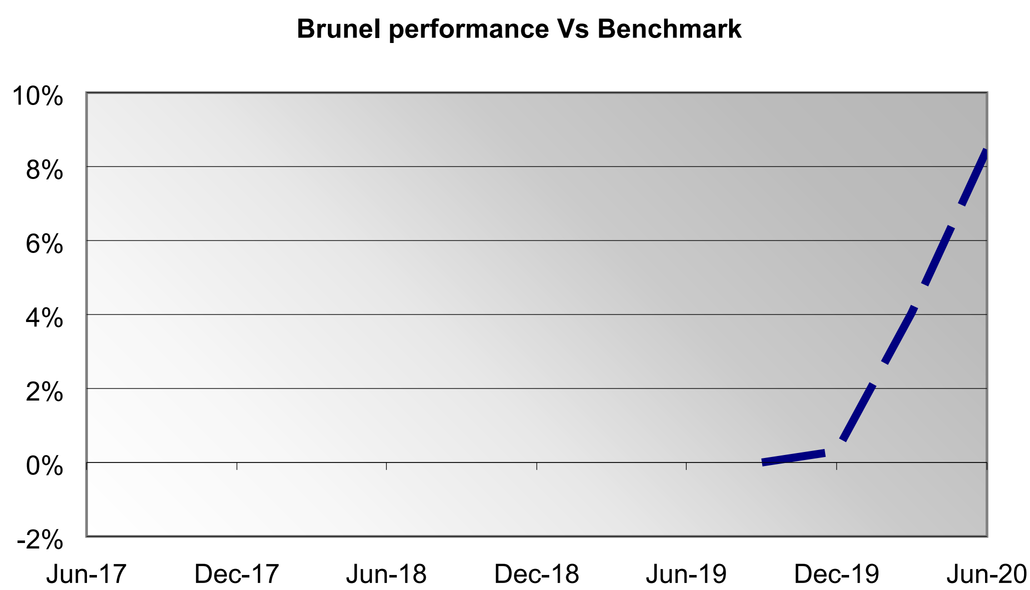
3.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
298.4	Global equities	24.0	20.0	+4.0

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 Positive.

3.4



4. Aberdeen Standard Investments (UK Equities)

4.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
9.5	**UK**	**18.2**	**10.2**	**+8.0**

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 an excellent quarter relative to their benchmark. Absolute returns were strongly positive. Smaller companies significantly outperformed during the quarter and the Aberdeen Standard fund outperformed the smaller companies benchmark.

5. Brunel (UK Equities)

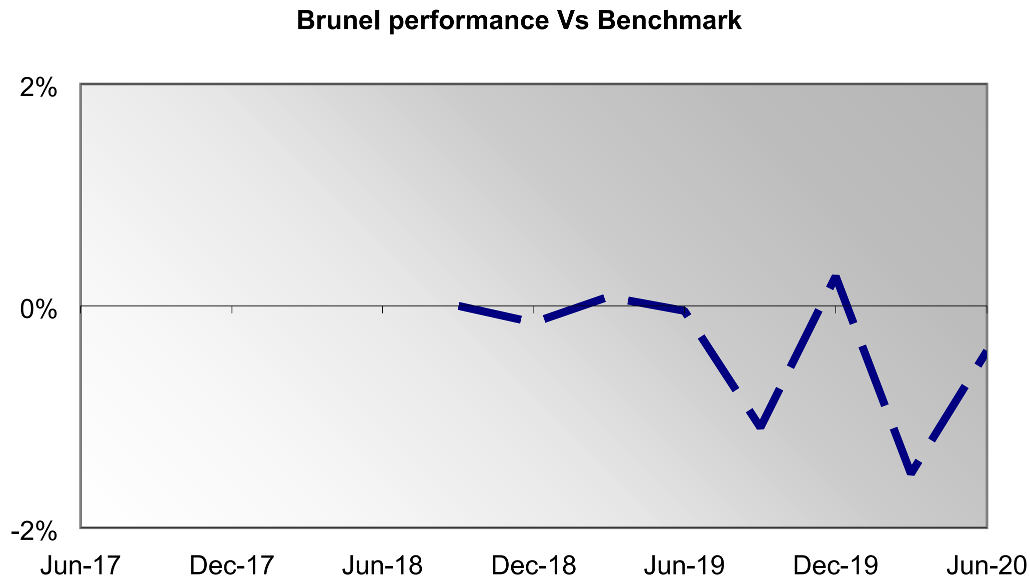
5.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
394.6	**UK**	**11.7**	**10.2**	**+1.5**

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

5.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was strongly positive.

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	**-13.3**	**-13.0**	**-0.3**
3 years	Initial investment in November 2018		

6. Somerset County Council (North American Equities)

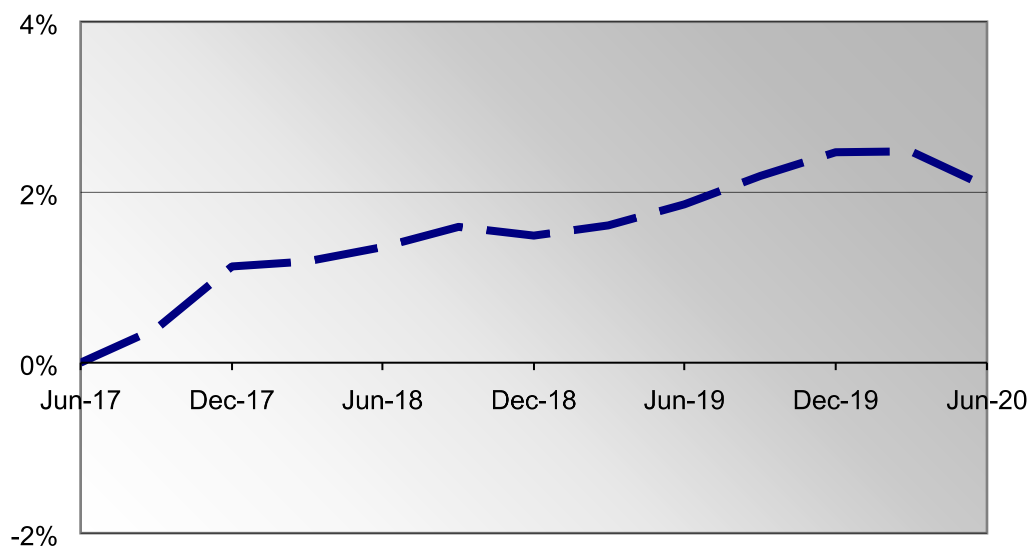
6.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
87.3	North America	20.3	21.0	-0.7
0.6	Cash			
87.9	Total	20.2	21.0	-0.8

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

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

In-House Performance Vs Benchmark



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	**10.8**	**10.7**	**+0.1**
3 years	**13.1**	**12.6**	**+0.5**
5 years	**16.6**	**16.2**	**+0.4**
10 years	Initial investment in December 2011		

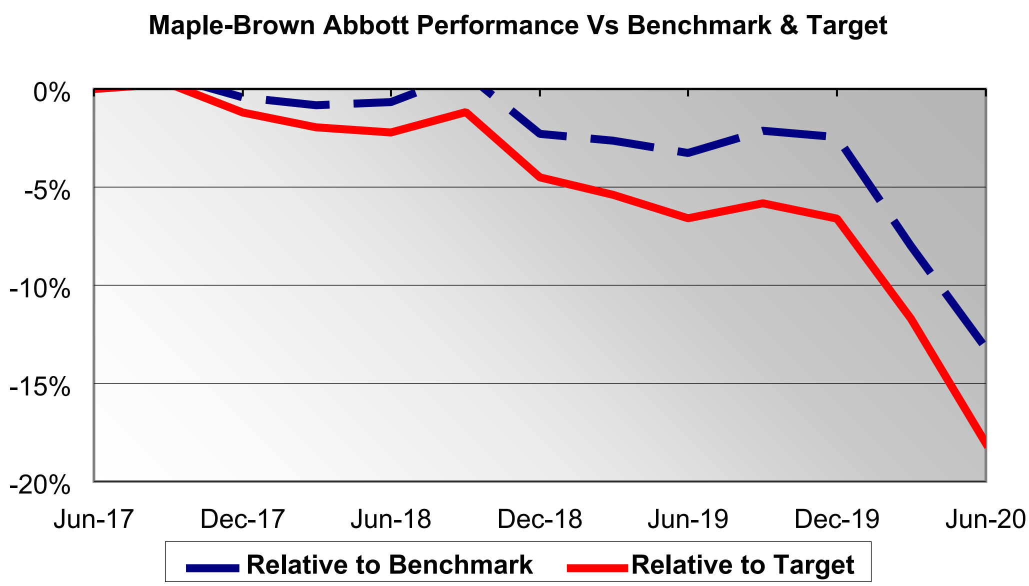
7. Maple-Brown Abbott (Far-East Equities ex-Japan)

7.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
			Performance	
Value as at 30 June £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
29.9	**Pacific (ex Japan)**	**17.7**	**21.6**	**-3.9**
0.5	**Cash**			
30.4	**Total**	**17.2**	**21.6**	**-4.4**

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 positive.

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.



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	**-14.6**	**-5.4**	**-9.2**
3 years	**-2.2**	**2.2**	**-4.4**
5 years	**5.5**	**8.7**	**-3.2**
10 years	Initial investment in July 2014		

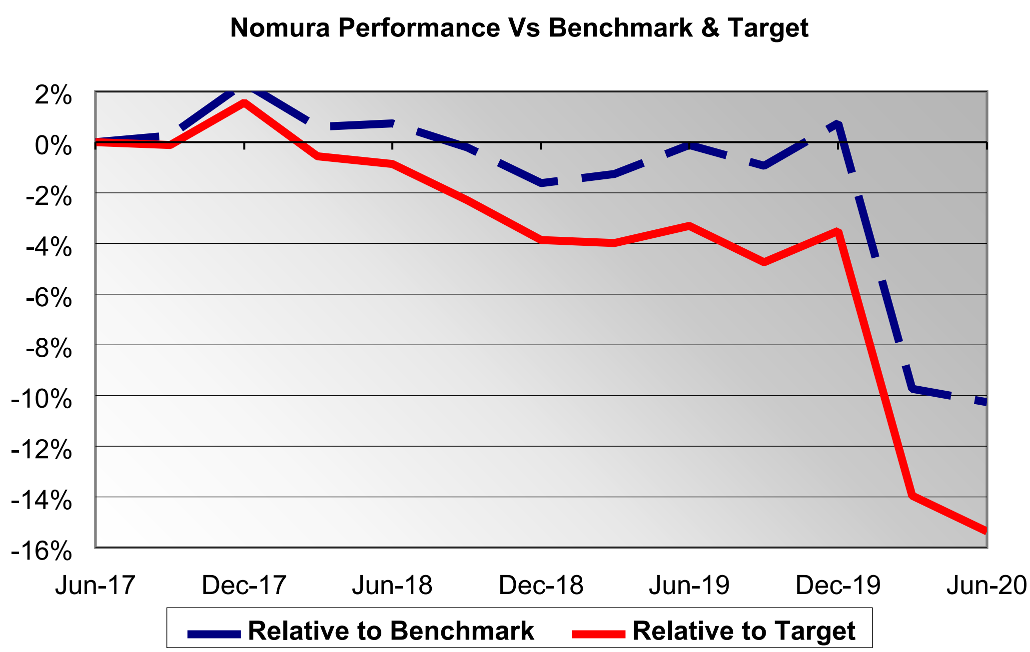
8. Nomura (Japanese Equity)

8.1 The performance for the quarter to 30th June 2020is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
35.9	Japan	12.4	11.7	+0.7

8.2 Absolute performance was strongly positive. Relative performance was positive.

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	**-3.4**	**6.1**	**-9.5**
3 years	**1.1**	**4.3**	**-3.2**
5 years	**6.0**	**9.1**	**-3.1**
10 years	**7.5**	**8.6**	**-1.1**

9. Brunel (Emerging Market Equity)

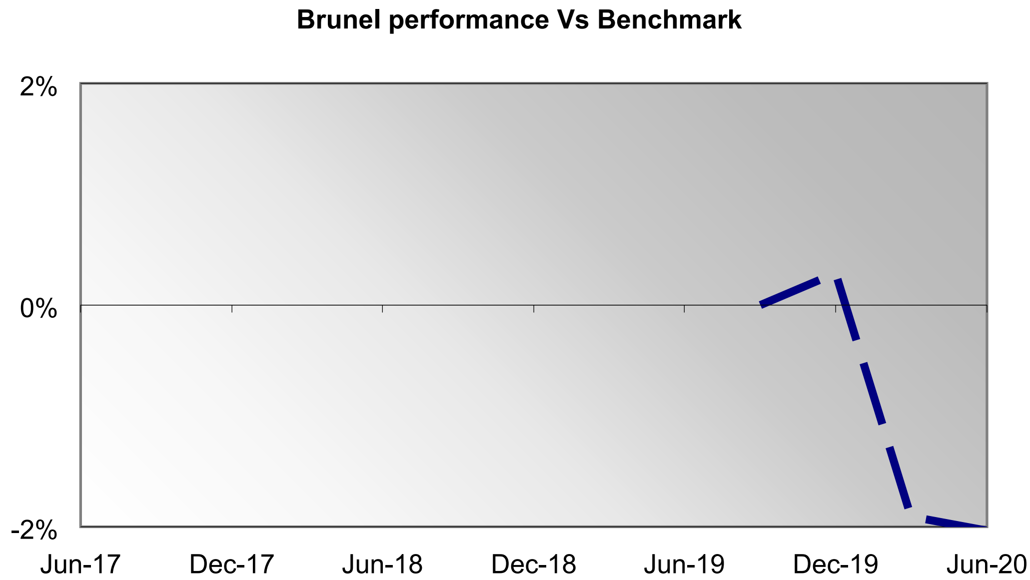
9.1 The performance for the quarter to 30th June 2020is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
82.2	**Emerging Market**	**18.8**	**18.5**	**+0.3**

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 outperformed during the quarter. Absolute performance was strongly positive.

9.4


Brunel performance Vs Benchmark
2%
0%
-2%
Jun-17
Dec-17
Jun-18
Dec-18
Jun-19
Dec-19
Jun-20

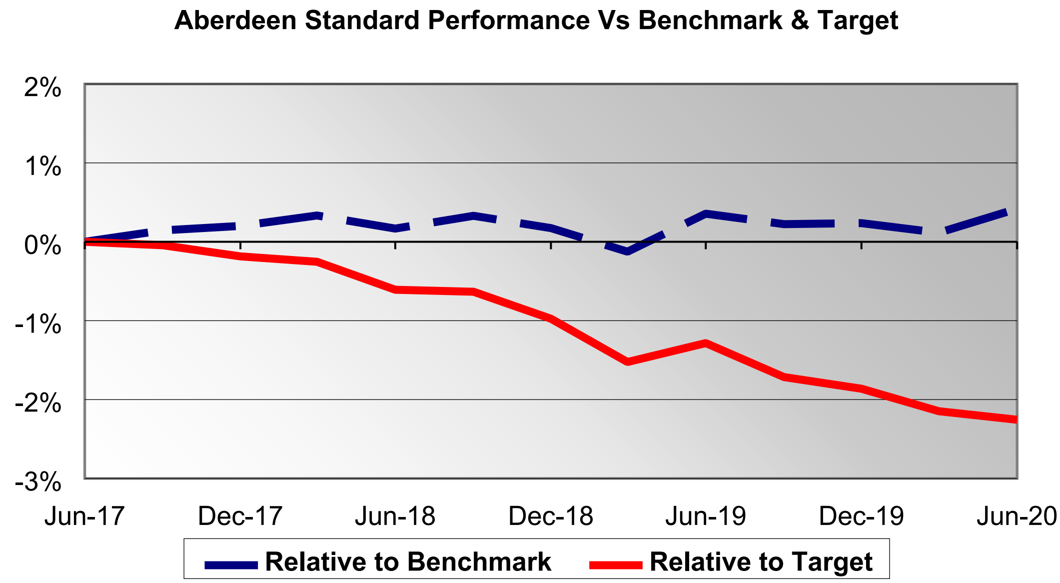
10. Aberdeen Standard Investments (Fixed Interest)

10.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
54.1	UK Gilts	3.0	2.5	+0.5
78.0	Index Linked	11.4	10.3	+1.1
198.0	Corporate Bonds	11.6	11.5	+0.1
41.7	High Yield Debt	14.0	14.0	+0.0
1.2	Foreign Gov't Bonds	3.0		
8.0	F Gov't Index Linked	13.8		
-0.3	Currency Instruments	-0.4		
6.5	Cash			
387.2	Total	9.5	9.3	+0.2

10.2 Aberdeen Standard outperformed their benchmark for the quarter. Absolute returns were strongly positive. All parts of the mandate contributed positively during the quarter.

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	**9.5**	**9.4**	**+0.1**
3 years	**6.2**	**6.1**	**+0.1**
5 years	**7.3**	**7.2**	**+0.1**
10 years	**7.6**	**7.6**	**+0.0**

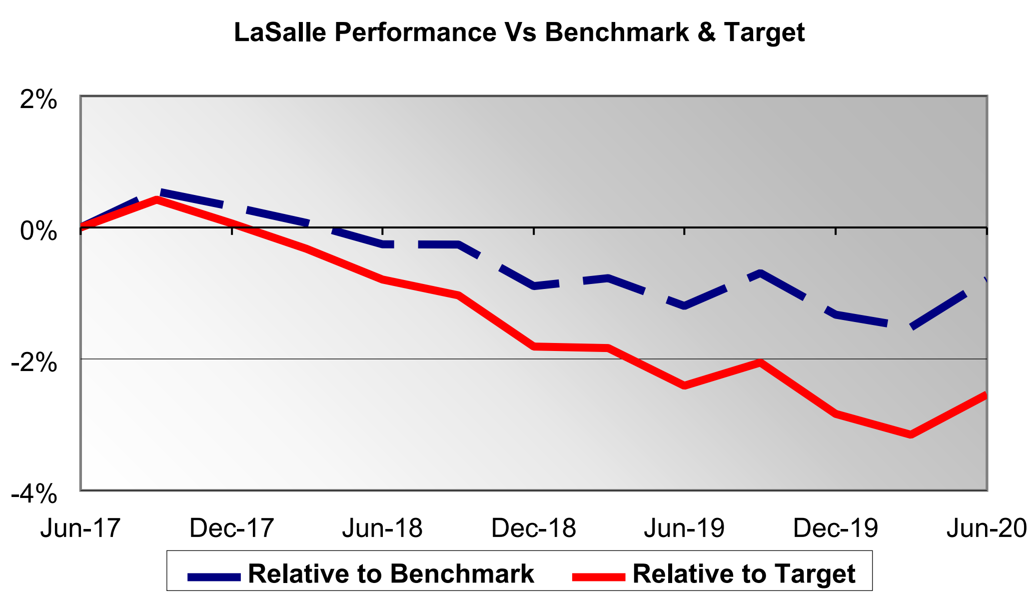
11. LaSalle (Property Fund of Funds)

11.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
187.4	**UK Property**	**-1.4**	**-2.0**	**+0.6**
0.0	**European Property**	**-1.7**		
20.9	**Cash**			
208.3	**Total**	**-1.3**	**-2.0**	**+0.7**

11.2 Property returns from the UK market were negative for the quarter. The fund outperformed 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	**-2.3**	**-2.6**	**+0.3**
3 years	**3.1**	**3.4**	**-0.3**
5 years	**3.9**	**4.6**	**-0.7**
10 years	**5.5**	**6.7**	**-1.2**

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
61.6	**Private Equity**	**1.5**	**0.0**	**+1.5**

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 There is a delay in the reporting of returns on private equity of about a quarter and this needs to be considered when looking at returns on individual funds.

12.4 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 69%.

12.5 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was -7.7%.

12.6 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was -6.4%.

12.7 The Crossroads XXII fund is still very young. The return for the quarter, excluding currency movements, was -10.0%.

12.8 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	**12.5**	**6.5**	**+6.0**
3 years	**12.2**	**8.8**	**+3.4**
5 years	**15.3**	**12.8**	**+2.5**
10 years	**8.4**	**12.6**	**-4.2**

13. South West Ventures Fund

13.1 The fund continues to make reasonable progress.

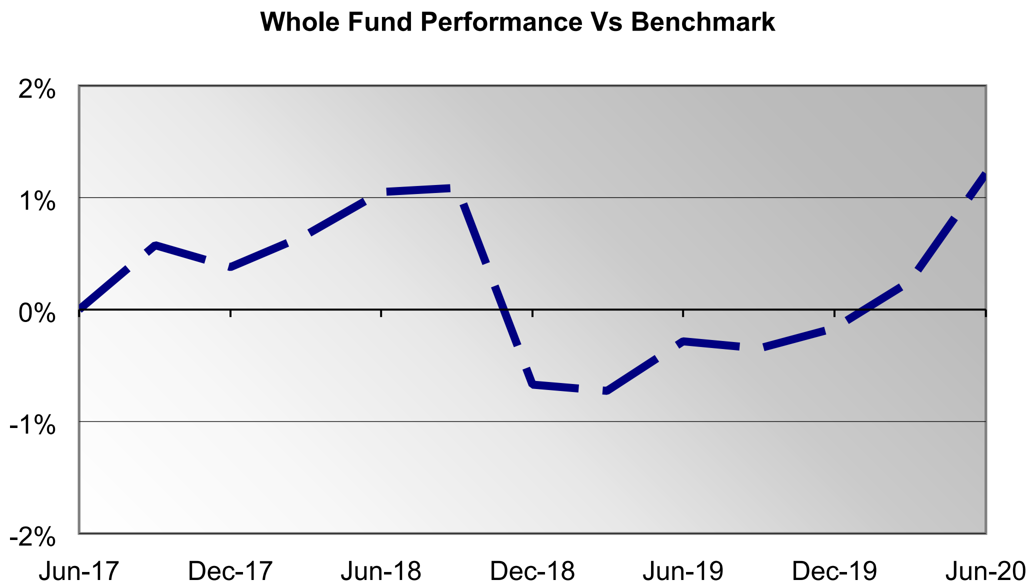
14. Combined Fund

14.1 The performance for the quarter to 30th June 2020 is summarised in the following table:

Quarter to 30 June 2020				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
33.8	**In-House (Global Eq)**	**18.8**	**19.9**	**-1.1**
586.3	**Brunel (Passive Gl Eq)**	**19.8**	**19.9**	**-0.1**
298.4	**Brunel (GHA Eq)**	**24.0**	**20.0**	**+4.0**
9.5	**ASI (UK Eq)**	**18.2**	**10.2**	**+8.0**
394.6	**Brunel (UK Eq)**	**11.7**	**10.2**	**+1.5**
87.9	**In-House (US Eq)**	**20.2**	**21.0**	**-0.8**
30.4	**Maple-Brown Abbott**	**17.2**	**21.6**	**-4.4**
35.9	**Nomura**	**12.4**	**11.7**	**+0.7**
82.2	**Brunel (EM Eq)**	**18.8**	**18.5**	**+0.3**
387.2	**ASI (FI)**	**9.5**	**9.3**	**+0.2**
208.3	**LaSalle**	**-1.3**	**-2.0**	**+0.7**
1.6	**SWRVF**	**0.0**	**0.0**	**+0.0**
61.6	**Neuberger Berman**	**1.5**	**0.0**	**+1.5**
0.8	**Brunel**	**0.0**	**0.0**	**+0.0**
94.2	**Cash**	**0.3**	**0.0**	**+0.3**
2,312.7	**Whole Fund**	**13.2**	**12.3**	**+0.9**

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

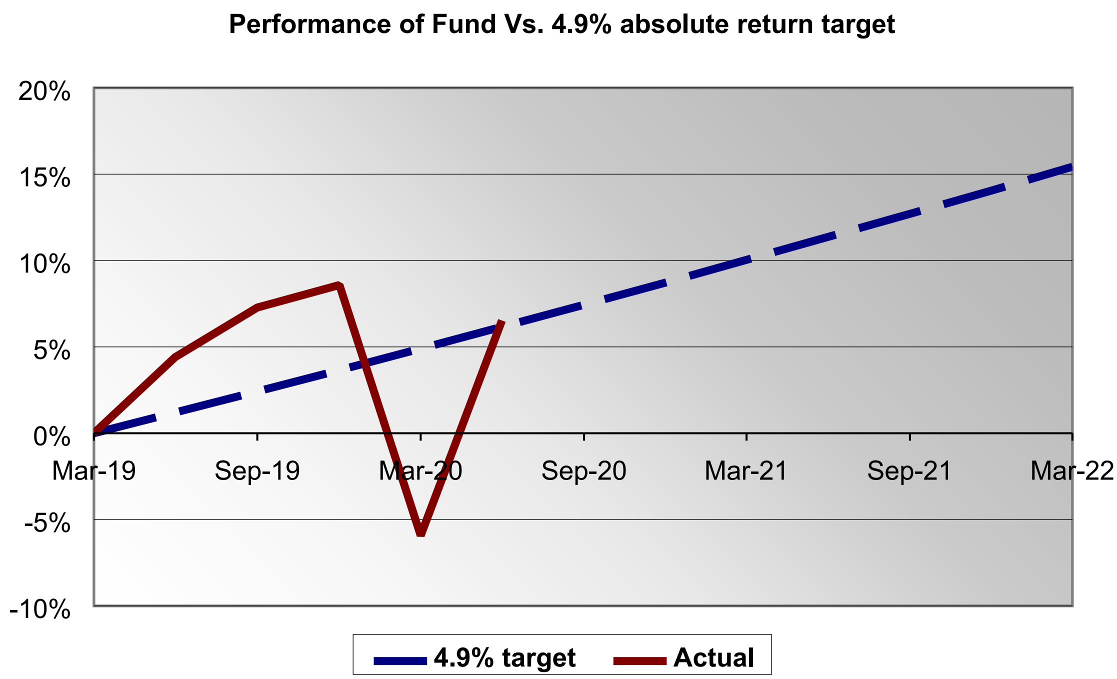
14.3 Outperformance was generated by a small positive from asset allocation, being overweight equity overall but underweight UK and emerging market equity was positive. Overall stock selection by managers was a strong positive.



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	2.0	0.7	+1.3
3 years	5.0	4.6	+0.4
5 years	7.8	7.8	+0.0
10 years	9.2	8.8	+0.4

14.5 At the June 2020 committee meeting 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.



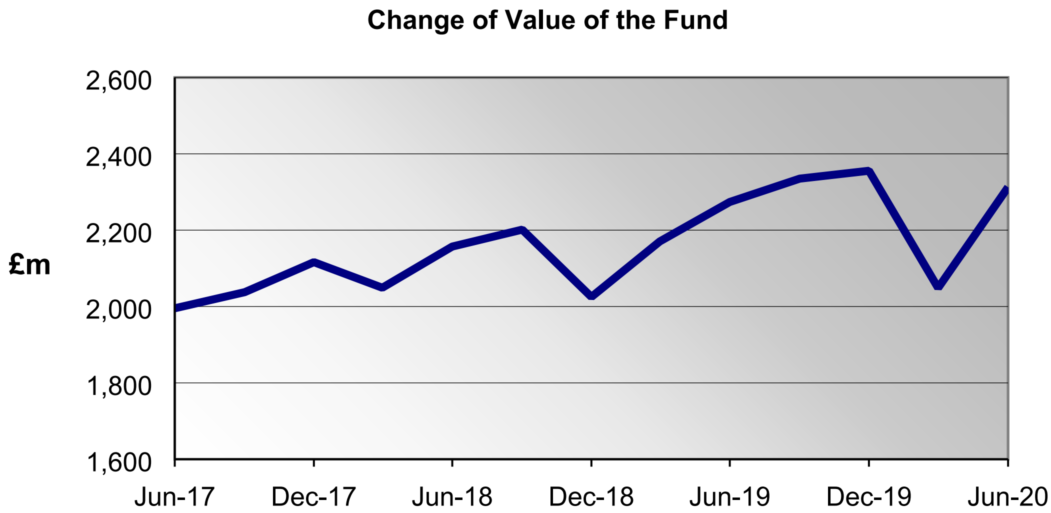
14.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Mar £m	%	Value as at 30 June £m	%	Strategic Weighting %
In-House (Global Eq)	**28.6**	2	**33.8**	1	**0**
Brunel (Passive Gl Eq)	**489.3**	24	**586.3**	25	**25**
Brunel (GHA Eq)	**240.6**	12	**298.4**	13	**10**
ASI (UK Eq)	**8.0**	0	**9.5**	0	**0**
Brunel (UK Eq)	**353.4**	17	**394.6**	17	**20**
In-House (US Eq)	**73.4**	4	**87.9**	4	**3**
Maple-Brown Abbott	**25.9**	1	**30.4**	1	**1**
Nomura	**31.9**	2	**35.9**	2	**1**
Brunel (EM Eq)	**69.2**	3	**82.2**	4	**5**
ASI (FI)	**353.0**	17	**387.2**	17	**19**
LaSalle	**211.0**	10	**208.3**	9	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**57.5**	3	**61.6**	3	**5**
Brunel	**0.8**	0	**0.8**	0	**0**
Cash	**104.5**	5	**94.2**	4	**1**
Whole Fund	**2,048.7**	100	**2,312.7**	100	**100**

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

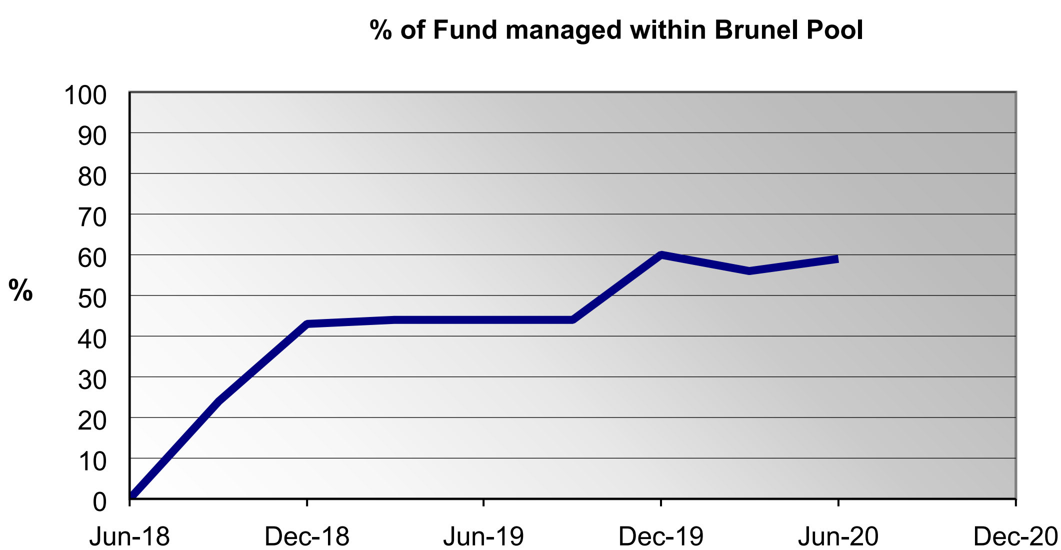
- £0.2m was withdrawn from the in-house global equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £0.3m was withdrawn from the in-house US equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £3.2m was invested in the Neuberger Berman's Private equity mandate as funds drew down 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 30 June	
	£m	**%**	**£m**	%
Pooled assets	**1,152.5**	56	**1,361.5**	59
Retained assets	**896.2**	44	**951.2**	41
Whole Fund	**2,048.7**	100	**2,312.7**	100

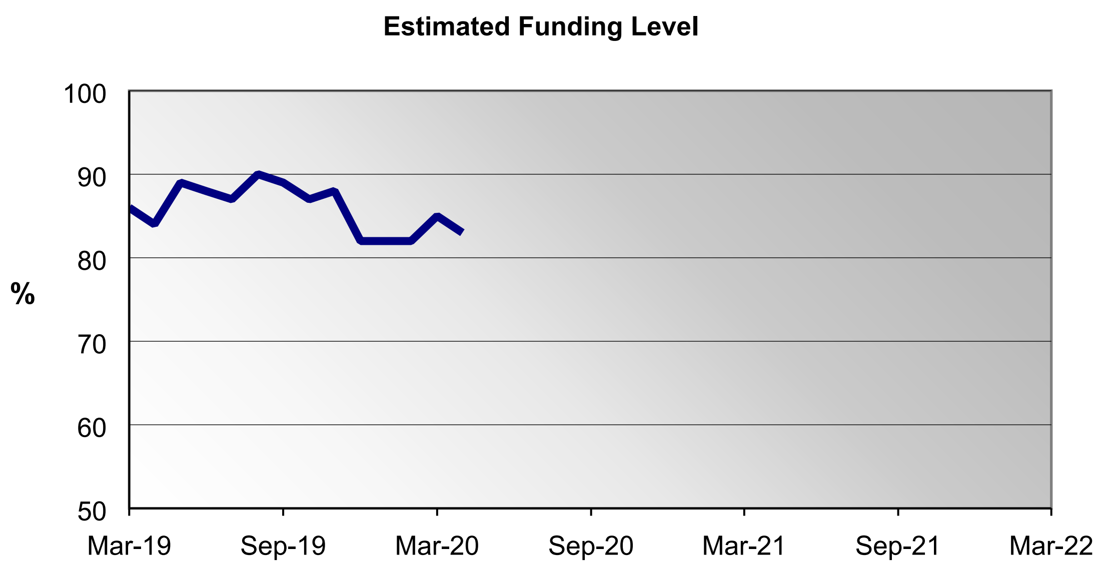


14.10 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2020 is 83.3% and the average required employer contribution would be 27.0% 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.”



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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.

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 Total performance against internal targets for the quarter ending 30th June 2020 was 87%, despite the impact of COVID19 (including increased demand). However, during this period we were able to maintain performance for High Priority procedures at 95%.

3.2 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 30th June 2020 was 91%, despite the impact of COVID19.

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 30th June 2020 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 2019 to 30th June 2020.

4. Employer updates

4.1 New Admitted Bodies:

- None to report

Academies:

- None to report

5. Background Papers

5.1 None

Appendix 1

Administration Performance – 1st April 2020 – 30th June 2020

Performance Summary

		Q1 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	1,548	95%	95%
Medium Priority Procedures	3,587	84%	89%
Low Priority Procedures	770	88%	91%
TOTAL	**5,905**	**87%**	**91%**

High Priority Cases

		Q1 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)
Changes	315	99%	100%
Complaints (Member)	4	100%	100%
Complaints (Employer)	0	-	-
Deaths	195	90%	90%
Payroll	425	100%	100%
Refunds	103	99%	99%
Retirements (Active)	176	90%	90%
Retirements (Deferred)	330	90%	90%
TOTAL	**1,548**	**95%**	**95%**

Medium Priority Cases

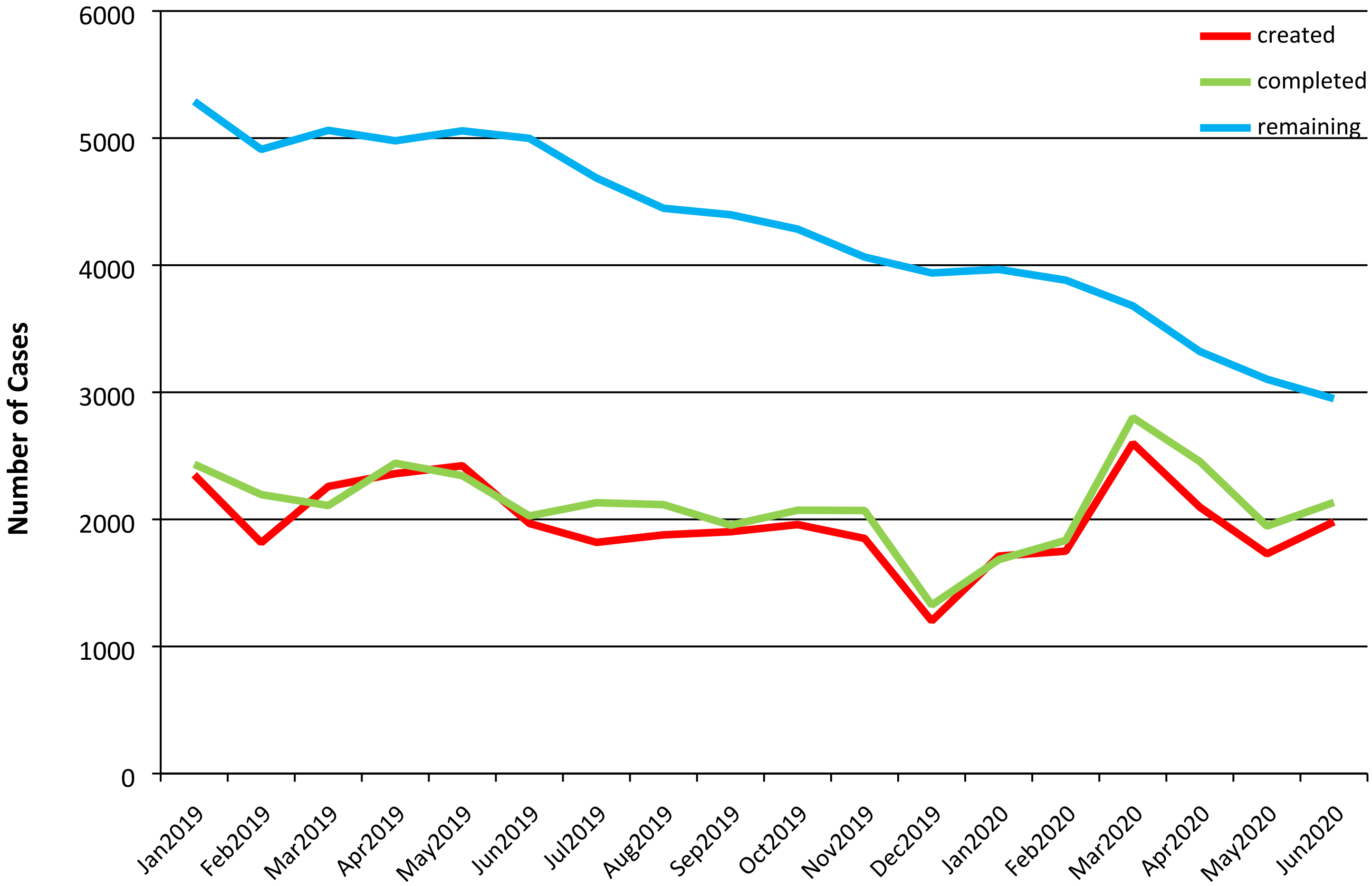
		Q1 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)
Amalgamation of Records	642	76%	89%
Deferred Benefit Calculations	787	60%	63%
Divorce Calculations	41	63%	63%
Employer Queries	124	41%	81%
Estimates (Bulk)	0	-	-
Estimates (Employer)	7	100%	100%
Estimates (Member)	70	99%	99%
General	923	99%	99%
HMRC	2	50%	50%
Member Self-Service	991	100%	100%
TOTAL	**3,587**	**84%**	**89%**

Low Priority Cases

		Q1 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	50	100%	100%
GMP Queries	3	100%	100%
Interfund Transfers In	83	64%	80%
Interfund Transfers Out	111	76%	85%
Pension Top Ups	51	100%	100%
Frozen Refunds	305	96%	96%
New Starters	0	-	-
Pension Transfers In	53	98%	98%
Pension Transfers Out	114	81%	81%
TOTAL	**770**	**88%**	**91%**

Appendix 2

Administration Performance (1st Jan 2019 – 30th June 2020)



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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. There is currently a strong focus around the governance review.

4.2 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. There has also been new regulation from MHCLG on exit payments and deferred debt arrangements.

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

4.4 A wider review of Committee's skills and Knowledge and the structure of Committee meetings is due. We will need to consider how feasible this would be done remotely.

4.5 The annual report is finished and the external auditors report on the accounts is expected to go to the SCC audit committee on 24th September. I am currently not aware of any significant findings by external audit.

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	**Spring 2020**		
Fund Governance	Review of ESG investment	High	**Spring 2020**		

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
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.	
Autumn 2020 TBC	**Informal/Training Session** - Risk - Knowledge & Skills This event may be postponed or cancelled depending on the Government Covid warning level at the time.	
18-Dec-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 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**

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. Review of Investment Strategy To review the Brunel portfolios that the Fund invests in and whether they remain the preferred mix going forward.	**AS**
	10. Review of Ethical, Governance and Social Investment Policy To review the Fund's policy on ESG.	**AS**
	11. 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**
	12. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2020 - 2021

Date	Proposed Items of Business	Lead Officer
11-Jun-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 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**

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 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 30 June 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. Annual Accounts and Investment Performance 2020/2021 To consider the accounts and investment performance for the year to 31 March 2021.	**AS**

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Somerset County Council
Pensions Committee

Finance and Membership Statistics Update

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 This report updates the committee on the position of the Pension Fund's year to date financial position at 30 June 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

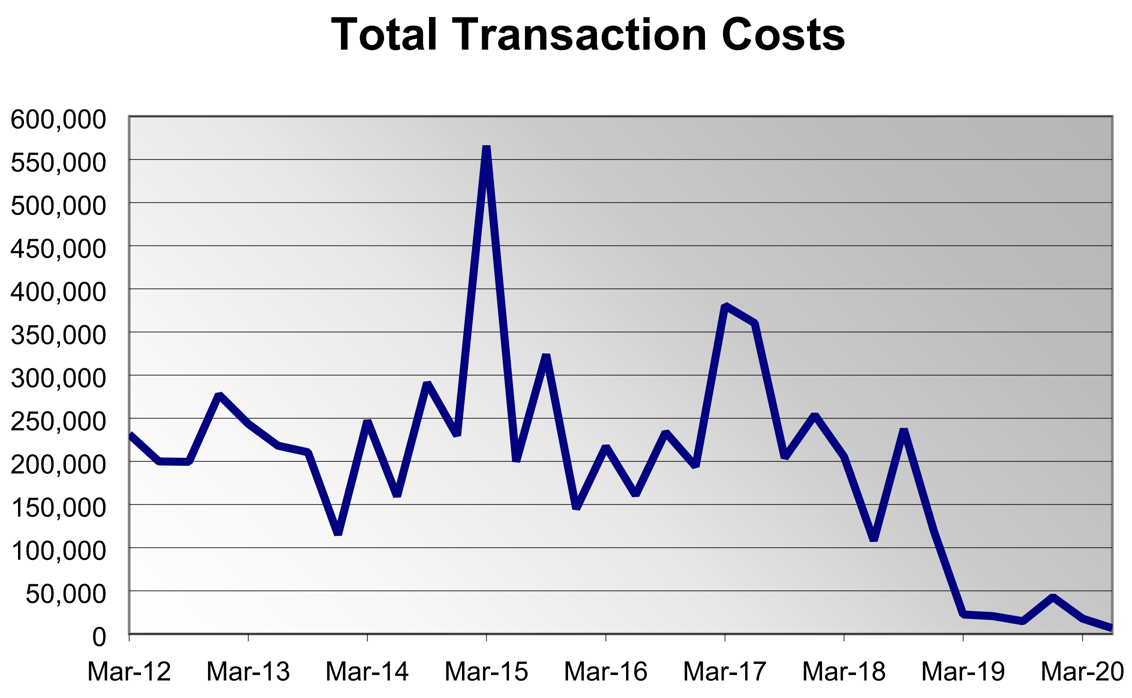
3.1 The outturn position for the 1st quarter of the financial year to 31st March 2021 against the original forecast is shown in appendix A.

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	33.8
ASI	UK equity	9.5
In-House	US equity	87.9
Jupiter	European equity	0.0
M-BA	Pacific equity	30.4
ASI	Bonds	387.2

		Purchases		Sales		
Manager	**Asset Class**	**Commission £**	**Expenses £**	**Commission £**	**Expenses £**	**Total £**
In-House	Global equity	0	0	0	0	**0**
ASI	UK equity	0	0	0	0	**0**
In-House	US equity	0	0	0	0	**0**
Jupiter	European equity	0	0	0	0	**0**
M-BA	Pacific equity	2,294	1,284	1,463	1,644	**6,685**
ASI	Bonds	0	0	0	0	**0**
Total		**2,294**	**1,284**	**1,463**	**1,644**	**6,685**

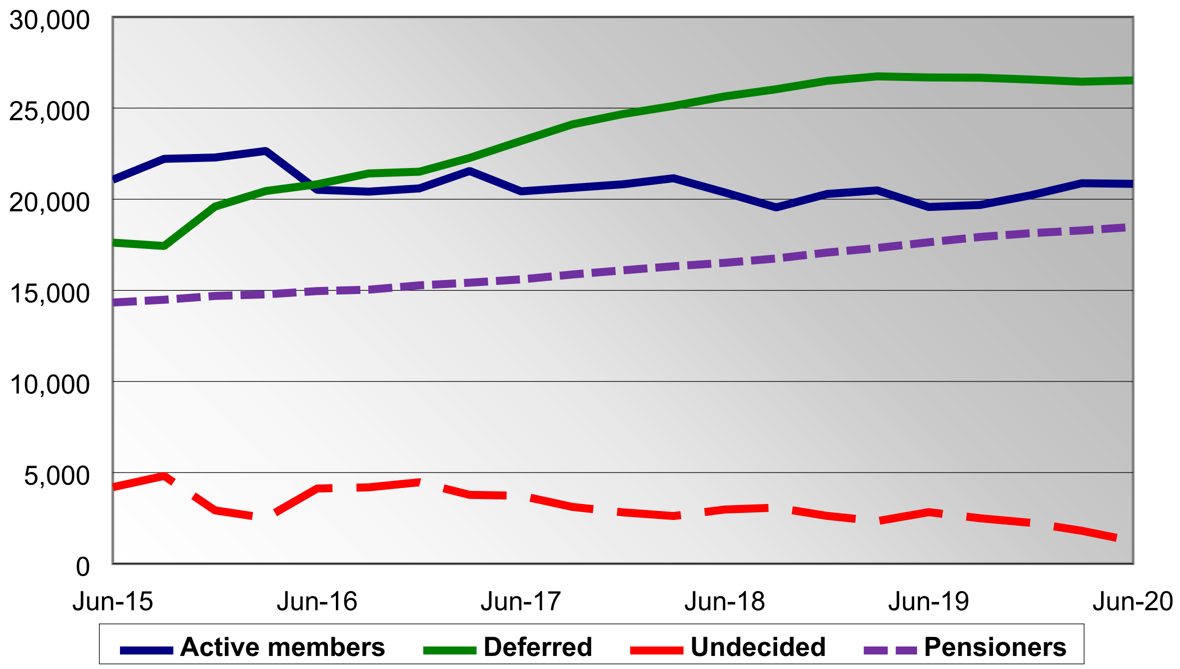


5. Membership Statistics

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

	31 Mar	30 June	Change
Active members	20,877	20,844	**-33**
Deferred	26,449	26,522	**+73**
Undecided	1,808	1,238	**-570**
Pensioners	18,289	18,477	**-188**
Total	**67,423**	**67,081**	**-342**

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.

Item 10 Appendix A

Pension Fund Financial Projection

2020 - 2021

	2019-2020 Full Year	April 2020 - June 2020			2020-2021 Full Year		
	Actual (a)	**Budget (b)**	**Actual (c)**	**Variance (d)**	**Original Budget (e)**	**Projected Outturn (f)**	**Variance (g)**
	£m	£m	£m	£m	£m	£m	£m
Contributions and other income							
Contributions	103.318	25.000	25.652	0.652	102.000	102.000	0.000
Recoveries from employers	3.301	0.525	0.198	-0.327	2.100	2.100	0.000
Transfer values received	16.017	1.200	1.372	0.172	4.500	4.500	0.000
	122.636	**26.725**	**27.222**	**0.497**	**108.600**	**108.600**	**0.000**
Less benefits and other payments							
Recurring pensions	-81.657	-20.750	-20.839	-0.089	-85.000	-85.000	0.000
Lump sum on retirement	-15.654	-4.500	-2.844	1.656	-18.000	-18.000	0.000
Lump sum on death	-2.515	-0.600	-0.534	0.066	-2.500	-2.500	0.000
Transfer values paid	-11.386	-9.000	-10.028	-1.028	-15.000	-15.000	0.000
Contribution refunds	-0.304	-0.100	-0.071	0.029	-0.400	-0.400	0.000
	-111.516	**-34.950**	**-34.316**	**0.634**	**-120.900**	**-120.900**	**0.000**
Contributions after payments	**11.120**	**-8.225**	**-7.094**	**1.131**	**-12.300**	**-12.300**	**0.000**
Management Expenses							
Administrative expenses	-1.285	0.000	-0.019	-0.019	-1.300	-1.300	0.000
Investment management expenses	-6.228	-0.630	-0.712	-0.082	-5.700	-5.700	0.000
Oversight and governance expenses	-0.662	-0.100	-0.063	0.037	-0.750	-0.750	0.000
	-8.175	**-0.730**	**-0.794**	**-0.064**	**-7.750**	**-7.750**	**0.000**
Investment Income							
Investment income	33.203	5.000	4.813	-0.187	12.000	12.000	0.000
Net Increase / Decrease (-) in fund	**36.148**	**-3.955**	**-3.075**	**0.880**	**-8.050**	**-8.050**	**0.000**

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Somerset County Council
Pensions Committee

Review of Pension Fund Risk Register

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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 As requested by Committee at the June 2020 meeting a new risk, PF12, relating to the impact of the COVID-19 crisis has been added to the risk register with an initial risk score of 6.

3.1 As part of the standard post valuation work the fund is now undertaking a standard review of employer guarantee bonds with advice from the Fund's actuary.

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 - September 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)		Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function. Monthly review of asset allocation and cash levels	2	4	8		2	4	8		on-going with quarterly review		
1. PF2 2. Pensions Committee	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		Review of guarentee bonds currently underway, September 2020

Somerset County Council Pension Fund Risk Register - September 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)		Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. 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 - September 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)		Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. 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 Review of credit worthiness and inherent business risk of custodian at tender phase	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
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

Somerset County Council Pension Fund Risk Register - September 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. PF12 2. SCC Section 151 Officer	Impact of COVID-19 crisis	Staff of Peninsula Pensions and SCC finance are working remotely witout significant impact on performance. There are possible knock on consequneces for PF2, PF3 and PF4 above.	3	2	6		3	2	6		on-going with quarterly review		Added as per Committee request at June 2020 meeting.

Somerset County Council
Pensions Committee

Annual Report

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 This report is intended to give members an overview of the fund's accounts, the information within the accounts, the investment performance for the 2019-2020 financial year and related matters covered in the Fund's Annual Report.

1.2 The full annual report will appear on the SCC website following the formal adoption by the committee and the issue of the consistency opinion by the external auditor.

1.3 Under the LGPS regulations the Fund is required to produce an Annual Report and publish it by 1st December each year. Much of the content of the annual report is either required under the regulations or under statutory guidance issued by CIPFA.

2. Issues for consideration

2.1 The committee is asked to formally approve the Fund's annual report.

3. Copy of fund account

2018/2019 £ millions	2018/2019 £ millions		2019/2020 £ millions	2019/2020 £ millions	Notes
		Contributions and other income			
20.909		Contributions from employees	21.186		4
85.071		Contributions from employers	82.132		4
2.699		Recoveries from member organisations	3.301		4
5.672		Transfer values received	16.017		5
114.351			**122.636**		
		Less benefits and other payments			
-76.008		Recurring pensions	-81.657		4
-17.761		Lump sum on retirement	-15.654		4
-2.088		Lump sum on death	-2.515		4
-5.951		Transfer values paid	-11.386		5
-0.383		Refund of contributions to leavers	-0.304		6
-102.191			**-111.516**		
	12.160	**Net additions from dealings with members**		**11.120**	
		Management Expenses			
-1.170		Administrative expenses	-1.285		7
-6.178		Investment management expenses	-6.228		8
-0.608		Oversight and governance expenses	-0.662		9
-7.956			**-8.175**		
	4.204	**Net additions including management expenses**		**2.945**	
		Investment income			
42.212		Investment income received	29.629		10
4.714		Investment income accrued	4.173		10
-1.214		Less irrecoverable tax	-0.599		
45.712			**33.203**		
		Change in market value of investments			
286.389		Realised profit or loss	161.409		13
-215.868		Unrealised profit or loss	-321.123		13
70.521			**-159.714**		
	116.233	**Net return on investments**		**-126.511**	
	120.437	**Net increase in the net assets available for benefits during the year**		**-123.566**	

4. Accounts analysis

4.1 Contributions

Overall contributions from employers and employees decreased by 2.5% to £103.3m. Contributions from employees grew by 1.3%, this is below the 1.9% increase in active members. Employer contributions decreased by 3.5%. The employer normal contributions increased by 1.2% over the previous year, this is consistent with the increase in the level of employee contributions. Deficit funding increased by 2.3% as further increases in the fixed deficit recovery amounts certified by the actuary came into force. Augmentation payments from employers fell by 65%.

4.2 Recurring Pensions

Payments of pension to members increased by 7.4% to £81.7m. Pensioner numbers where higher during the year by 5.6% so the average pension value increased marginally by 1.5% to £4,586. Pensions in payment increased by 2.4% for inflation effective from 1st April 2019.

4.3 Net Additions from dealings with members

The cash flow from contributions over payments has deteriorated from an inflow of £12.2m to an inflow of £11.1m. Increases in recurring pensions and lump sum payments slightly outstripping the increase in contributions.

4.4 Administrative expenses

Administrative expense (Peninsula Pensions cost) increased by 9.8% to £1.3m. This is reasonable considering the 0.8% increase in membership and 14.8% increase in the number of active employers. The administration cost per member increased by 8.0% to £19.13.

4.5 Investment Expenses

Investment expense increased by 0.8% compared to the 2018-2019 figure to £6.2m. The 25.6% decrease in fund managers' fees (outside of Brunel) was partially due to lower performance fees, but also a number of mandates being closed as funds moved to Brunel. Increases in fund manager fees charged via Brunel were in line with reductions seen on fees from the external fund managers that had previously managed those funds. This means there were insufficient savings to compensate for the £1.0m of fees charged by the Brunel company. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.45% to 0.30p.

4.6 Oversight and governance expenses

Oversight and Governance costs increased by 8.9% during the year to £0.7m. This increase is due to a significant increase in actuarial charges. We would usually expect this in a valuation year.

4.5 Total Expenses

Total expenses for the fund increased by 2.8% to £8.2m. This represents a 1.1% increase in the total cost per member to £121.73 and total expenses per pound of assets has increased by 2.6% to 0.39p.

4.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 28.0% to £33.8m. This reduction was to be expected as we transferred direct holdings in dividend paying shares for non-distributing units in Brunel pooled funds during the year. We expect the amount of investment income collected to continue to noticeably reduce as the transfer of assets to Brunel continues. The yield on average net investment assets fell from 2.2% to 16%.

4.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet decreased by 6.1% to £3.7bn. The liability net of assets decreased by 6.7%.

4.8 Membership statistics

Total membership increased by 0.8%. Active members increased by 1.9% during the year and the number of deferred members decreased 1.1%. The number of pensioners increased by 5.6% during the year. The ratio of active members for each pensioner has fallen to 1.14.

5. Investment Performance

5.1 Investment performance for the financial year was -5.9%. Performance for the year was above the fund's scheme specific benchmark of -6.8%. Asset allocation added 0.43% during the year, the majority of this occurred in the last quarter and was due to the significant overweight to cash during the fall in markets in February and March. The remaining 0.4% of difference was due to the outperformance of the fund managers collectively. Effectively all of the outperformance was generated by the Brunel Global High Alpha mandate with the other managers smaller effects cancelling each other out.

5.2 Looking at longer periods the three-year return at 1% p.a. is paltry but this is partially a result of the very short-lived market lows around our year end date. The fund matched its benchmark over the 3 years.

5.3 The fund's 5-year return was 4.7% p.a., and the10 year return was 6.9% p.a..

6. Consultations undertaken

None

7. Financial Implications

7.1 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 due in late 2019 using data from March 2019.

8. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2019/20.

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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 August which come into force on 23rd September 2020.

1.3 It is a requirement for us to consult with employers on the FSS. The draft of the FSS provided to committee in June was sent to employers on 6th July with a deadline for comments of 4th September 2020. No comments were received required any re-drafting of the document but the version sent to employers did not include the provisions with respect to the regulations laid before parliament on 27th August.

2. Issues for consideration

2.1 The Committee is asked to formally adopt the revised Funding Strategy Statement (attached at appendix A).

3. Background

3.1 Committee will recall that officers provided a draft of the FSS at the June 2020 Committee meeting and it was agreed that officers would consult with employers using this draft.

3.2 The consultation with employers ran from the 6th July to 4th September and no comments necessitating any redrafting were received.

3.3 On the 27th August the Government laid before parliament new amendment regulations covering three areas.

3.4 **Deferred debt arrangements.** This is where an employer does not exit the fund when they no longer have any active members as would have been required previously. The actuary would review their deficit every three years as part of the standard valuation process and set deficit recovery payments as required.

3.5 **Review of contributions.** The Government has significantly expanded the provision for the Administrating Authority or an employer to request a review of contributions in between the required valuations.

3.6 **Exit payments.** When an employer exits the fund if there is a deficit at that point the employer is required to pay the fund an amount calculated by the actuary to cover the deficit. Prior to the new regulations this deficit had to be paid as a single amount immediately. The new regulations allow for the employer and the Administering Authority to agreed a schedule of payments over a period of time.

3.7 Within the regulations there is a requirement for each Fund's policy on each of these three new areas to be set out in the FSS. Officers believe it is beneficial to address these new areas and incorporate them into the Fund's FSS as soon as possible and have re-drafted the FSS accordingly in conjunction with Barnett Waddingham. Largely speaking the new regulations favour employers and so we believe they will welcome their addition.

3.8 Officers believe that the best course is for Committee to adopt the current draft of the FSS and give effect to the new freedoms immediately. Officers will run another consultation with employers (post adoption if approved by Committee) to ensure they are aware of the changes against the version shared with them over the summer and allow the opportunity to comment. If there is significant comment from employers then officers will bring the matter back to Committee at the next meeting.

4. Consultations undertaken

4.1 Consultation with employers has taken place. No significant points were raised.

4.2 A further round of consultation is proposed but it is recommended that Committee adopt the policy ahead of this second consultation.

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.

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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, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closes on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

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

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.

Contribution reviews

Employer contribution rates are reviewed as part of each triennial valuation with the next review taking place as at 31 March 2022 and revised rates coming into place from 1 April 2023.

Following a recent consultation, new Regulations, which come into force from 23 September 2020 allow for contribution reviews to be carried out for employers between valuations. Contribution reviews can be requested by the employer at any time or by the administering authority when an employer has seen a significant change in liabilities and/or covenant. The review can take place at any time. Any change to the contribution rate must be agreed between the administering authority, the employer and the Fund Actuary and set out in a revised rates and adjustment certificate.

Employers should be aware that a contribution review could result in an increase in contribution rate as well as a decrease in contribution rate. Any charges incurred by the administering authority whilst reviewing the rate will also need to be met by the employer where the employer has requested the contribution review.

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.

Exit payment policy

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as an exit payment made by the exiting employer. Following a recent consultation, new Regulations, which come into force from 23 September 2020 allowing for exit payments to be spread over a period of time rather than being paid as a single lump sum payment.

The default approach will be for an exiting employer to meet any deficit as a single lump sum payment, unless an alternative approach is agreed by the administering authority and the other parties involved.

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.

Any alternative approach to paying the exit payment will be set out in a revised rates and adjustment certificate setting out the amounts payable in each year after the exit date over such a period as the administering authority considers reasonable. The alternative approach must be agreed between the Fund Actuary, the employer and the administering authority.

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.

Deferred debt arrangements

Following a recent consultation, new Regulations, which come into force from 23 September 2020 allow for deferred debt arrangements to be put in place.

Deferred debt arrangements allow employers to continue to participate in the Fund without any active members and to defer payment of an exit payment in return for an ongoing commitment to meeting their existing liabilities.

They differ to spreading of exit payments as the value of the debt can be revisited with payments adjusted accordingly and so will be reviewed at every triennial valuation with the next review taking place as at 31 March 2022 and revised rates coming into place from 1 April 2023.

The existence of these arrangements would remain subject to the ongoing agreement of the administering authority.

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, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closes on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

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. So far, two partial responses to the consultation have been issued:

- On 27 February 2020, a partial response was issued relating to policy changes to exit credits
- On 26 August 2020, a partial response was issued relating to review of employer contributions and flexibility on exit payments

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.

Detail of the outstanding policy proposals are outlined below:

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.

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.

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