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PENSIONS COMMITTEE (VIRTUAL MEETINGS FROM JUNE 2020 DUE TO CORONAVIRUS)
Friday 26 March 2021
10.00 am

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

Cllr J Thorne (Chair), Cllr G Noel, Cllr S Coles, Cllr J Parham, Cllr Ross Henley, Gordon Bryant and Sarah Payne

All Somerset County Council Members are invited to attend.

Issued By Scott Wooldridge, Strategic Manager - Governance and Democratic Services - 18 March 2021

For further information about the meeting, please contact Michael Bryant (Governance Specialist in Democratic Service) email on MBryant@somerset.gov.uk or

Guidance about procedures at the meeting follows the printed agenda and is available at (LINK)

This meeting will be open to the public and press, subject to the passing of any resolution under Regulation 4 of the Local Authorities (Executive Arrangements) (Meetings and Access to Information) (England) Regulations 2012.

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

Are you considering how your conversation today and the actions you propose to take contribute towards making Somerset Carbon Neutral by 2030?

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AGENDA

Item Pensions Committee (virtual meetings from June 2020 due to Coronavirus) - 10.00 am Friday 26 March 2021

*** 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** (To Follow)

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 9 - 12)

6 **Independent Investment Advisor's Report**

Verbal update

7 **Review of Investment Performance** (Pages 13 - 34)

8 **Review of Administration Performance** (Pages 35 - 40)

9 **Business Plan Update** (Pages 41 - 50)

10 **Finance and Membership Statistics Update** (Pages 51 - 56)

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

12 **Funding Strategy Statement** (Pages 63 - 124)

13 **Resources Review, Financial Forecast Setting and Committee Objective Setting** (Pages 125 - 130)

14 **Cash Management Strategy** (Pages 131 - 140)

15 **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.

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 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 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 £151.0m of equity assets were transferred from a number of legacy mandates to the Brunel Global Smaller Companies fund (sub-managed by Montanaro Asset Management, American Century and Kempen Capital Management) on the 17th September 2020.

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. None of this commitment has been drawn to date.

3.7 Officially the transition of the £206.9m property portfolio from LaSalle to Brunel took place on 2nd November, however unlike the equity portfolios the transfer process of property unit trusts is a slow process and so it could be a number of months before this process is completed. Brunel will not significantly alter this portfolio in the near future. A small holding in one fund that is expected to liquidate shortly has remained with LaSalle.

3.8 We expect to transition the fixed income assets, currently managed by Aberdeen Standard Investments, to Brunel during the first half of 2021.

4. Governance review

4.1 Committee are aware that the first round of outcomes from the governance review has already been agreed, a second round is expected shortly.

5. Consultations undertaken

5.1 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.

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

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

6. Financial Implications

6.1 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.

6.2 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.

7. Background Papers

7.1 None

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

Somerset County Council
Pensions Committee

Review of Investment Performance

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

1. Summary

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

2. Issues for consideration

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

3. Background

None

4. Consultations undertaken

None

5. Financial Implications

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

6. Background Papers

None

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

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Item 7
Appendix A

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

1. Somerset County Council (Passive Global Equity)

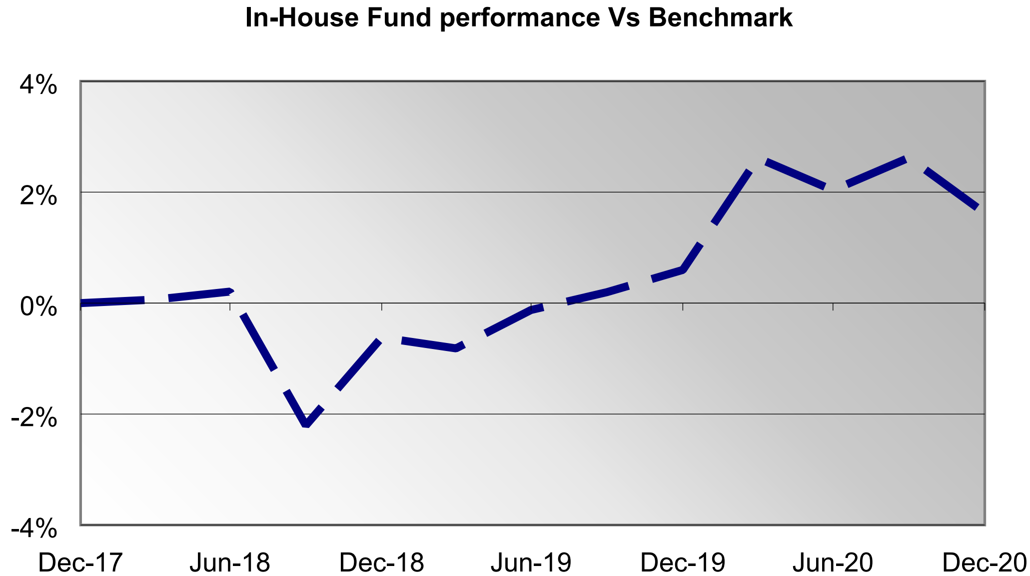
1.1 The performance for the quarter to 31st December 2020 is summarised in the following table:

Quarter to 31 December 2020				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
25.9	Global equities	7.7	8.2	-0.5
0.0	Cash			
25.9	Total	7.2	8.2	-1.0

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. We are now proactively liquidating the holdings.

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	**13.9**	**13.1**	**+0.8**
3 years	**11.0**	**10.5**	**+0.5**
5 years	**14.7**	**14.5**	**+0.2**
10 years	**12.0**	**11.9**	**+0.1**

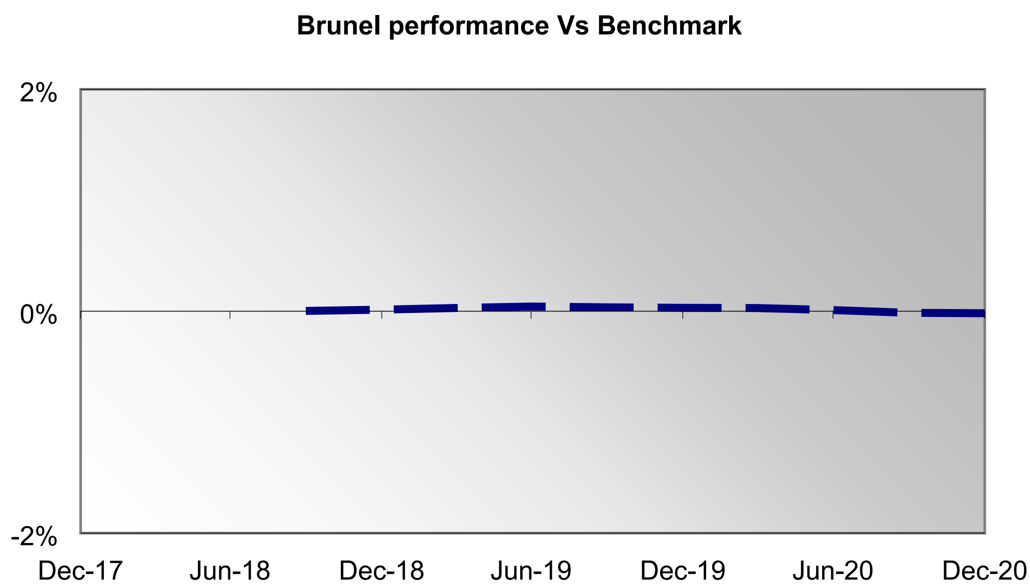
2. Brunel - LGIM (Passive Global Equity)

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

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
655.1	**Global equities**	**8.2**	**8.2**	**+0.0**

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	**13.1**	**13.1**	**+0.0**
3 years		Initial investment in July 2018	

3. Brunel - (Global High Alpha Equity)

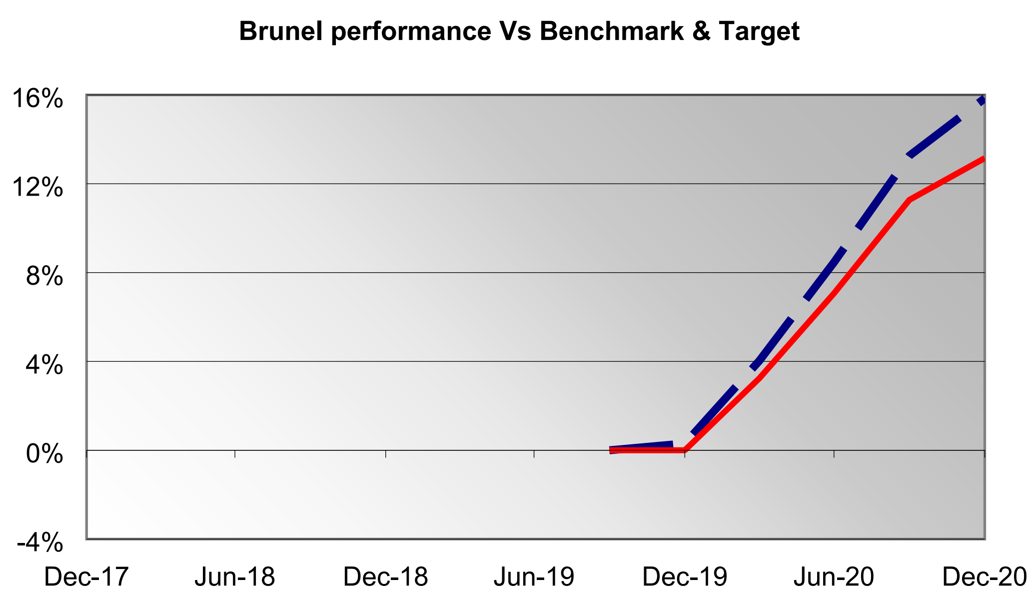
3.1 The performance for the quarter to 31st December 2020 is summarised in the following table:

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
349.8	**Global equities**	**9.2**	**7.9**	**+1.3**

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 outperformed during the quarter. Absolute returns were strongly positive.

3.4 The Brunel GHA Fund's target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.



3.5 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	**28.3**	**12.9**	**+15.4**
3 years	Initial investment in November 2019		

4. Aberdeen Standard Investments (UK Equities)

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

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
11.9	**UK**	**17.0**	**12.6**	**+4.4**

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, but the Aberdeen Standard fund underperformed the smaller companies' benchmark.

5. Brunel (UK Equities)

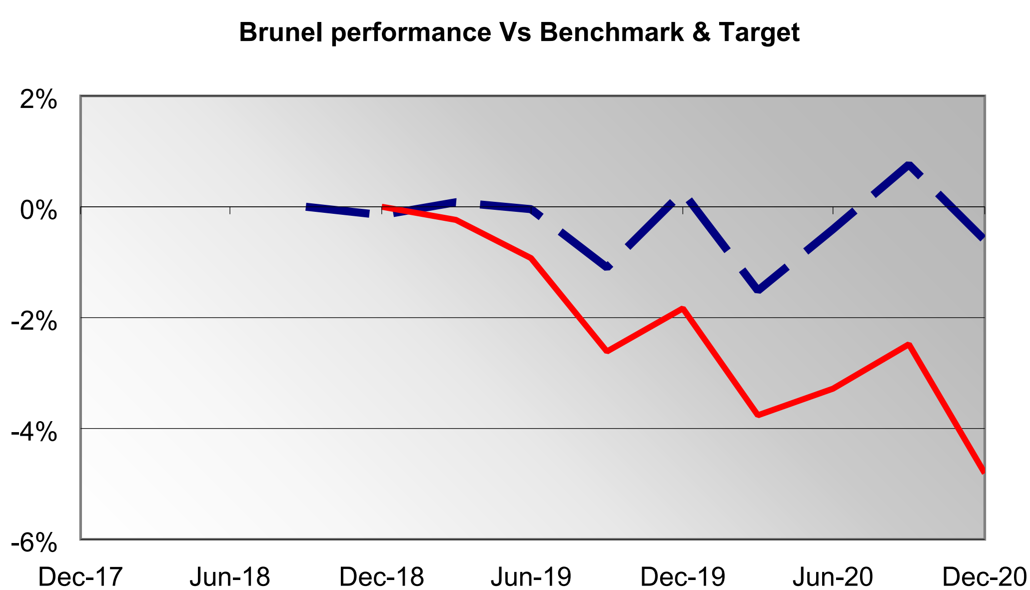
5.1 The performance for the quarter to 31st December 2020 is summarised in the following table:

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
430.8	**UK**	**11.0**	**12.6**	**-1.6**

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

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

5.4 The Brunel UK Fund's target is to outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.



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	**-10.5**	**-9.8**	**-0.7**
3 years	Initial investment in November 2018		

6. Brunel (Global Smaller Companies Equity

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

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
172.8	**Smaller Companies**	**16.1**	**17.1**	**-1.0**

6.2 The Brunel Smaller Companies Market portfolio is managed by a combination of Montanaro Asset Management, American Century and Kempen Capital Management.

6.3 The portfolio underperformed the benchmark during the quarter. Absolute performance was strongly positive.

7. Brunel (Emerging Market Equity)

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

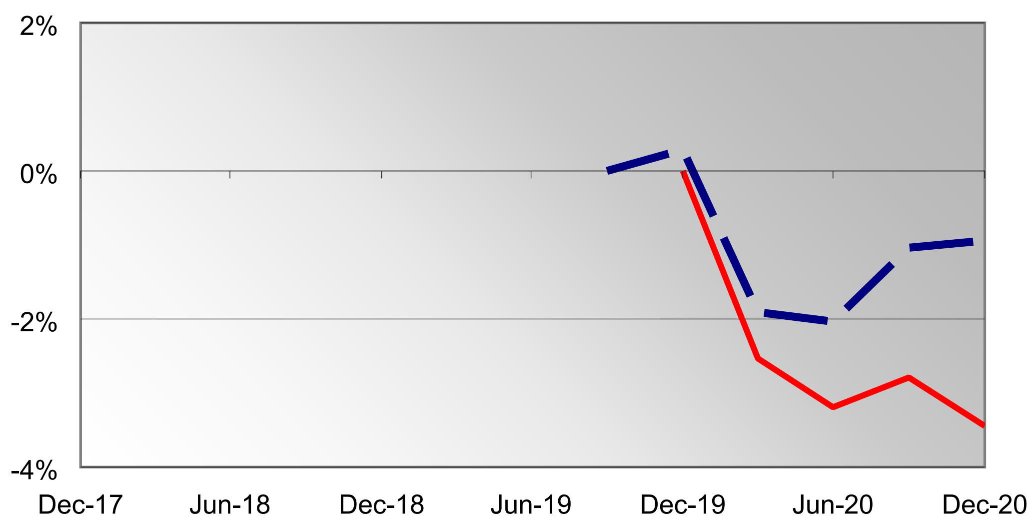
Quarter to 31 December 2020				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
119.6	Emerging Market	13.4	13.2	+0.2

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

7.3 The Brunel portfolio outperformed during the quarter. Absolute performance was strongly positive.

7.4 The Brunel Emerging Market Fund's target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.

Brunel performance Vs Benchmark & Target



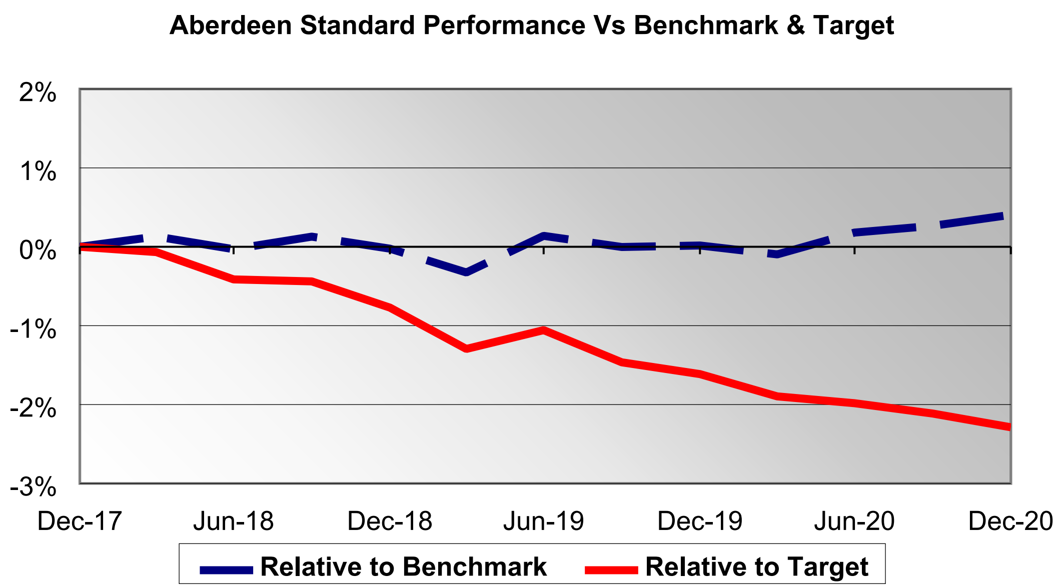
8. Aberdeen Standard Investments (Fixed Interest)

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

Quarter to 31 December 2020				
			Performance	
Value as at 31 Dec £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
78.5	UK Gilts	0.7	0.6	+0.1
80.2	Index Linked	1.3	1.2	+0.1
205.5	Corporate Bonds	5.2	5.3	-0.1
50.6	High Yield Debt	4.9	4.4	+0.5
1.2	Foreign Gov't Bonds	-1.1		
2.8	F Gov't Index Linked	-1.4		
-0.2	Currency Instruments	-0.3		
8.7	Cash			
427.3	Total	3.6	3.5	+0.1

8.2 Aberdeen Standard outperformed their benchmark for the quarter. Absolute returns were positive. The outperformance came from overweighting corporate bonds verses gilts and outperformance in the sub-sectors except corporate bonds.

8.3 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.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**10.7**	**10.3**	**+0.4**
3 years	**6.6**	**6.5**	**+0.1**
5 years	**7.9**	**7.8**	**+0.1**
10 years	**7.6**	**7.6**	**+0.0**

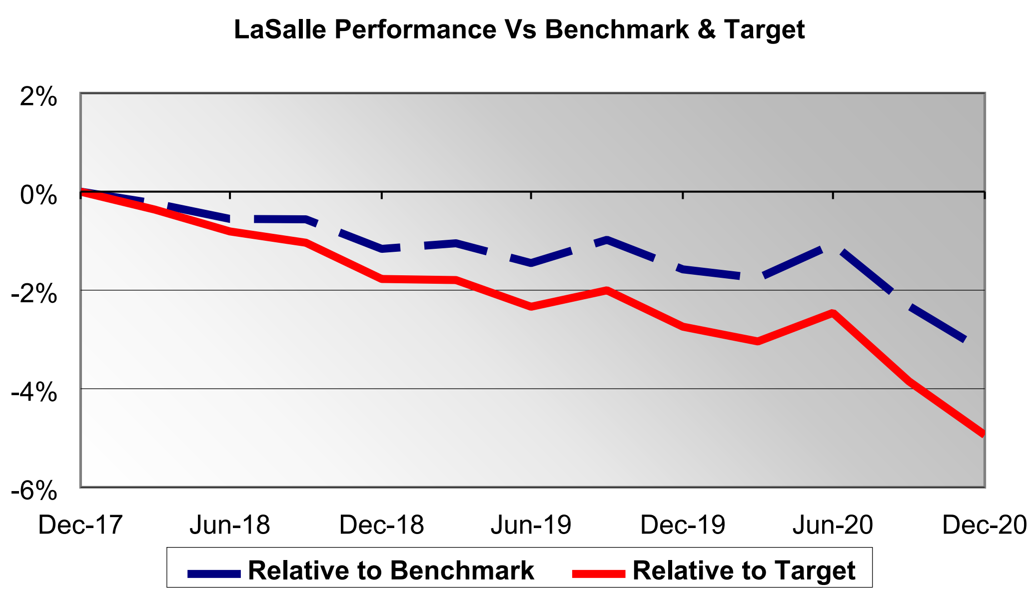
9. <u>LaSalle/Brunel (Property Fund of Funds)</u>

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

Quarter to 31 December 2020				
Value as at 31 Dec £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
174.6	**UK Property**	**1.6**	**2.1**	**-0.5**
0.0	**European Property**	**-0.3**		
34.0	**Cash**			
208.6	**Total**	**1.3**	**2.1**	**-0.8**

9.2 Management of the property portfolio moved from LaSalle to Brunel on 1st November 2020. Unlike other asset classes Brunel simply took over management with no underlying change in holdings. Going forward performance records will report the full history of this portfolio.

9.3 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.



9.4 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	**-2.6**	**-1.0**	**-1.6**
3 years	**1.2**	**2.3**	**-1.1**
5 years	**2.9**	**3.9**	**-1.0**
10 years	**5.1**	**6.5**	**-1.4**

10. Neuberger Berman (Global Private Equity)

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

Quarter to 31 December 2020				
			Performance	
Value as at 31 Dec £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
64.4	**Private Equity**	**4.2**	**0.0**	**+4.2**

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

10.3 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.

10.4 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 4.9%. This fund is due to wind up within the next year or so.

10.5 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 15.7%.

10.6 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 10.1%.

10.7 The Crossroads XXII fund is still very young. The return for the quarter, excluding currency movements, was 12.1%.

10.8 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	**1.6**	**5.8**	**-4.2**
3 years	**13.2**	**9.4**	**+3.8**
5 years	**13.6**	**14.6**	**-1.0**
10 years	**9.1**	**12.0**	**-2.9**

11. South West Ventures Fund

11.1 The fund continues to make reasonable progress.

12. Combined Fund

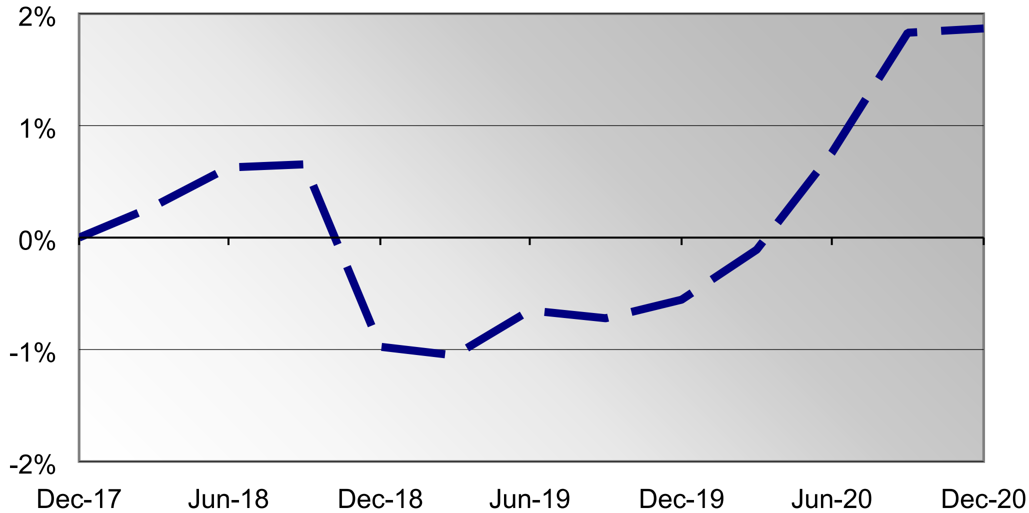
12.1 The performance for the quarter to 31st December 2020 is summarised in the following table:

Quarter to 31 December 2020				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
25.9	In-House (Global Eq)	7.2	8.2	-1.0
655.1	Brunel (Passive Gl Eq)	8.2	8.2	+0.0
349.8	Brunel (GHA Eq)	9.2	7.9	+1.3
11.9	ASI (UK Eq)	17.0	12.6	+4.4
430.8	Brunel (UK Eq)	11.0	12.6	-1.6
172.8	Brunel (Small Cap Eq)	16.1	17.1	-1.0
119.6	Brunel (EM Eq)	13.4	13.2	+0.2
427.3	ASI (FI)	3.6	3.5	+0.1
208.6	LaSalle/Brunel (Prop)	1.3	2.1	-0.8
1.6	SWRVF	0.0	0.0	+0.0
64.4	Neuberger Berman	4.2	0.0	+4.2
0.8	Brunel (Private Eq)	0.0	0.0	+0.0
79.6	Cash	0.1	0.0	+0.1
2,548.2	Whole Fund	7.7	7.8	-0.1

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

12.3 Underperformance was caused by a negative from asset allocation, being underweight UK equity. Overall stock selection by managers was a negative due to the Property, Brunel UK equity and small cap funds underperforming significantly.

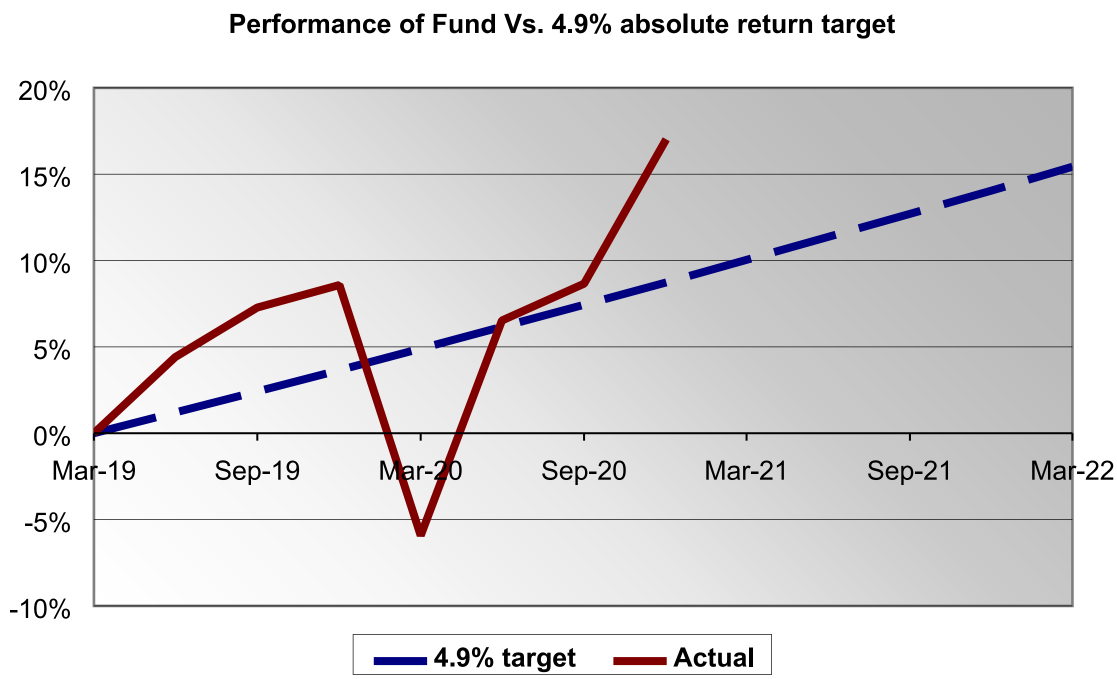
Whole Fund Performance Vs Benchmark



12.4 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	**7.8**	**5.6**	**+2.2**
3 years	**6.1**	**5.6**	**+0.6**
5 years	**9.8**	**9.5**	**+0.3**
10 years	**8.6**	**8.3**	**+0.3**

12.5 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.



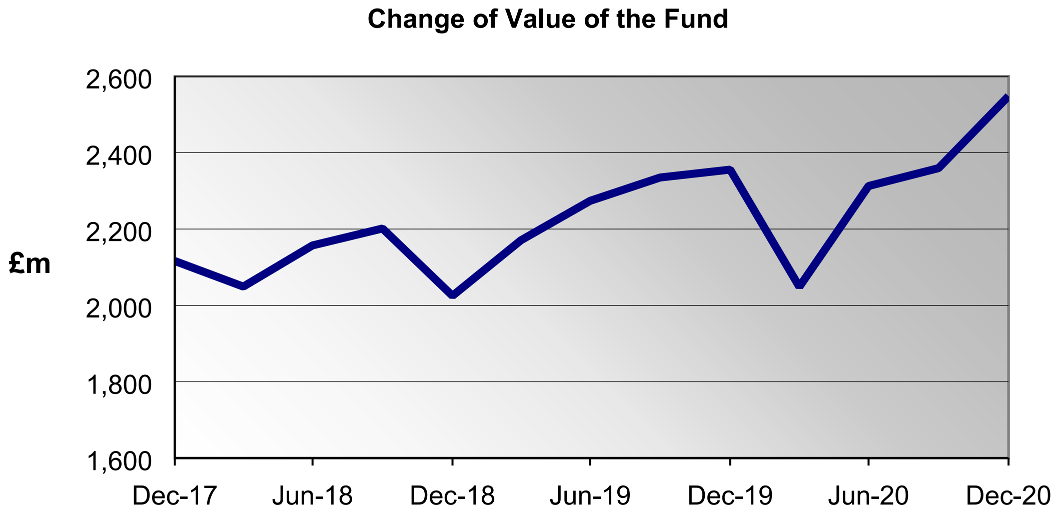
12.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 30 Sept		**Value as at 31 Dec**		**Strategic Weighting**
	£m	**%**	**£m**	%	**%**
In-House (Global Eq)	**34.8**	1	**25.9**	1	**0**
Brunel (Passive Gl Eq)	**605.5**	26	**655.1**	26	**25**
Brunel (GHA Eq)	**320.4**	14	**349.8**	14	**10**
ASI (UK Eq)	**10.1**	0	**11.9**	0	**0**
Brunel (UK Eq)	**388.0**	16	**430.8**	17	**20**
Brunel (Small Cap Eq)	**148.9**	6	**172.8**	7	**5**
Brunel (EM Eq)	**86.9**	4	**119.6**	4	**5**
ASI (FI)	**412.6**	17	**427.3**	17	**19**
Brunel/LaSalle (Prop)	**206.2**	9	**208.6**	8	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**60.8**	3	**64.4**	3	**5**
Brunel (Private Eq)	**0.8**	0	**0.8**	0	**0**
Cash	**82.9**	4	**79.6**	3	**1**
Whole Fund	**2,359.5**	100	**2,548.2**	100	**100**

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

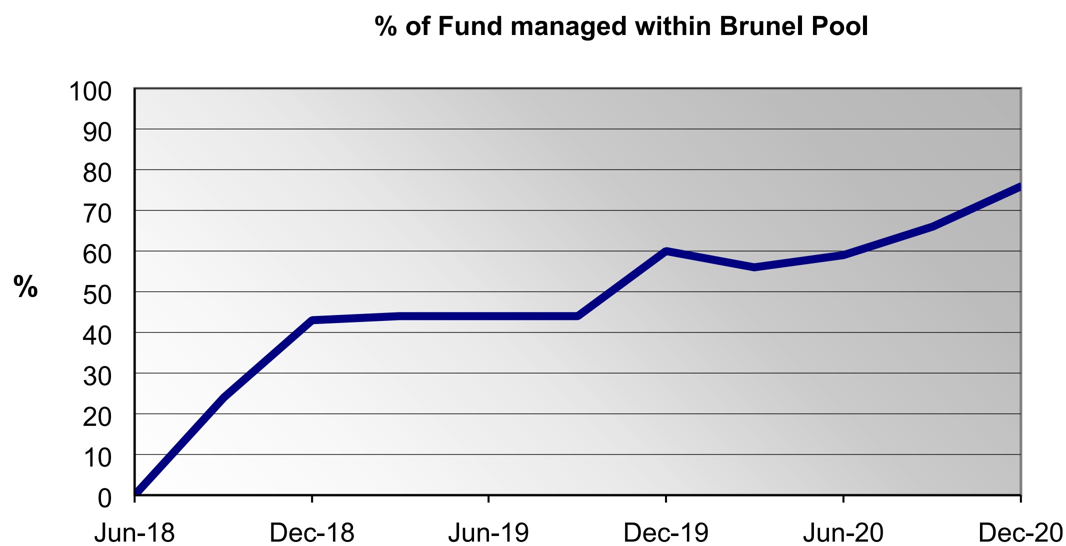
- £11.2m was withdrawn from the in-house global equity fund during the quarter. We are now seeking to liquidate this fund gradually.
- £1.1m was provided to the Neuberger Berman's Private equity mandate as funds drew down capital.
- £20.0m was added to the Brunel Emerging Market equity fund to bring this fund closer to neutral weight.

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



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

	Value as at 30 Sept		Value as at 31 Dec	
	£m	**%**	**£m**	%
Pooled assets	**1,549.7**	66	**1,936.7**	76
Retained assets	**809.8**	34	**611.5**	24
Whole Fund	**2,359.5**	100	**2,548.2**	100

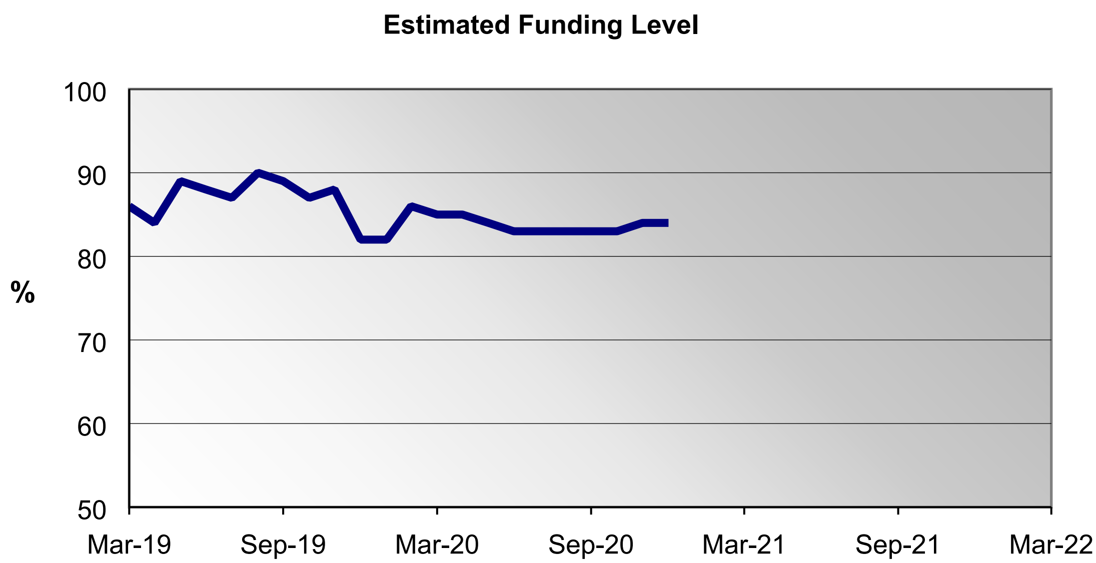


12.10 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2020 is 83.7% and the average required employer contribution would be 30.6% 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.”



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 31st December 2020 was 94% (compared with 91% for the previous quarter), despite the continued impact of COVID19. The team were also able to maintain performance for High Priority procedures at 96%, in line with the previous quarter.

3.2 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 31st December 2020 was 95% (96% for High Priority procedures).

3.3 Appendix 1 of the report shows a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 31st December 2020 and for the financial year to date 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 31st December 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 – 31st December 2020

Performance Summary

		01/04/2020 – 31/12/2020		Q3 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	4,088	96%	96%	96%	96%
Medium Priority Procedures	10,317	89%	92%	94%	95%
Low Priority Procedures	1,928	89%	92%	91%	93%
TOTAL	**16,333**	**91%**	**93%**	**94%**	**95%**

High Priority

		01/04/2020 – 31/12/2020		Q3 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	621	99%	100%	99%	99%
Complaints (Member)	28	100%	100%	100%	100%
Complaints (Employer)	0	-	-	-	-
Deaths	460	95%	95%	99%	99%
Payroll	1,178	99%	99%	100%	100%
Refunds	253	100%	100%	100%	100%
Retirements (Active)	528	89%	90%	96%	97%
Retirements (Deferred)	1,020	91%	91%	89%	89%
TOTAL	**4,088**	**96%**	**96%**	**96%**	**96%**

Medium Priority

		01/04/2020 – 31/12/2020		Q3 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamations	1,305	82%	91%	87%	91%
Deferred Benefits	1,991	70%	72%	88%	89%
Divorce Calculations	116	85%	85%	91%	91%
Employer Queries	487	58%	78%	68%	71%
Estimates (Bulk)	0	-	-	-	-
Estimates (Employer)	34	100%	100%	100%	100%
Estimates (Member)	175	98%	98%	97%	97%
General	4,448	100%	100%	100%	100%
HMRC	68	97%	97%	100%	100%
Member Self-Service	1,693	100%	100%	100%	100%

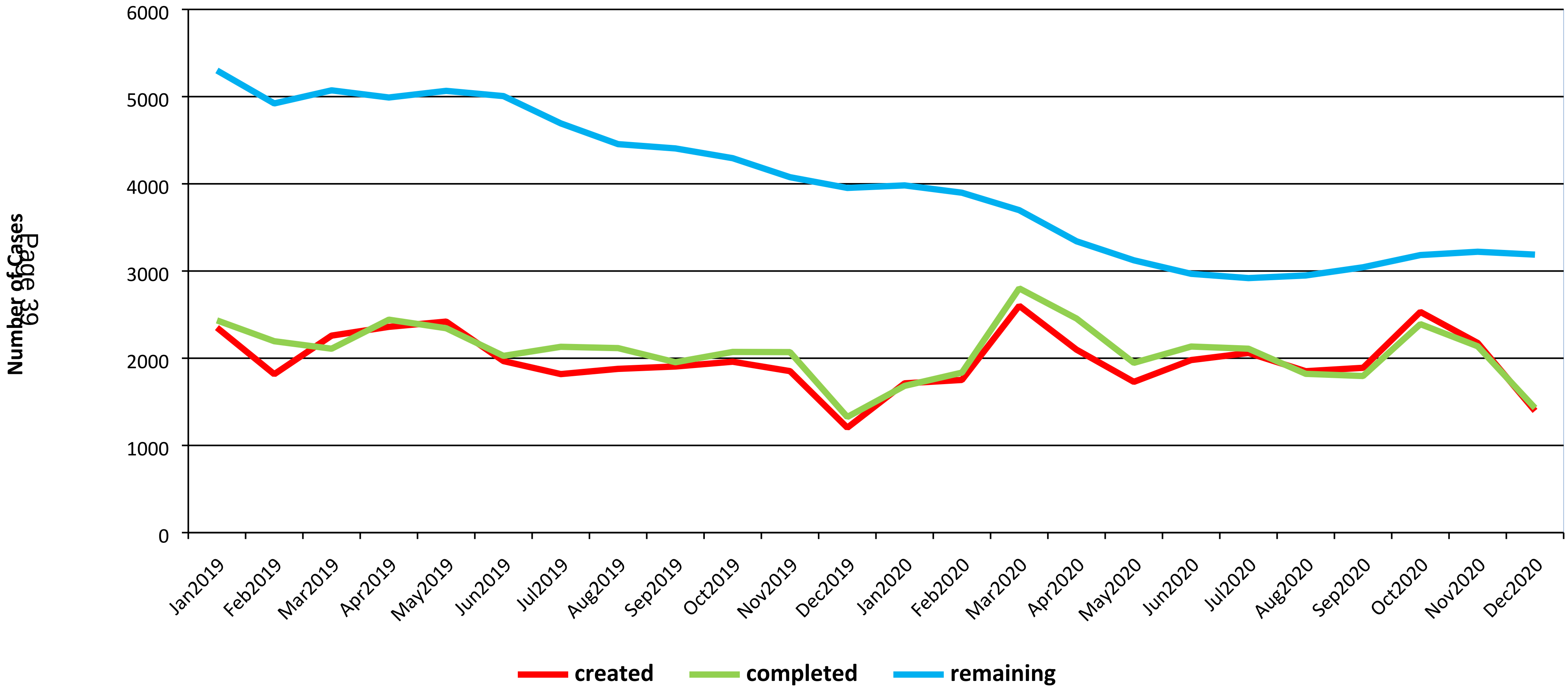
TOTAL	**10,317**	**89%**	**92%**	**94%**	**95%**

Low Priority

		01/04/2020 – 31/12/2020		Q3 2020/21	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	104	97%	97%	93%	93%
GMP Queries	8	100%	100%	100%	100%
Interfund Transfers In	208	65%	79%	63%	72%
Interfund Transfers Out	238	72%	80%	75%	81%
Pension Top Ups	147	97%	97%	97%	97%
Frozen Refunds	874	97%	97%	98%	98%
New Starters	0	-	-	-	-
Pension Transfers In	134	96%	96%	94%	94%
Pension Transfers Out	215	87%	87%	91%	91%
TOTAL	**1,928**	**89%**	**92%**	**91%**	**93%**

Appendix 2

Administration Performance - 1st January 2019 - 31st December 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. Also to update Committee on relevant developments to the LGPS in general.

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. It should be noted all dates are provisional.

4. Progress since last report

4.1 Officers continue to monitor legal and regulatory developments in relation to McCloud and Goodwin.

4.2 Having laid regulations with respect to the £95k exit cap for staff the Government have repealed the regulations after being challenged in the courts. As the exit cap regulations clashed with the LGPS regulations there are a small number of cases that will now need to be looked at to ensure members are restored to the position they would have been in had the exit cap regulations never been in place.

4.3 Under separate cover Committee have received a report produced by UNISON on governance within the 10 LGPS funds linked to Brunel. Should Committee wish to specifically look to address any of the issues raised in the report as a priority that should be addressed within the business plan

4.4 Under separate cover Committee have received the final LGPS Scheme Advisory Board (SAB) report on the "Good Governance" project. On the assumption that this report will largely be adopted as statutory guidance for the LGPS Committee is asked to reflect on how they wish to approach meeting these new standards.

4.5 The SAB Good Governance report makes a number of recommendations around knowledge and skills for Committee members and consideration will need to be given to how to address this and the necessary time commitment on behalf of Committee members.

4.6 The annual report has not yet been published. No amendments have been made to the version approved by the Committee at the September meeting, but we are still awaiting final audit opinions from Grant Thornton. They have indicated they will not issue their opinions until work on Somerset County Council's audit is complete. The Pension Fund work is complete. We have missed the 1st December publication date required in the regulations as have the majority of LGPS funds. It is hoped this process will be signed off shortly.

4.7 Committee will note that the workplan contains a review of investment strategy and the Fund's approach to ESG for later in 2021. Committee are asked to indicate what training and facilitation time they would like as part of this review.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

None

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

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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 2021**		Delayed to allow for further progress on pooling and possible regulatory change. Anticipated for Summer 2021
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	**By end of 2021**		
Fund Governance	Review of risk register	Medium	**Early 2021**		Informal meeting reviewed risk register in depth in early March. Changes propossed for Committee to adopt at this meeting.
Fund Governance	Review of investment strategy and allocations to Brunel Portfolios	Medium	**Spring 2021**		Delayed due to transition being extended as a result of the COVID-19 crisis
Fund Governance	Review of ESG investment	High	**Spring 2021**		Delayed due to transition being extended as a result of the COVID-19 crisis

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2021 - 2022

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**
	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, Social and Governance Investment Policy To review the Fund's policy on ESG.	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2021 - 2022

Date	Proposed Items of Business	Lead Officer
10-Sep-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 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**
Autumn 2021 TBC	**ANNUAL EMPLOYERS MEETING**	
	Annual Employers' Meeting of the Pension Fund This event may be postponed or cancelled depending on the Government Covid warning level at the time.	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2021 - 2022

Date	Proposed Items of Business	Lead Officer
17-Dec-21	<u>**FORMAL MEETING**</u>	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 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 December 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**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2021 - 2022

Date	Proposed Items of Business	Lead Officer
March 22 - TBC	<u>**FORMAL MEETING**</u>	
	1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 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**
	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
Pensions Committee

Finance and Membership Statistics Update

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

1. Summary

1.1 This report updates the committee on the position of the Pension Fund's year to date financial position at 31 December 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

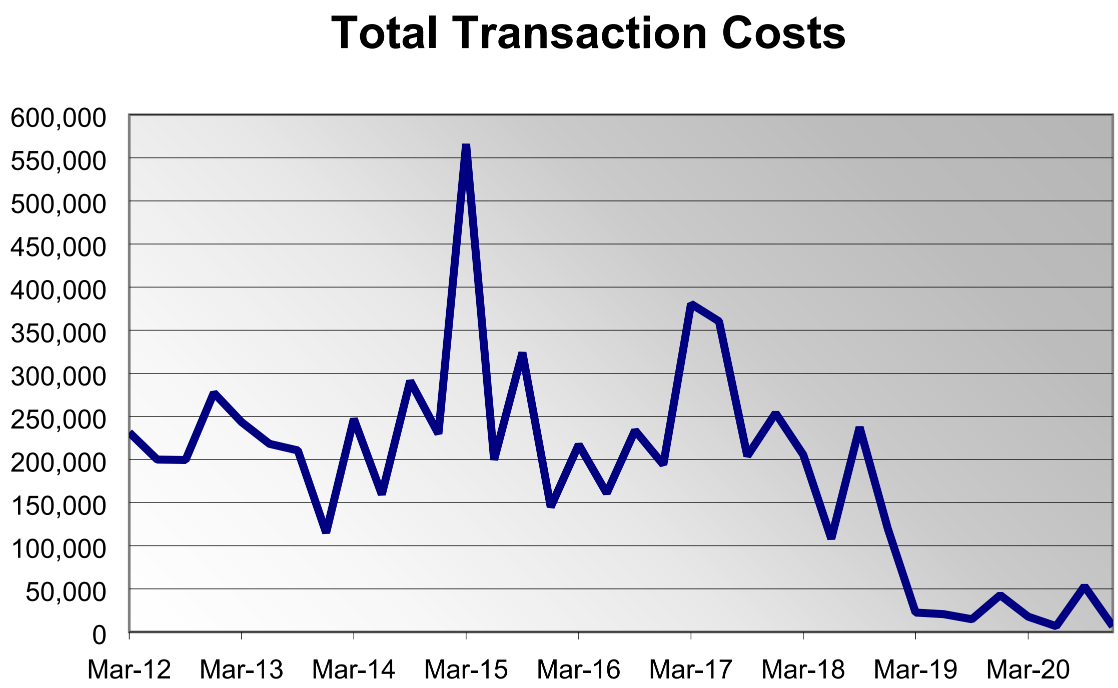
3.1 The outturn position for the 3rd quarter of the financial year to 31st March 2021 against the original forecast is shown in appendix A.

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	25.9
In-House	US equity	0.0
M-BA	Pacific equity	0.0
ASI	Bonds	427.3

		Purchases		Sales		
Manager	**Asset Class**	**Commission £**	**Expenses £**	**Commission £**	**Expenses £**	**Total £**
In-House	Global equity	1,005	679	3,291	1,538	**6,512**
In-House	US equity	0	0	0	0	**0**
M-BA	Pacific equity	0	0	0	0	**0**
ASI	Bonds	0	0	0	0	**0**
Total		**1,005**	**679**	**3,291**	**1,538**	**6,512**

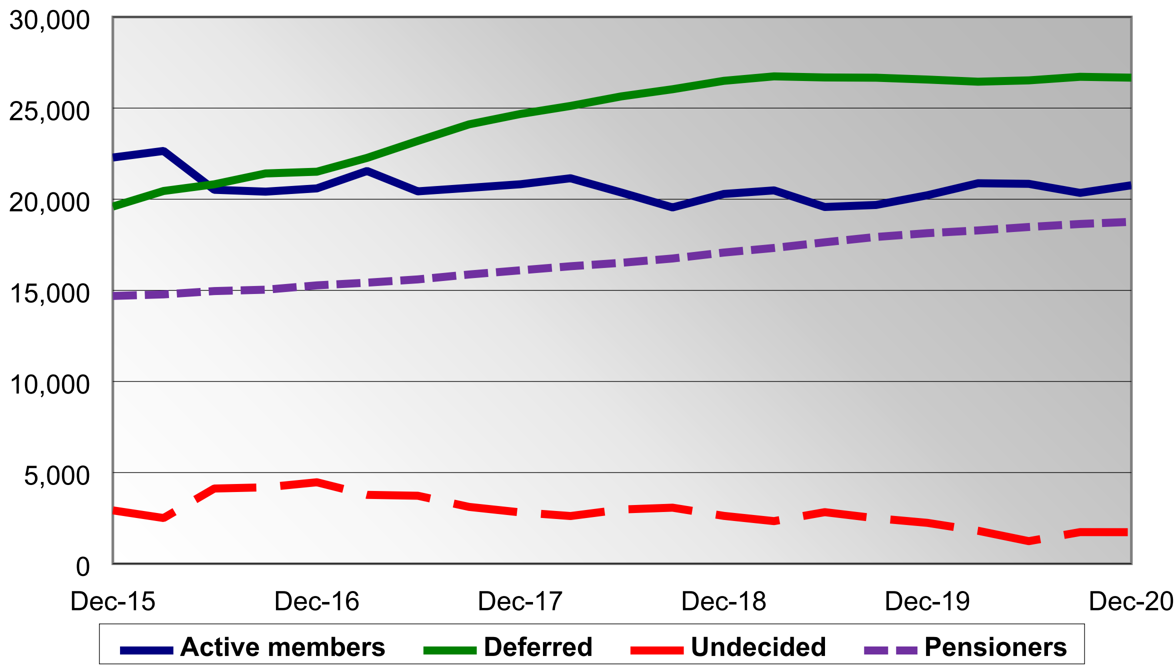


5. Membership Statistics

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

	30 Sept	31 Dec	Change
Active members	20,348	20,766	**+418**
Deferred	26,717	26,671	**-46**
Undecided	1,734	1,730	**-4**
Pensioners	18,642	18,760	**+118**
Total	**67,441**	**67,927**	**+486**

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.

Pension Fund Financial Projection

2020 - 2021

	2019-2020 Full Year	April 2020 - December 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	77.000	84.952	7.952	102.000	102.000	0.000
Recoveries from employers	3.301	1.600	1.878	0.278	2.100	2.100	0.000
Transfer values received	16.017	3.600	5.554	1.954	4.500	6.500	2.000
	122.636	**82.200**	**92.384**	**10.184**	**108.600**	**110.600**	**2.000**
Less benefits and other payments							
Recurring pensions	-81.657	-63.300	-62.963	0.337	-85.000	-85.000	0.000
Lump sum on retirement	-15.654	-13.500	-8.155	5.345	-18.000	-12.500	5.500
Lump sum on death	-2.515	-1.800	-1.610	0.190	-2.500	-2.500	0.000
Transfer values paid	-11.386	-13.000	-15.535	-2.535	-15.000	-17.000	-2.000
Contribution refunds	-0.304	-0.300	-0.210	0.090	-0.400	-0.400	0.000
	-111.516	**-91.900**	**-88.473**	**3.427**	**-120.900**	**-117.400**	**3.500**
Contributions after payments	**11.120**	**-9.700**	**3.911**	**13.611**	**-12.300**	**-6.800**	**5.500**
Management Expenses							
Administrative expenses	-1.285	-0.750	-0.776	-0.026	-1.300	-1.300	0.000
Investment management expenses	-6.228	-3.500	-2.064	1.436	-5.700	-5.700	0.000
Oversight and governance expenses	-0.662	-0.250	-0.155	0.095	-0.750	-0.750	0.000
	-8.175	**-4.500**	**-2.995**	**1.505**	**-7.750**	**-7.750**	**0.000**
Investment Income							
Investment income	33.203	9.000	15.186	6.186	12.000	19.000	7.000
Net Increase / Decrease (-) in fund	**36.148**	**-5.200**	**16.102**	**21.302**	**-8.050**	**4.450**	**12.500**

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Somerset County Council
Pensions Committee

Review of Pension Fund Risk Register

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

1. Summary

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

2. Issues for consideration

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

2.2 As the risk register has been significantly updated since the last meeting it is requested that Committee formally adopt the new register subject to any amendments they require.

3. Changes since last meeting

3.1 The risk register has been significantly refreshed since the last Committee meeting with most risks having some level of amendment. This followed an in-depth discussion of the risk register at an informal meeting of the Committee. Risks have also been relabelled and sorted to provide greater clarity. Changes in risk score of existing risks has been noted on the register.

3.2 Risks PF – Inv3, PF – Admin2 and PF – Admin3 are new risks on 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 - March 2021

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. PF - Gov 1 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively, particulalry as a result of insufficient knowledge and skills	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12	Undertake a review of Committee Knowledge and Skills Ensure Pension Board vacancies are filled and regular meetings take place to provide additional review of Committee decisions	2	4	8	Anton sweet	on-going with quarterly review		Current score is influenced by the collective experience and consistency of the Pensions Committee, which has had a number of changes over the last 4 years
1. PF - Gov 2 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with MHCLG and other interested stakeholders	4	3	12		4	3	12		on-going with quarterly review	Current score reduced from 15 as inception of pooling is no longer a high risk	The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme. The frequency of new regulation and the relatively new role of the Pensions Regulator are also factors
1. PF - Inv1 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		

Somerset County Council Pension Fund Risk Register - March 2021

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. PF - Inv2 2. Pensions Committee	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement Investment Strategy Statement Regular reporting of current position to Committee	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. PF - Inv3 2. Pensions Committee	Under performance of pension investments due to ESG factors, including climate change.	ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions.	2	4	8		2	4	8		on-going with quarterly review		Moving all assets to the management of Brunel, which has a greater focus on ESG and climate change than the majority of our legacy investment managers, has considerably improved our management of these risks. Additional provision within the ISS will be consdiered as part of planned review in 2021.
1. PF - Inv4 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		

Somerset County Council Pension Fund Risk Register - March 2021

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	Current Risk Score (with known controls in place) I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF - Inv5 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian Additional oversight of custodian provided by Brunel for the assets they manage 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. PF - Admin1 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Regular reporting to Committee Internal processes and proceedures Regular review by Internal and External audit	2	3	6		2	3	6		on-going with quarterly review	Current score reduced from 9	The greater resiliance gained from the Peninsula Pensions shaed service has been balanced by greater complexity coming into the sceme benefits.
1. PF - Admin2 2. Stephen Morton	Legal challenge to fund, particulalrly in respect of the payment of pension benefits	Internal processes and proceedures Regular review by Internal and External audit	3	3	9	Receipt of revised regulations in respect of the exit cap, McCloud and Goodwin	2	3	6		on-going with quarterly review		The introduction and then revocation of the exit payment regulations has significantly increased the short term risk of legal challenge
1. PF - Admin3 2. Stephen Morton	Fraud, corrpuption or error either within investment assets or benefits administration	Internal controls and processes Regular review of controls, processes and outputs by internal and external audit	2	4	8		2	4	8		on-going with quarterly review		Brunel provides an extra layer of scrutiny and control with respect to the activities of external fund managers and related third parties

Somerset County Council Pension Fund Risk Register - March 2021

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. PF - Admin4 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements Guarantee bonds or other similar security	2	3	6		2	3	6		on-going with quarterly review	Current score reduced from 9, target score incresed from 4	To ensure the on-going suitability of the guarantees in place a review should be undertaken after each formal valuation. Review of guarentee bonds currently underway, September 2020
1. PF - Admin5 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	2	3	6		2	3	6		on-going with quarterly review	Current score reduced from 9	Size and depth of staff resources at Peninsula Pensions helps to mitigate the risk Brunel provides some extra mitigation with respect to investment asset management Additional use of consultants and advisors could be used to manage loss of internal staff
1. PF - Admin6 2. SCC Section 151 Officer	Resiliance of IT including a breach of cyber security	SCC and DCC internal IT security measures Additional cyber security and resiliance provided by hosting of benefits administration database and investment accounting database by outside parties	2	4	8		2	4	8		on-going with quarterly review	Current score reduced from 12	
1. PF - Admin7 2. SCC Section 151 Officer	Impact of COVID-19 crisis	Staff of Peninsula Pensions and SCC finance are working remotely without significant impact on performance. There are possible knock on consequneces for other risks on the risk register	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

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 In addition to reflecting the new regulations that came into force in September the draft also incorporates the requirements of new Statutory guidance issued by MHCLG and guidance prepared by the Scheme Advisory Board for the LGPS, both of which were issued at the start of March 2021.

1.3 It is a requirement for us to consult with employers on the FSS. A 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 or the new guidance issued this month.

1.4 On approval by Committee of the current draft a new consultation of employers will be undertaken with a view to bringing the FSS back to Committee at the June meeting for formal adoption.

2. Issues for consideration

2.1 The Committee is asked to review the draft FSS including the appended Contributions Review Policy and DSA and DDA Policy (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 New statutory and additional guidance on how these new provisions should be reflected in the FSS were issued by MHCLG and the Scheme Advisory Board in early March and these have been incorporated in the draft presented for review, which is appended to this report.

3.9 The new guidance suggests the creation of additional policies around the use of the new provisions and these have been drafted and appended to the new FSS. Officers believe it is best for these to be considered as a single document by Committee.

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.

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

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.

<u>The administering authority</u>

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.

<u>Future price inflation</u>

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.

This assumption was reviewed following the Chancellor's announcement on the reform of RPI in November 2020. From 31 December 2020 RPI inflation is assumed to be 0.4% p.a. lower than the 20 year point on the inflation curve. This adjustment accounts for both the shape of the curve in comparison to the Fund's liability profile and the view that investors are willing to accept a lower return on investments to ensure inflation linked returns.

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.

At the 31 March 2019 actuarial valuation a deduction of 1.0% p.a. was 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.

This assumption was also reviewed in light of the Chancellor's announcement on the reform of RPI mentioned above. From 31 December 2020 CPI inflation is assumed to be 0.4% p.a. lower than the RPI assumption (i.e. 0.8% p.a. below the 20 year point on the Bank of England implied RPI inflation curve). This reflects the anticipated reform of RPI inflation from 2030 following the UK Statistics Authority's proposal to change how RPI is calculated to bring it in line with the Consumer Prices Index including Housing costs (CPIH). This assumption will be reviewed at future valuations and the difference between RPI and CPI is expected to move towards 0.0% p.a. as we get closer to 2030.

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.

<u>Asset valuation</u>

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).

<u>Demographic assumptions</u>

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 closed 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 between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which, is attached as appendix A. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next rates and adjustments certificate.

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 will 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 will 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.

<u>Funding at start of contract</u>

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.

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 payment policy

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document attached as Appendix B. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Exit credit policy

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. 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.

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.

<u>McCloud/Sargeant judgements and cost cap</u>

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 closed 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.

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

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.

Approved by the Pensions Committee
Somerset County Council Pension Fund
XXXXXXXXXXX

Appendix A

Somerset County Council Pension Fund Contribution Review Policy

Contents

Introduction

This document sets out the Somerset County Council Pension Fund's policy on amending the contribution rates payable by an employer (or group of employers) between formal funding valuations.

Somerset County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

Under Regulation 62, Somerset County Council, as the administering authority for the Fund, is required to obtain a formal actuarial valuation of the Fund and a rates and adjustments certificate setting out the contribution rates payable by each Scheme employer for three year period beginning 1 April following that in which the valuation date falls.

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority. This policy document sets out the administering authority's approach to considering the appropriateness of a review and the process in which a review will be conducted.

This policy has been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on drafting a contribution review policy which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Throughout this document, any reference to the review of a Scheme employer's contribution rates will also mean the single review of the contribution rates for a group of Scheme employers (for example if the employers are pooled for funding purposes).

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under this contribution review policy.

The review process

The events that may trigger a review are set out in the Triggering a contribution review section. The general process for assessing and conducting a review is set out below. Timescales may vary in practice depending on each individual circumstance but the timeline below provides a rough guide of the administering authority's general expectation.

Following completion of the review process, the administering authority may continue to monitor the Scheme employer's position in order to ensure the revised contribution rate remains appropriate (where a review was completed) or to ensure the Scheme employer's situation does not change such that a review previously deemed not appropriate becomes appropriate. As part of its participation in the Fund, any Scheme employer is expected to support any reasonable information requests made by the administering authority in order to allow effective monitoring.

Timeline where initiation is made by the administering authority

Where the review is initiated by the administering authority (i.e. under conditions (i) and (ii) in the Triggering a contribution review section), the first stage after the administering authority has conducted its analysis is to engage with the Scheme employer and provide written evidence for requiring the review.

The Scheme employer will be given 28 days from the later of the date of receipt of the evidence provided by the administering authority and the date of receipt of the results of the formal contribution review to respond to the administering authority on the proposal. Should no challenge be accepted within this period then the administering authority will treat the proposal as accepted and the revised contribution rates will come into effect from the proposed review date.

Should the Scheme employer challenge the administering authority's proposal, then the administering authority will continue to engage with the Scheme employer in order to reach an agreeable decision. If no decision has been agreed within 3 months of the initial proposal, then the administering authority may proceed with the revised contribution rates. Further details of the appeals process for the Scheme employer is set out in the Appeals process section.

Although the ultimate decision for review belongs to the administering authority, the administering authority is committed to engaging with any Scheme employer following the initial proposal to ensure that any change is agreeable to all relevant parties.

Timeline where initiation is made by the Scheme employer

Where the review is initiated by the Scheme employer, the process begins once the Scheme employer has provided all the relevant documents required as set out in the Triggering a contribution review section.

The administering authority will aim to provide a response to the Scheme employer within 28 days from the date of receipt. This will depend on the quality of the documents provided and any need from the administering authority to request further information from the Scheme employer. The administering authority will provide a written response setting out the issues considered in reviewing the request from the Scheme employer, together with the outcome and confirming the next steps in the process.

Responsibility of costs

Where the review of contributions has been initiated by the administering authority, any costs incurred as part of the review in relation to the gathering of evidence to present to the Scheme employer and the actuarial costs to commission the contribution review will be met by the Fund. This is with the exception of any costs incurred as a result of extra information requested by the Scheme employer which is not ordinarily anticipated to be incurred by the administering authority as part of the review. These exception costs would be recharged to the Scheme employer.

Any costs incurred as a result of a review initiated by the Scheme employer will be the responsibility of the Scheme employer, regardless of the outcome of the review proceeding or not. This may include specialist adviser costs involved in assessing whether or not the request for review should be accepted and the costs in relation to carrying out the review.

Triggering a contribution review

As set out in Regulation 64(A)(1)(b), a review of an employer's contribution rate between formal actuarial valuations may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review.

Conditions (i) and (ii) are triggered by the administering authority and (iii) by the Scheme employer. The key considerations under each of the conditions are detailed below.

It should be noted that the conditions are as set out in the Regulations therefore do not allow for a review of contributions where the trigger is due to a change in actuarial assumptions or asset values.

(i) change in the amount of the liabilities arising or likely to arise

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Restructuring of a council due to a move to unitary status
- Restructuring of a Multi Academy Trust
- A significant outsourcing or transfer of staff
- Any other restructuring or event which could materially affect the Scheme employer's membership
- Changes to whether a Scheme employer is open or closed to new members, or a decision which will restrict the Scheme employer's active membership in the fund in future
- Significant changes to the membership of an employer, for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- Establishment of a wholly owned company by a scheduled body which does not participate in the LGPS.

As part of its participation in the Fund, Scheme employers are required to inform the administering authority of any notifiable events as set out in the Fund's Pensions Administration Strategy, service agreements and/or admission agreements. Through this notification process, the administering authority may identify events that merit a review of contributions.

In addition, the administering authority may initiate a review of contributions if they become aware of any events that they deem could potentially change the liabilities of the Scheme employer. This also applies to any employers for whom a review of contributions has already taken place as a further change in liabilities may merit another review.

(ii) change in the ability of the Scheme employer to meet its obligations

Examples of changes which may trigger a review under this condition include, but are not limited to:

- Change in employer legal status or constitution
- Provision of, or removal of, security, bond, guarantee or some other form of indemnity by a Scheme employer
- A change in a Scheme employer's immediate financial strength
- A change in a Scheme employer's longer-term financial outlook
- Confirmation of wrongful trading
- Conviction of senior personnel
- Decision to cease business
- Breach of banking covenant
- Concerns felt by the administering authority due to behaviour by a Scheme employer's, for example, a persistent failure to pay contributions (at all, or on time), or to reasonably engage with the administering authority over a significant period of time.

The administering authority is committed to engaging with Scheme employers on their participation in the Fund and through this can identify any Scheme employers that might be considered as high risk and whether any Scheme employers have had a significant change in riskiness. This in turn may affect the administering authority's views on whether the ability of a Scheme employer to meet its obligations to the Fund has changed significantly and therefore whether this change may merit a contribution review. This also applies to any employers for whom a review of contributions has already taken place as a further change in an employer's ability to meet its obligations may merit another review.

(iii) request from the Scheme employer for a contribution review

A request can be made by a Scheme employer for a review of contribution rates outside of the formal actuarial process. This must be triggered by one of the following two conditions:

- There has been a significant change in the liabilities arising or likely to arise; and/or
- There has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Any requests not arising from either of these conditions will not be considered by the administering authority.

Requests by a Scheme employer are limited to one review per calendar year.

With the exception of any cases where the Scheme employer is expected to cease before the next rates and adjustments certificate comes into effect, the administering authority will not accept a request for a review of contributions with an effective date within the 12 months preceding the next rates and adjustments certificate. It is expected in these cases that any requests can be factored in to the formal review and any benefits of carrying out a review just prior to the commencement of a new rates and adjustments certificate are outweighed by the costs and resource required. If a request is made with an effective date within the 12 months preceding the next rates and adjustments certificate, the administering authority will instead reflect these changes in the actuarial valuation and the rates being certified and taking effect the year following the valuation date.

Information required from the Scheme employer

In order to submit a request for a review of contribution rates outside of the formal actuarial valuation process, a Scheme employer must provide the following to the Fund:

- Where a review is sought due to a potential change in the Scheme employer's liabilities:
- Membership data or details of membership changes to evidence that the liabilities have materially changed, or are likely to change
- Where a review is sought due to a potential change in the ability of the Scheme employer to meet its obligations:
    - The most recent annual report and accounts for the Scheme employer
    - The most recent management accounts
    - Financial forecasts for a minimum of three years
    - The change in security or guarantee to be provided in respect of the Scheme employer's liabilities

The administering authority may require further evidence to support the request and this will be requested from the Scheme employer on a case by case basis.

Assessing the appropriateness of a review

The following general considerations will be taken into account by the administering authority, regardless of the condition under which a review is requested:

- the expected term for which the Scheme employer will continue to participate in the Fund;
- the time remaining to the next formal funding valuation;
- the cost of the review relative to the anticipated change in contribution rates and the benefit to the Scheme employer, the Fund and/or the other Scheme employers; and
- the anticipated impact on the Fund and the other Fund employers, including the relative size of the change in liabilities and contributions and any change in the risk borne by other Fund employers.

Where the review has been requested by the Scheme employer, the administering authority will also consider the information and evidence put forward by the Scheme employer. This may be with advice from the Fund Actuary where required, and will include an assessment of whether there is a reasonable likelihood that a review would result in a change in the Scheme employer's contribution rates. The administering authority will also consider whether it is necessary to consult with any other Scheme employer e.g. where a guarantee may have been provided by another Scheme employer.

Whether any changes require the administering authority to exercise its powers to carry out a contribution review will be assessed on a case by case basis and with advice from the Fund Actuary and may involve other considerations as deemed appropriate for the situation. The final decision of whether a review of contribution rates will be carried out rests with the administering authority after, if necessary, taking advice from the Fund Actuary. Should a Scheme employer disagree with the administering authority, then details of the Appeals process is set out later in this document.

Appropriateness of a review due to change in liabilities

This will be subject to the following considerations in addition to the general considerations set out above:

- the size of the Scheme employer's liabilities relative to the Fund and the extent to which they have changed;
- the size of the event in terms of membership and liabilities relative to the Scheme employer and/or the Fund; and
- the administering authority's assessment of the ability of the Scheme employer to meet its obligations.

Appropriateness of a review due to change in ability to meet its obligations to the Fund

In assessing whether or not an administering authority will exercise its powers to review a Scheme employer's contribution rates under this condition, the administering authority will take into account the general considerations set out earlier in this section and:

- The results of any employer risk analysis provided by the Fund Actuary or a covenant specialist
- The perceived change in the value of the indemnity to the administering authority, relative to the size of the Scheme employer's liabilities

It is acknowledged that each Scheme employer's situation may differ and therefore each decision will be made on a case by case basis. Further considerations to that set out above may be relevant and will be taken into account by the administering authority as required.

Method used for reviewing contribution rates

If a review of contribution rates is agreed, or if an indicative review is required to help inform the review process, the administering authority will take advice from the Fund Actuary on the calculation of the Scheme employer's revised contribution rates. This will take into account the events leading to the anticipated liability change and any impact of the changes in the Scheme employer's ability to meet its obligations to the Fund.

The starting point for reviewing a Scheme employer's contribution rates will in some cases be the most recent actuarial valuation. The table below sets out the general approach that will be used when carrying out this review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date.

	General approach
Member data	In some cases, where the review is happening during or shortly after the valuation, the most recent actuarial valuation data will be used as a starting point. In most cases, given the review is due to an anticipated change in membership, the administering authority and Scheme employer should work together to provide updated membership data for use in calculations. There may be instances where updated membership data is not required if it is deemed proportionate to use the most recent actuarial valuation data without adjustment. Where the cause for a review is due to a change in a Scheme employer's ability to meet its obligations to the Fund, updated membership data may not need to be used unless any significant membership movements since the previous Fund valuation are known.

	General approach
Approach to setting assumptions	This will be in line with that adopted for the most recent actuarial valuation, and in line with that set out in the Fund's Funding Strategy Statement.
Market conditions underlying financial assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the market conditions will be in line with those at the most recent actuarial valuation.
Conditions underlying demographic assumptions	Unless an update is deemed more appropriate by the Fund Actuary, the conditions will be in line with those at the most recent actuarial valuation.
Funding target	The funding target adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.
Surplus/deficit recovery period	The surplus/deficit recovery period adopted for a Scheme employer will be set in line with the Fund's Funding Strategy Statement, which may be different from the approach adopted at the most recent actuarial valuation due to a change in the Scheme employer's circumstances.

The Fund Actuary will be consulted throughout the review process and will be responsible for providing revised rates and adjustments certificate. Any deviations from the general approaches set out above will be agreed by the administering authority and the Fund Actuary.

Appeals process

To Be Confirmed

Approved by the Pensions Committee
Somerset County Council Pension Fund
XXXXXXXXXXX

Appendix A

Somerset County Council Pension Fund Deferred Debt and Debt Spreading Agreements Policy

Contents

Introduction

This document sets out the Somerset County Council Pension Fund's policy on deferred debt agreements (DDAs) and debt spreading agreements (DSAs) for exiting employers.

Somerset County Council Pension Fund (the Fund) is part of the Local Government Pension Scheme (LGPS), a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended.

When a Scheme employer becomes an exiting employer under Regulation 64, the Fund Actuary is required to carry out a valuation to determine the exit payment due from the exiting employer to the Fund, or the excess of assets in the Fund relating to that employer. Where an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, if the employer provides evidence that this is not possible, there are two alternatives available: Regulation 64(7A) enables the administering authority to enter into a deferred debt agreement with the employer while Regulation 64B enables the administering authority to enter into a debt spreading agreement.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying any existing or future secondary rate of contributions to fund any current or future deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

This policy document sets out the administering authority's policy for entering into, monitoring and terminating a DDA or DSA.

These policies have been prepared by the administering authority following advice from the Fund Actuary, and following consultation with the Fund's Scheme employers. In drafting this policy document, the administering authority has taken into consideration the statutory guidance on preparing and maintaining policies on employer exit payments and deferred debt agreements which was issued by the Ministry of Housing, Communities and Local Government, and the Scheme Advisory Board's guide to employer flexibilities.

Approach for exiting employers

In the event that an employer becomes an exiting employer and an exit payment is identified, the Fund should seek to receive a payment from the exiting employer equal to the exit payment in full.

The administering authority makes the exiting employer aware an exit payment is due by providing a revised rates and adjustments certificate in the form of a cessation valuation report produced by the Fund Actuary. Details of the Fund's cessation policy can be found in the Fund's FSS.

The default position is that the employer is required to make an exit payment in full immediately. However, if required, the exiting employer can inform the administering authority, along with evidence, that they are unable to do so and may request to enter either a DDA or DSA. If the administering authority is satisfied with the evidence provided, the DDA or DSA process may proceed.

Requests should be submitted within 21 days of receiving confirmation of the exit payment required, or otherwise the exit payment should be paid to the Fund in full within 28 days.

Where possible, the administering authority encourages employers who are approaching exit and suspect they will have a deficit to engage with the administering authority in advance in order to understand the options that may be available. An indicative cessation report can be produced to form the basis of discussions.

Choosing a DDA or DSA

Consideration needs to be given as to which approach is the most appropriate in each case. A DDA may be appropriate if:

- the employer temporarily has no active members but expects it may return to active employer status in future. However, please note that if the plan is for active members to join within three years then perhaps a suspension notice may be more appropriate;
- the employer wants to minimise costs by potentially benefitting from the upside of the pensions risks it would remain exposed to and therefore does not want to crystallise its debt by becoming an exiting employer. In this case the administering authority may be willing to defer crystallisation of the cessation debt for an appropriately significant period of time, subject to the strength of the employer's covenant or security provided;
- initial affordability of the full exit payment is low but there is a prospect of increased affordability in the future, or the payment can only be afforded over a long period and therefore a DDA enables the position to be updated over time in light of changing funding positions; and/or
- the employer has a weak covenant but is not faced with imminent insolvency and must rely on future investment returns to fully or partially fund the exit payment. The administering authority may agree that doing so over an appropriate long period is better for the Fund than risking immediate insolvency of the employer.

On the other hand, it may be more appropriate to enter a DSA if:

- the employer does not intend to employ any more active members and therefore is not expected to resume active employer status;
- the employer wishes to crystallise its debt to the Fund and therefore not be subject to any of the pensions risks that could cause the amounts payable to the Fund increasing (or decreasing) in future;
- the employer has ample resources to make the payment within the near future but not immediately; and/or
- the employer is deemed to have a very weak covenant and so the administering authority will want to try to recoup as much of the exit payment as possible before the employer becomes insolvent.

The administering authority has the right to refuse a DSA or DDA request if they believe it is not in the best interests of the Fund or the other participating employers, for example if entering a DSA or DDA increases the risk of a deficit falling to the other employers.

In considering each request for a DDA or DSA arrangement from an exiting employer the administering authority will take actuarial, covenant, legal and other advice as necessary. Proposed DDAs/DSAs will always be discussed with the employer, whether the arrangement was at the exiting employer's request or not.

Employers who may be party to either a DSA or a DDA are encouraged to discuss any potential impact on their accounting treatment with their auditors.

Managing of costs

On receiving a request the administering authority will make the employer aware that any costs associated with setting up the DDA or DSA will be the responsibility of the Scheme employer, regardless of whether the administering authority agrees to enter into the agreement or not. This may include the cost of actuarial advice, legal advice, administrative costs and any additional advice required in relation to a covenant assessment or any other specialist adviser costs. If costs deviate from those initially anticipated the administering authority will keep the exiting employer up-to-date with any increases. The administering authority will provide information on how and when payments should be made.

Appeals process

To be confirmed

Deferred Debt Agreements (DDAs)

Entering into a DDA

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit.

Information required from the employer

When making a request to enter a DDA, the employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund on a continuing basis. Examples of information the employer may provide as evidence include the exiting employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DDA within 21 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exiting employer's residual liabilities relative to the size of the Fund;
- the size of the exit payment relative to the costs associated with entering into a DDA;
- whether a debt spreading agreement or suspension notice would be more appropriate (see specific circumstances below);
- any information provided by the exiting employer to support their covenant strength, including any information on a guarantor or other form of security that the employer may be able to put forward to support their covenant;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DDA. For example, in the following circumstances the administering authority may consider a DDA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- it is known or likely that another active member will come into employment in the three years following the cessation date (in these cases a suspension notice would be considered more appropriate than a DDA); or
- the administering authority is concerned that where a DDA is entered, that the employer could not afford the impact of any negative experience which would result in an increase in the required secondary rate of contributions and an increase in the employer's overall deficit (in these cases a debt spreading agreement would be considered more appropriate as the payments are fixed throughout the term of the agreement).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to enter into a DDA they will explain to the exiting employer their reasoning and any alternatives (e.g. a debt spreading agreement, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DDA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DDA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DDA

Once agreed that a DDA is permitted, the terms of the DDA will be agreed between the administering authority and the exiting employer and will be set out in a formal legal agreement.

The administering authority and the exiting employer (with the assistance of the Fund Actuary) will negotiate an appropriate duration of the agreement which will consider the exiting employer's affordability and anticipated strength of covenant over the agreement period. If the exiting employer has sufficient reserves, the administering authority may require an immediate cash payment so that the DDA can start from an acceptably stronger funding position.

The Fund Actuary will calculate secondary contributions on an appropriate basis as agreed with the administering authority and following consultation with the exiting employer, taking into account any cash payments made in advance. The secondary contributions will be reviewed at each actuarial valuation and certified as part of the Fund's Rates and Adjustments Certificate until the termination of the agreement. Therefore payments throughout the agreement are not known in advance and may increase or decrease at each valuation to reflect changes in the employer's funding position.

The timeline from consultation with the exiting employer to entering into a DDA to the signing of the agreement will vary. Where possible all parties will aim to have the agreement signed within 3 months, although there may be circumstances where timings may vary.

Once finalised, the employer will become a deferred employer in the Fund and will have an obligation to pay their secondary contributions as certified by the Fund Actuary. The responsibilities of the deferred employer will be set out in the legal agreement and these will include the requirements to:

- comply with all the requirements on Scheme employers under the Regulations except the requirement to pay a primary rate of contributions but including any additional applicable costs, such as strain costs as a result of ill health retirements;
- adopt the relevant practices and procedures relating to the operation of the Scheme and the Fund as set out in any employer's guide produced by the administering authority;
- comply with all applicable requirements of data protection law relating to the Scheme and with the provisions of any data-sharing protocol produced by the administering authority and provided to the deferred employer;
- promptly provide all such information that the administering authority may reasonably request in order to administer and manage the agreement; and
- give notice to the administering authority, of any actual or proposed change in its status, including take-over, change of control, reconstruction, amalgamation, insolvency, winding up, liquidation or receivership or a material change to its business or constitution.

The deferred employer should consult with their auditors about any impacts the DDA is expected to have on their accounting requirements.

Monitoring a DDA

A deferred debt agreement is subject to the ongoing approval of the administering authority. The administering authority reserves the right to terminate the agreement should they become concerned about a significant weakening in the deferred employer's covenant or a significant change in funding position. Conversely, if there was an improvement in the employer's circumstance then the administering authority and employer may agree to amend the terms of the agreement.
The administering authority will monitor a DDA in the following ways:

<u>Change in funding position</u>

The administering authority will request regular, and at least annual, updates of the deferred employer's funding position in order to review the progress of the DDA. The costs of the regular reviews will fall to the deferred employer as part of the terms for putting in place a DDA.
If the funding position changes by more than 10% (in absolute terms) from the previous review then the administering authority may engage with the deferred employer to discuss a possible review of the DDA.

<u>Change in employer covenant</u>

Once an employer enters into a DDA, the administering authority will review the employer's covenant on a regular basis and details of this will be agreed for each DDA on an individual basis. If a deferred employer's covenant deteriorates, the administering authority may issue a notice to review and possibly terminate the agreements.

In addition, if a deferred employer requests an extension to the duration of the DDA the administering authority will consider an updated covenant review, amongst other factors, in assessing the proposal.

As a condition of entering into a DDA, the deferred employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

Timeliness of payments

The agreement will set out whether payments are made on a monthly or annual basis, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards a notice being issued to the deferred employer to review and possibly terminate the agreement.

Strength of guarantee or security

If a particular funding basis has been used by the Fund Actuary on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to underwrite the residual deferred and pensioner liabilities when the employer formally exits) then the administering authority will check there has been no change to the security at agreed regular intervals and as a minimum at each valuation cycle. The Fund Actuary may change the funding basis used to set the deferred employer's contributions depending on the strength of the security in place.

Notifiable events from the deferred employer

The deferred employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance (e.g. a change of the guarantee in place mentioned above). Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DDA

Events that may terminate a DDA

As set out in Regulation 64(7E), the DDA terminates on the first of the following events:

- the deferred employer enrols new active members;
- the duration of the agreement has elapsed;
- the take-over, amalgamation, insolvency, winding up or liquidation of the deferred employer;
- the administering authority serves a notice on the deferred employer that it is reasonably satisfied that the employer's ability to meet the contributions payable under the DDA has weakened materially (or is likely to in the next 12 months); or
- a review of the funding position of the deferred employer is carried out at an updated calculation date and the Fund Actuary assesses that the deferred employer has paid sufficient secondary contributions to cover what would be due if the deferred employer terminated at the updated calculation date; in other words the review reveals no deficit remains on the relevant calculation basis.

The deferred employer can also choose to terminate the DDA at any point. Notice should be given to the administering authority at the earliest opportunity. Termination clauses will be included in the formal DDA legal agreement.

Process of termination

Once a termination of the DDA has been triggered, the deferred employer becomes an exiting employer under Regulation 64(1). The administering authority will obtain from the Fund Actuary an exit valuation calculated at the date the DDA terminates, and a revised rates and adjustments certificate setting out the exit payment due from the exiting employer or the excess of assets in the Fund relating to the exiting employer (which would then be subject to the Fund's exit credit policy).

Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

If the termination has been triggered because the deferred employer has enrolled new active members then the deferred employer becomes an active employer in the Fund and an immediate exit payment may not be required; this may instead be incorporated in the revised rates and adjustments certificate that will be provided in respect of the active employer. The employer remains responsible for all previously accrued liabilities and the revised contributions required from the active employer will be calculated in line with the Fund's Funding Strategy Statement (FSS).

If the termination has been triggered because a review of the funding position of the deferred employer reveals that the secondary contributions paid to date by the deferred employer are sufficient to cover what would be due if the deferred employer terminated at the updated calculation date, then the deferred employer becomes an exiting employer and no further payments are required. The exiting employer has no further obligation to the Fund. Where there is a surplus, an exit credit may be payable as determined by the administering authority and in line with the Fund's exit credit policy.

Debt Spreading Agreements (DSAs)

Entering a DSA

Under a DSA, the cessation debt is crystallised and spread, with interest, over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary and following discussion with the exiting employer. The payments are fixed and are not reviewed at each actuarial valuation.

Information required from the employer

When making a request to enter a DSA, the exiting employer should demonstrate that they are unable to settle their exit payment immediately and provide any relevant information to support their request e.g. in relation to their covenant/ability to continue to make payments to the Fund. Examples of information the exiting employer may provide as evidence include the employer's:

- most recent annual report and accounts
- latest management accounts
- financial forecasts
- details of position of other creditors

This is not an exhaustive list and the administering authority may request further evidence. In particular, the administering authority may commission a covenant assessment if insufficient evidence is provided.

Assessing the proposal

The administering authority will make a decision on whether to enter into a DSA within 28 days of receiving a request but this may vary to reflect specific circumstances, for example if the administering authority chooses to request a covenant assessment then the process may take longer.

To reach a decision the administering authority will consider:

- the size of the exit payment relative to the exiting employer's business cashflow;
- the size of the exit payment relative to the costs associated with entering into a DSA;
- whether a deferred debt agreement or suspension notice would be more appropriate;
- any information provided by the employer to support their covenant strength;
- the results of any covenant review carried out by the Fund Actuary or a covenant specialist;
- the merit of any guarantees from another source and whether this is deemed sufficient to cover the outstanding payments should the exiting employer fail;
- the exiting employer's accounts;
- the potential impact on the other employers in the Fund; and
- the opinion of the Fund Actuary.

The administering authority is not obliged to accept an exiting employer's request for a DSA. For example, in the following circumstances the administering authority may consider a DSA not to be appropriate:

- the exiting employer could reasonably be expected to settle their exit payment in a single amount;
- there is doubt that the exiting employer can operate as a going concern during the spreading period; or
- the exiting employer cannot afford the speeded payments over the maximum spreading period or is requesting a spreading period longer than the maximum (see below).

The structure of the DSA is at the discretion of the administering authority having taken advice from the Fund Actuary and consulted with the exiting employer. The structure should protect all other employers in the Fund whilst being achievable for the exiting employer. The structure of the DSA will take into consideration:

- the period that the payments will be spread. This is expected to be no more than 5 years. For longer periods it may be more appropriate to consider a deferred debt agreement but the administering authority reserves the right to set whatever spreading period they deem appropriate provided they are satisfied with the exiting employer's ability to meet the payments over that period. The length of the spreading period will be set as to be as short as possible whilst remaining affordable for the exiting employer;
- the interest rate applicable to the spread payments. In general, this will be set with reference to the discount rate in the employer's cessation valuation, for consistency with the liabilities calculated;
- the regularity of the payments and when they fall due;
- other costs payable; and
- the responsibilities of the exiting employer during the spreading period (for example, to make payments on time and to notify the administering authority of a change in circumstances that could affect their ability to make payments).

Once all information has been considered the administering authority will consult with the exiting employer as required under the Regulations. If the administering authority does not wish to accept the exiting employer's request to enter into a DSA they will explain their reasoning and any alternatives (e.g. a DDA, suspension notice or indeed require the exit payment in full). If the administering authority accepts the request to enter into a DSA, they will notify their legal advisers and Fund Actuary. If the administering authority has concerns about the level of risk arising due to the DSA, the administering authority may only accept the request subject to a one-off cash injection being made by the exiting employer or security being provided as an additional guarantee.

Setting up a DSA

The administering authority and the exiting employer, with the assistance of the Fund Actuary, will then negotiate the structure of the schedule of payments which takes into consideration the exiting employer's affordability and an appropriate period of the spreading.

The schedule of payments will be set out in a revised rates and adjustments certificate prepared by the Fund Actuary. There may be circumstances where timings may vary, however, in general the certificate will be prepared and provided to the exiting employer within 28 days of agreeing the structure of the schedule of payments with the exiting employer.

Monitoring a DSA

Over the term that the cessation debt payment is spread, the administering authority will monitor the ability and willingness of the exiting employer to pay the schedule of contributions in the revised rates and adjustments certificate. While it is expected the schedule of payments would be fixed for the spreading period, the administering authority may alter the structure of the schedule at any time if there is a change in the exiting employer’s circumstances or indeed, if the exiting employer wanted to pay the remaining balance. This will be agreed on a case by case basis and set out in a side agreement as required.

The administering authority will be in regular contact with the exiting employer until their obligations to the Fund are removed when all payments set out in the schedule of payments are made.

Examples of factors which will be monitored are set out below. Should any of these raise any concerns with the administering authority then the DSA may be reviewed and/or terminated.

<u>Change in employer covenant</u>

The administering authority will monitor the ability of the exiting employer to make their set payments by monitoring publicly available information such as credit ratings and/or company accounts as well as keeping in regular contact, at least annually, with the exiting employer to ensure that the payments can be met.

As a condition of entering into a DSA, the exiting employer is required to engage with the administering authority to assist with monitoring the level of covenant, for example by providing information requested by the administering authority in a timely manner.

<u>Timeliness of payments</u>

The DSA will set out whether payments are made on a monthly or annual basis and how long for, and the administering authority will monitor if contributions are paid on time. Successive late or in particular missing payments would contribute towards further interest charges or the spreading agreement may be reviewed and/or terminated.

Strength of guarantee or security

If a particular schedule of payments has been agreed between the administering authority and the exiting employer on the understanding that there is a particular security in place (e.g. another employer in the Fund willing to pay the remaining balance or a fixed charge on property that covers the remaining balance) then the administering authority will check there has been no change to the security regularly. The frequency of these reviews may reduce as the level of outstanding debt reduces. The administering authority with advice from the Fund Actuary may change the schedule of payments depending on the strength of the security in place. The exiting employer would be consulted prior to any changes.

Notifiable events from the exiting employer

The exiting employer has a responsibility to make the administering authority aware of any changes in their ability to make payments or of a change in circumstance that affects their ability to make payments. Information should be shared with the administering authority at any time throughout the agreement to enable the administering authority to consider whether a review of the agreement should be carried out.

Terminating a DSA

Events that may terminate a DSA

On paying all the payments set out in the revised rates and adjustments certificate the exiting employer will no longer have any obligations to the Fund.

In the event that the administering authority believes that the exiting employer may not be able to make any of their remaining payments, the administering authority reserves the right to review and/or terminate the DSA to ensure it is appropriate for the Fund and does not adversely impact the other participating employers.

The exiting employer may also request to terminate the DSA early, in which case an immediate payment of the outstanding amounts set out in the contribution schedule should be paid.

Process of termination

In the event of a DSA being amended or terminated the administering authority will communicate this to the exiting employer along with reasons for the decision. Before the decision is made the administering authority will consult with the exiting employer about their change in circumstances and also take advice from the Fund Actuary.

If the DSA has to be terminated prematurely the administering authority will seek to obtain from the exiting employer as much of the outstanding exit payments as possible or look at alternative arrangements such as a deferred debt agreement. Once the exit payment has been made in full, the exiting employer has no further obligation to the Fund.

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

Resources Review, Financial Projection Setting and Committee Objective Setting

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

2. Issues for consideration

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

- Agree a fund financial projection for the 2021-22 financial year.
- Review the absolute return target for the investment return of the fund.
- Consider defining criteria for measuring the success in meeting the Committee’s objectives for the year.
- Consider the resources Committee requires to meet their objectives for the year.

3. Background

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

4. Fund Objectives

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

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

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

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

4.3 In order to ensure that sufficient resources are available to meet all liabilities as they fall due over the next 12 months, and the costs associated with this aim and the running of the fund in general are managed, a draft financial projection has been produced for the 2021-22 financial year and is attached as appendix A. Committee is asked to review the draft financial projection and approve its adoption subject to any amendments they agree on.

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

5. Committee Objectives

5.1 The committee's objectives for the forthcoming year are highlighted within the Committee business plan and forward work plan. As part of the business plan update (item 9) committee will reaffirm the objectives set within the business plan.

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

6. Resources

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

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

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

6.4 The Investments team of Somerset CC provide investment administration and accounting for the fund along with the bulk of the support of Committee and Pension Board. Currently 2.6 full time equivalent (FTE) employees are charged to the fund, it is anticipated that this will be slightly reduced in 2021-22 as the remainder of the assets pass to Brunel therefore removing the processes around the legacy mandates, particularly the ceasing of the internal equity mandates.

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

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

7. Consultations undertaken

None

8. Financial Implications

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

9. Background Papers

None

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

Pension Fund Financial Projection

2021-2022

	2019-2020 Full Year	2020-2021 Full Year			2021-2022 Full Year
	Actual (a)	Original Budget (b)	Projected Outturn (c)	Variance (d)	Proposed Projection (e)
	£m	£m	£m	£m	£m
Contributions and other income					
Contributions	103.318	102.000	102.000	0.000	109.000
Recoveries from employers	3.301	2.100	2.100	0.000	2.100
Transfer values received	16.017	4.500	6.500	2.000	4.500
	122.636	**108.600**	**110.600**	**2.000**	**115.600**
Less benefits and other payments					
Recurring pensions	-81.657	-85.000	-85.000	0.000	-88.000
Lump sum on retirement	-15.654	-18.000	-12.500	5.500	-15.000
Lump sum on death	-2.515	-2.500	-2.500	0.000	-2.500
Transfer values paid	-11.386	-15.000	-17.000	-2.000	-10.000
Contribution refunds	-0.304	-0.400	-0.400	0.000	-0.400
	-111.516	**-120.900**	**-117.400**	**3.500**	**-115.900**
Contributions after payments	**11.120**	**-12.300**	**-6.800**	**5.500**	**-0.300**
Management Expenses					
Administrative expenses	-1.285	-1.300	-1.300	0.000	-1.500
Investment management expenses	-6.228	-5.700	-5.700	0.000	-6.000
Oversight and governance expenses	-0.662	-0.750	-0.750	0.000	-0.625
	-8.175	**-7.750**	**-7.750**	**0.000**	**-8.125**
Investment Income					
Investment income	33.203	12.000	19.000	7.000	6.000
Net Increase / Decrease (-) in fund	**36.148**	**-8.050**	**4.450**	**12.500**	**-2.425**

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Somerset County Council
Pensions Committee

Investment of Pension Fund Cash

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

1. Summary

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

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

2. Issues for consideration

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

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

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

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

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

3. Background

3.1 The sterling balances of the Fund are managed with a daily sweep undertaken with the Fund's custodian to clear sterling balances back to the fund's bank account. The balances are a mix of sterling money which has been allocated to fund managers but they are choosing not to invest (frictional cash) and the cash balances of the fund that are being received monthly from employers and paid out to pensioners. These balances do vary. A graph showing the daily value of cash balances since December 2017 is below.

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

3.4 Officers are proposing a similar counterparty policy to the one adopted for 2020-21 (attached as appendix B).

4. Consultations undertaken

None

5. Financial Implications

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

6. Background Papers

None

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

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Item 14
Appendix A

Pension Fund Cash Management Strategy

Introduction

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

Short-Term Borrowing

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

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

Investments

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

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

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

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

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

Benchmark

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

Item 14
Appendix B

Pension Fund Cash Lending Counterparty Criteria

The following criteria will be used to manage counterparty risks to Somerset County Council Pension Fund for cash deposits from 26th March 2021 (subject to adoption by the SCC Pensions Committee): -

Financial Institutions

Any Financial Institution that is authorised by the Prudential Regulation Authority to accept deposits in the UK, or is a UK Building Society can be lent to, subject to the rating criteria below at the time of the deposit.

Rating of Counterparty

The following long term ratings are the minimum acceptable level:

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

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

Operational Bank Accounts

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

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

Public Sector Bodies

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

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

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

Definitions of Rating Agency Ratings

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

Financial Groups

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

Money Market Funds

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

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

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

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

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

Diversification

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

Other Indicators

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

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

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