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PENSIONS COMMITTEE
Friday 1 July 2022
10.00 am Hobhouse Room - County Hall

To: The members of the Pensions Committee

Cllr S Coles, Cllr H Farbahi, Cllr P Seib, Cllr J Cook-Woodman, Cllr R Henley, Ms S Payne, Mr R Bryant, Mr A White, Mr P Butler, Ms S Williams

All Somerset County Council Members are invited to attend.

Issued By Scott Wooldridge, Strategic Manager - Governance and Democratic Services - 23 June 2022

For further information about the meeting, please contact Neil Milne on 01823 359045 or ndmilne@somerset.gov.uk or Terrie Brazier on 01823 357628 or tbrazier@somerset.gov.uk

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

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AGENDA

Item Pensions Committee - 10.00 am Friday 1 July 2022

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

1 **Apologies for absence**

To receive apologies for absence.

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at
County Councillors membership of Town, City, Parish or District Councils and this will be displayed in the meeting room (Where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service Team.

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

The Committee is asked to confirm the minutes are accurate**.**

4 **Public Question Time**

The Chair 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 **Somerset Unitary**

To receive a verbal update from the Funds and Investment Manager on the implications of the Unitary process for the pension fund.

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

To consider this report from the Funds and Investments Manager.

7 **Independent Investment Advisor's Report**

To receive a verbal update on developments in financial markets.

8 **Review of Investment Performance** (Pages 17 - 42)

To consider this report from the Funds and Investments Manager.

9 **Review of Administration Performance** (Pages 43 - 48)

To consider this report from the Head of Peninsula Pensions.

10 **Business Plan Update** (Pages 49 - 58)

To consider this report from the Funds and Investment Manager.

11 **Finance and Membership Statistics Update** (Pages 59 - 62)

To consider this report from the Funds and Investments Manager.

12 **Review of Pension Fund Risk Register** (Pages 63 - 68)

To consider this report from the Funds and Investments Manager.

13 **Policies and Statements** (Pages 69 - 202)

To consider this report from the Funds and Investments Manager.

14 **Knowledge and Skills**

To receive a verbal update on plans for undertaking an assessment of the Pension Committee's and Pension Board's knowledge and skills.

15 **Any other urgent items of business**

The Chair may raise any items of urgent business.

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Guidance Notes for the Pension Committee meeting

1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Clerk for the meeting: Terrie Brazier at tbrazier@somerset.gov.uk or on Tel (01823) 357628, or the Governance Manager: Neil Milne at ndmilne@somerset.gov.uk. The documents can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers

2. Members' Code of Conduct requirements

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

3. Minutes of the Meeting

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

4. Public Question Time

If you wish to speak, please email the Democratic Services Team at democraticservicesteam@somerset.gov.uk by 5.00pm three clear working days before the meeting.

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 signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chair. You may not take 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, normally to two minutes only.

5. Exclusion of Press & Public

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

6. Recording of meetings

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

Webcasting notice: Please note that this meeting may be filmed for live or subsequent broadcast via the Council's website or YouTube. At the start of the meeting the Chair will confirm if all or part of the meeting is being filmed. You should be aware that the council is a data controller under the Data Protection Act. Data collected during this webcast will be retained in accordance with the council’s policy. Therefore, by entering the meeting room or joining remotely, you are consenting to being filmed and to the possible use of those images and sound recordings for webcasting and/or training purposes. If members of the public do not wish to have their image captured they should ask the committee clerk, who will advise where to sit or participate in the meeting. If you have any queries regarding this, please contact the Committee Manager for the meeting.

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

Pensions Advisory Board

Minutes of the Pensions Advisory Board held on Friday 18 March 2022 at 10.00am.

Committee Members Present:

Cllr J Thorne - Chair
Cllr G Noel
Cllr S Coles
Mrs C. Burton
Mr R Bryant

Other Officers Present:
Mrs A Hill
Mr A Sweet
Mr D Harris – Peninsular Pensions
Mrs J Jones – substituting for Mr N Milne
Mr N Behan
Mr P Butler – Avon & Somerset Constabulary
Mr S Reimers
Mr S Morton

1 **Apologies for Absence** - agenda item 1
Apologies were received Mrs S Payne, Gordon and Mr N Milne.

2 **Declarations of Interest** - agenda item 2
No new Declarations of Interest were reported.

3 **Minutes of the Previous Meeting** - agenda item 3
The Committee agreed and signed off the Minutes of the meeting held on 7th January 2022 as an accurate record.

4 **Public Question Time** - agenda item 4
The Chair welcomed 1 member of the public who was present and invited them to address the Committee.

The Committee heard from Mr Sigurd Reimers who raised a statement:
A number of Council pensions committees and Pensions Pools are currently considering their actions in relation to investments in Russian oil and gas. Attached is a link showing a recent example relating to Dorset Pensions Committee, a fellow-member of Brunel Pension Partnership. Dorset Pensions Committee decided yesterday to start the process of divesting from Russian oil and gas.
https://www.dorsetecho.co.uk/news/19967690.dorset-council-consider-pension-fund-investments-russian-companies/
Although the question of Russian oil and gas is not immediately relevant to the question of climate change, it does indicate that ethical questions around pensions investments can be addressed promptly and effectively.
I urge Somerset Pensions Committee to take urgent action in relation to its investments in Russian Oil and Gas, both directly and via its links with Brunel Pension Partnership.
Ukraine is urgent: the climate is urgent. Both are urgent. This is not a question.
Sigurd Reimers

Mr Sweet responded by saying – Brunel and the client groups are acting as one, even though their portfolios may be different. We two weeks ago agreed to divest all Russian Holdings, but there are some holdings that could not be sold due to Moscow's stock exchange being closed and will be carried at zero value until we are able to sell them. This news was shared with the committee at the time. This exposure was small with 4% in Russians holdings pre-invasion and everything where possible has been divested.
The Chair asked that a communication needs to go out to advise everyone about this which Mrs Jones agreed to follow up.

5 **Local Government Reorganization** - agenda item 5
The Funds and Investments Manager addressed the Committee explaining this will be a standing items, as agreed at the September meeting. Everything is on track, with work to be done on the Terms of Reference and to refresh certain positions on the committee.

No questions were raised and the Committee noted the comments.

6 **LGPS Pooling of Investments** - agenda item 6
The Funds and Investments Manager provided the Committee with an overview of his report. Because the committee is an advisory board, voting can not take place but can note if the budget is agreed. There is a 5% waiting for Strategic Commitment of the £60 million budget and therefore cannot finalize. At the Brunel AGM the majority were

happy with the budget. Cllr Coles asked if the reason for the minority not to agree was known, to which Mr Sweet explained he was not aware., but there was nothing of concern to be worried about. The Chair mentioned the Committee are happy to agree the investment in Brunel.

The Committee noted the report.

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

The Funds and Investments Manager provided the Committee with an overview of his report, mentioning that the quarter in question was very strong, but it wont be a surprise that this year returns have been negative for the quarter to March. The losses are due to the war in Ukraine and the position with the Russian Stock Market.
Cllr Coles asked the question why the FT index in 2002 has stagnated over the last 20 years and whether there is a reason for this. Mr Sweet explained that we invest not just in the UK and has performed less well than the American market which has been the stronger. FT index does not include the dividend received, which gives a 4% return. Cllr Coles acknowledged the information has been given in a way to understand. Mr Butler stated that there are breaks in the road over the years which do affect things.

The Committee noted the report.

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

The Committee considered a report from Peninsular Pensions presented Mr Harris. Staff have regularly been into the office and 80-90% of work is completed on time. Quarter ending December 2021 show 88% of work was completed on time, with 96% of high priority work completed on time. Appendix 1 of the pack shows the targets broken down. Appendix 2 of the pack gives a summary showing the increase in workload. There are vacancies in the team being held and a meeting with Anne, Rachel and Stephen, to discuss how we report to the Pensions Board.

The Committee noted the report.

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

The Independent Advisor gave a verbal update. There is a rise in interest rates global, and central banks are worried the rise in inflation. We need to watch what is happening in China, as they are continuing to operate as we were in lockdown, closing whole cities and ports which are affecting supplies and corporate profits as this impact globally. With the

West now not buying Russian energy, this will be snapped up by the East and will affect the Russian economy for many years.
Mr Butler asked the question what intelligence there is on the in fluency pressures on interest rate. Mrs Burton said that the bank's target is 2% and it is likely to be this by the end of the year, but it is too early to say for certain.
Mr Noel asked the question on what the implications would be to be self-sufficient as fracking will be starting again and an increase in wind and solar farms. Mrs Burton explained that the UK will need to find other ways for energy; in the long term nuclear could be the way forward as there is no guarantee for prolonged sun and wind to keep the wind and solar farms going, so in the short term we continue to use coal.

The Committee noted the report.

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

The Funds and Investments Manager noted that there had been no changes since the last meeting and there is unlikely to be any until after the elections. There is a mention that the government want LGPS to invest within the UK, but are waiting for further detail.

The Committee noted the Update.

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

The Committee considered a quarterly report by the Funds and Investments Manager, which shows we are on track. The code was a receipt issue showing that we are now only £5million behind on contributions, instead £15 million. Mr Sweet is sure that we will make the estimated £115 million projected.

The Committee noted the report.

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

The Committee was shared the report by the Funds and Investments Manager. The Committee reviewed the Pension Fund's risk register and he noted there had been no changes since the last report, and that it would not be wise to add Ukraine as a risk.

The Committee noted the report.

13 **Investment Strategy Statement –** agenda item 13
The Committee was shared the report by the Funds and Investments Manager providing an overview of this report and the Committee was asked to adopt it, to allow changes to be made by the new Committee in the future. Cllr Coles was happy to propose it and Mr Butler was happy to second it.

The Committee adopted and noted the report.

14 **Resources Review, Financial Forecast Setting and Committee Objective Setting –** agenda item 14
The Committee was shared the report by the Funds and Investments Manager providing an overview of this report and gave an update on the financial position which we don't have any level of control over. The projection will be £122 million which is up on £115 million this year, including the green book staff being awarded 1.75% pay rise and possible 3% next year. Pensions contribution will go up to 3.1% and an increase in assets will feed through into the fees we pay. Mr Sweet will have a conversation with the new administration as the resources are ok for the coming year, but more will be needed after vesting day. Cllr Coles would like it noted that staff savings should not affect having the right staff in the right place and the correct number of staff too in the long term.

The Committee noted the report.

15 **Cash Management Strategy -** agenda item 15
The Committee was shared the report by the Funds and Investments Manager stating that there is a requirement and the Committee agreed to keep things as they are.

The Committee noted the report.

16 **Review of Pensions Committee Terms of Reference** – agenda item 16
The Committee was shared the report by the Funds and Investments Manager who will be taking the Terms of Reference to the Constitution and Standards Committee, but this will be raised with the newly formed Committee. Quoracy is currently only made up of elected members and was proposed by Cllr Coles to change this. The Committee agreed this and would like the Quoracy is changed as soon as possible but will have to be agreed through Full Council which Mr Sweet will do, as well as changing the membership from 4 County Councilors and 1 District Councillor and who can vote which is historic.

17 **Any other urgent items of business** – agenda item 17

The Chair, after ascertaining there were no further items, thanked all those present for attending and closed the meeting.

(The meeting ended at 11:26am)

CHAIR
Cllr J Thorne

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. A significant portion of that £50m has now been committed by Brunel to underlying PE funds and just over £10m has been drawn.

3.7 As agreed by Committee at the March 2021 meeting the Fund has committed £60m to the private equity cycle starting 1st April 2022.

3.8 Officially the transition of the £206.9m property portfolio from LaSalle to Brunel took place on 2nd November 2020, however unlike the equity portfolios the transfer process of property unit trusts is a slow process, this is now completed.

3.9 £437m of fixed income assets were transferred from Aberdeen Standard Investments to four Brunel portfolios during May, June and July 2021.

4. Consultations undertaken

4.1 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.

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

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

5. Financial Implications

5.1 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.

5.2 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. An annual review of savings is included in the Fund's annual report.

6. Background Papers

6.1 None

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

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Somerset County Council
Pensions Committee

Review of Investment Performance

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

1. Summary

1.1 The report attached as appendix A is to inform the committee about the performance of the Pension Fund's investments for the quarter ended 31 March 2022 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 8
Appendix A

Review of Investment Performance for the Quarter to 31st March 2022

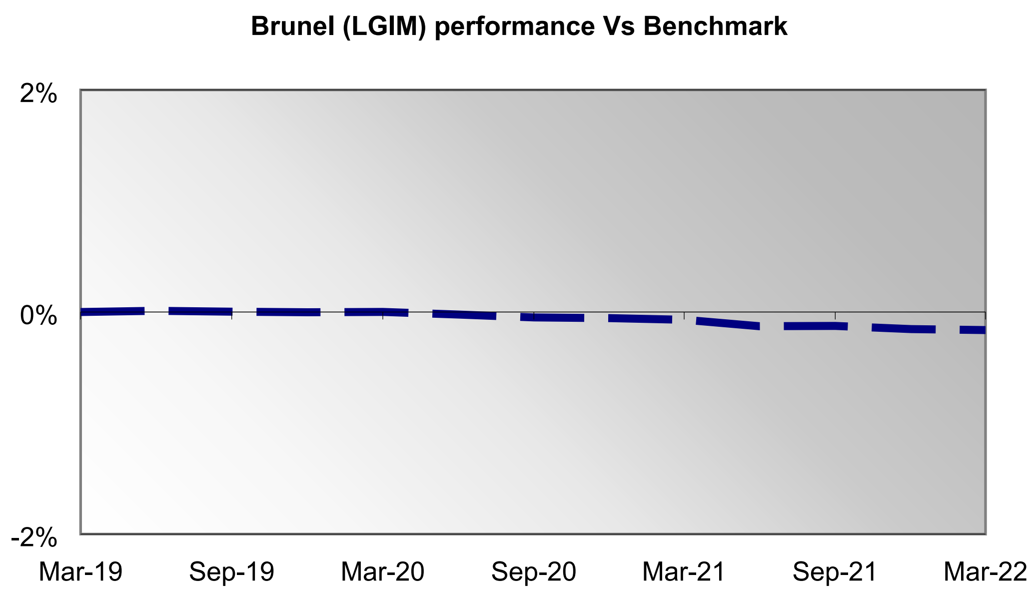
1. Brunel - LGIM (Passive Global Equity)

1.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
782.6	**Global equities**	**-2.4**	**-2.4**	**+0.0**

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

1.3



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**14.8**	**14.8**	**+0.0**
3 year	**14.8**	**14.9**	**-0.1**
5 years		Initial investment in July 2018	

2. <u>Brunel - (Global High Alpha Equity)</u>

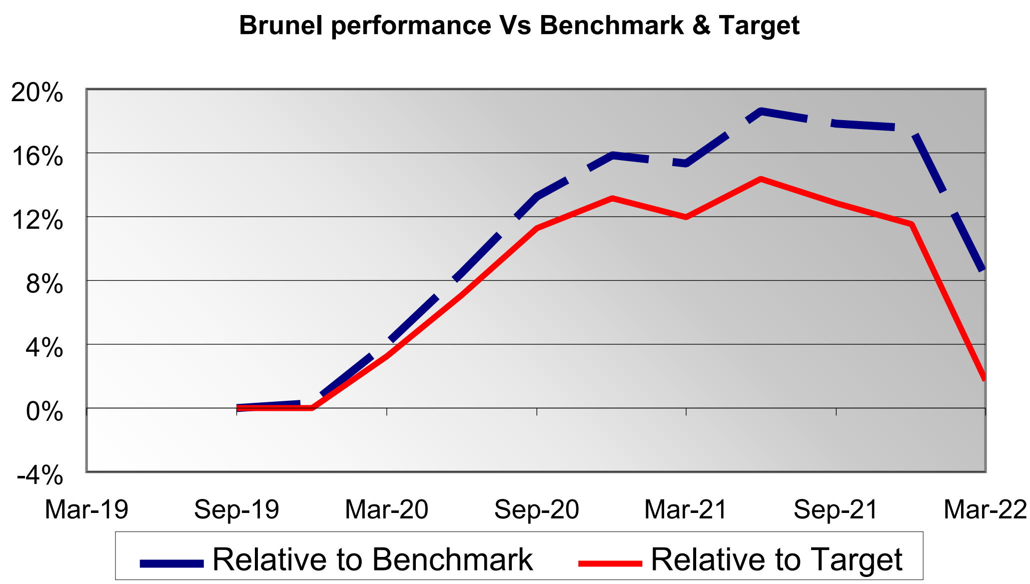
2.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
392.5	**Global equities**	**-8.0**	**-2.3**	**-6.7**

2.2 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.

2.3 The fund significantly underperformed during the quarter. Absolute returns were strongly negative.

2.4 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%.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**8.8**	**15.9**	**-7.1**
3 years	Initial investment in November 2019		

3. Aberdeen Standard Investments (UK Equities)

3.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
13.3	UK	-18.2	0.5	-17.7

3.2 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.

3.3 Aberdeen Standard had a very poor quarter relative to their benchmark. Absolute returns were strongly negative. Smaller companies underperformed during the quarter, and the Aberdeen Standard fund underperformed the smaller companies' benchmark.

4. Brunel (UK Equities)

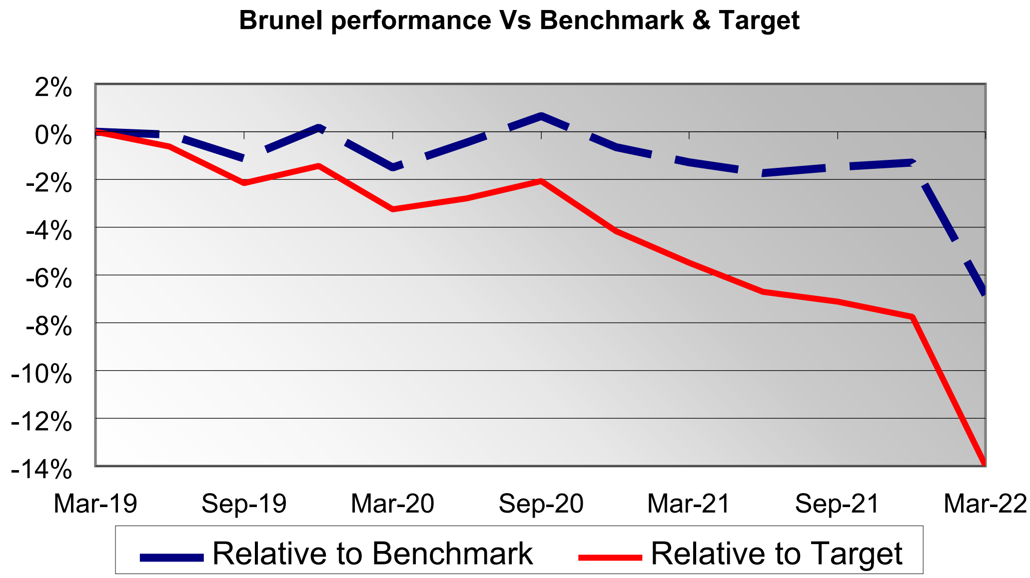
4.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
489.0	UK	-3.7	1.2	-2.5

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

4.3 The portfolio significantly underperformed the benchmark during the quarter. Absolute performance was negative.

4.4 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.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**8.5**	**13.8**	**-5.3**
3 years	**3.5**	**5.6**	**-2.1**
5 years	Initial investment in November 2018		

5. Brunel (Global Smaller Companies Equity

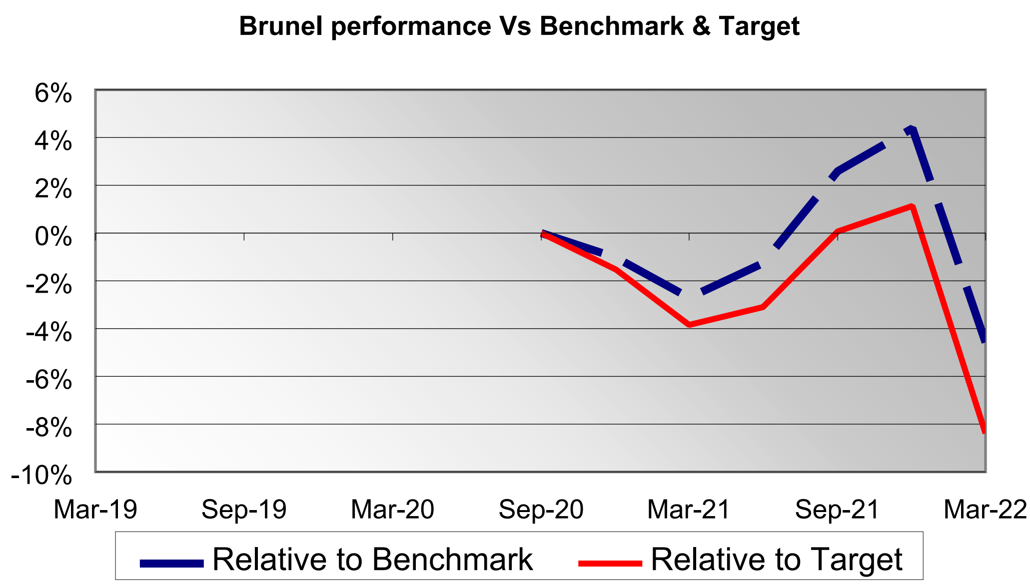
5.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
189.1	**Smaller Companies**	**-10.0**	**-3.8**	**-6.2**

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

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

5.4 The Brunel Smaller Companies 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	**2.2**	**3.6**	**-1.4**
3 years	Initial investment in September 2020		

6. Brunel (Emerging Market Equity)

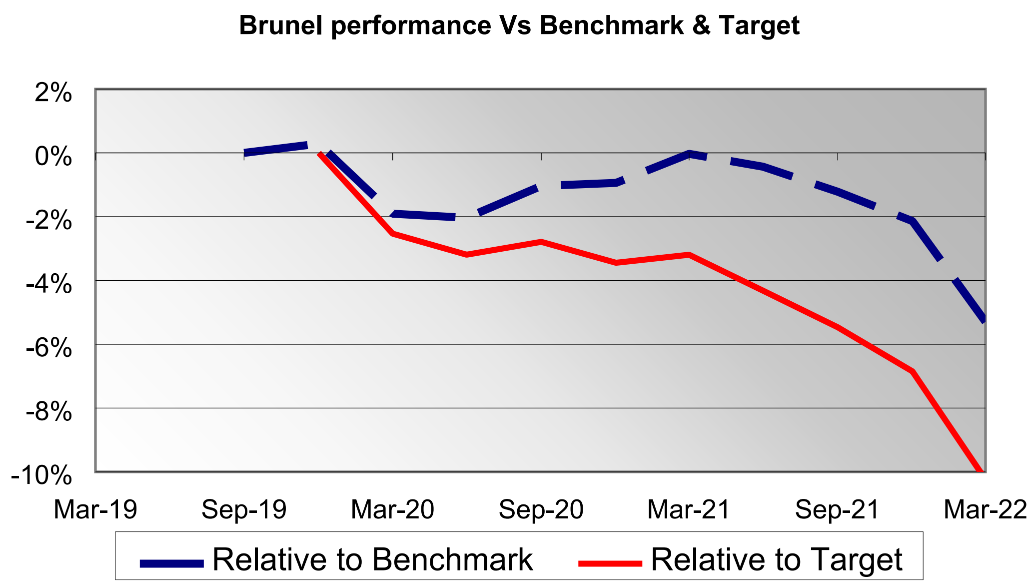
6.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
108.1	**Emerging Market**	**-7.1**	**-4.3**	**-2.8**

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

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

6.4 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%.



6.5 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	**-11.5**	**-7.1**	**-4.3**
3 years	Initial investment in October 2019		

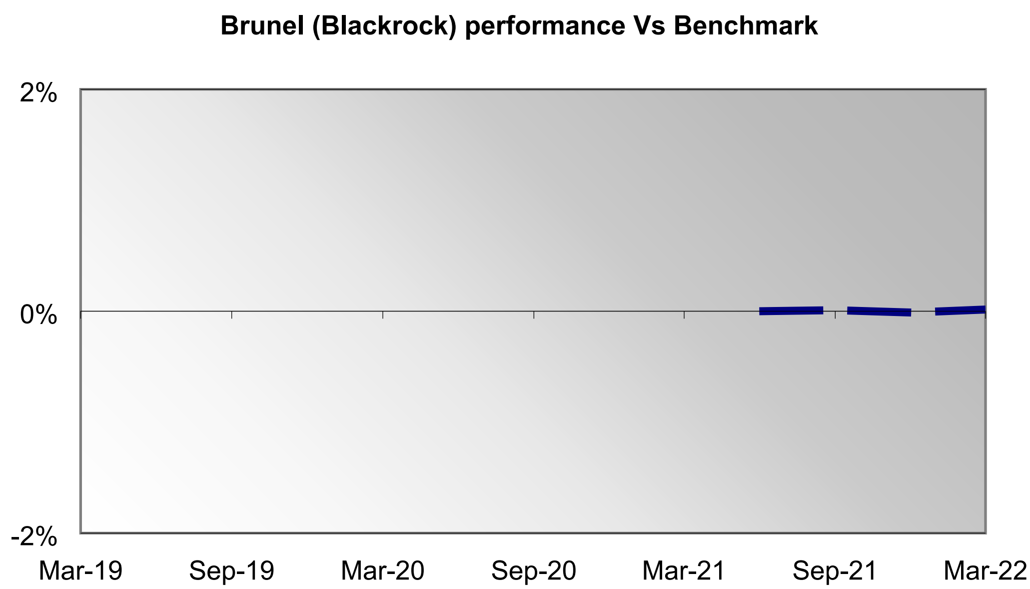
7. Brunel (Passive Gilts)

7.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
62.3	UK Gilts	-12.3	-12.3	+0.0

7.2 The Blackrock managed passive UK Gilts Fund matched the performance of the benchmark for the quarter. Absolute performance was negative.

7.3



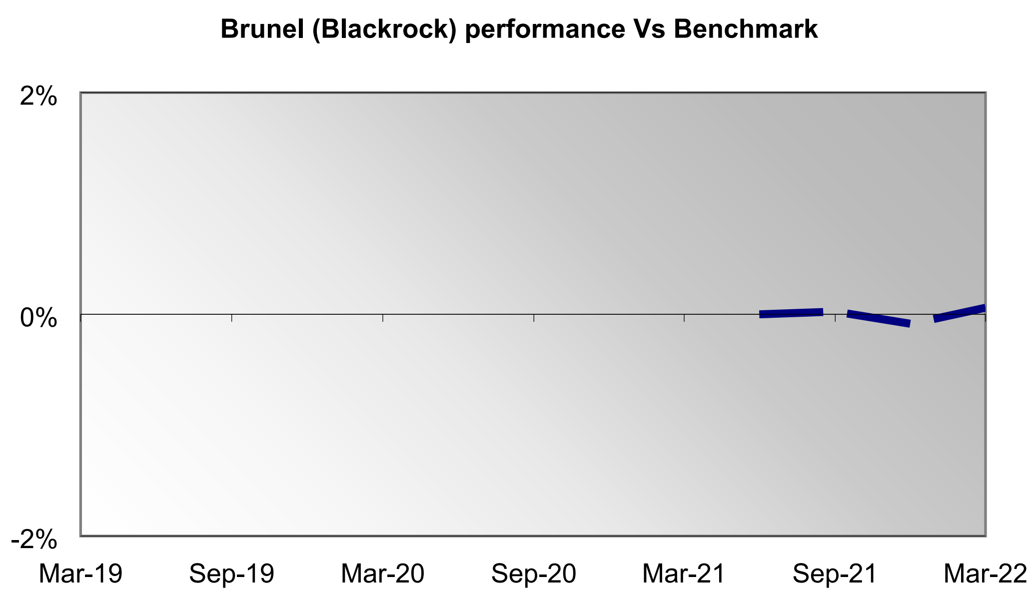
8. Brunel (Passive (index-Linked Gilts)

8.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
80.9	UK Index-Linked Gilts	-6.3	-6.4	+0.1

8.2 The Blackrock managed passive UK Index-Linked Gilts Fund slightly outperformed against the benchmark for the quarter. Absolute performance was negative.

8.3



9. Brunel (Sterling Corporate Bonds)

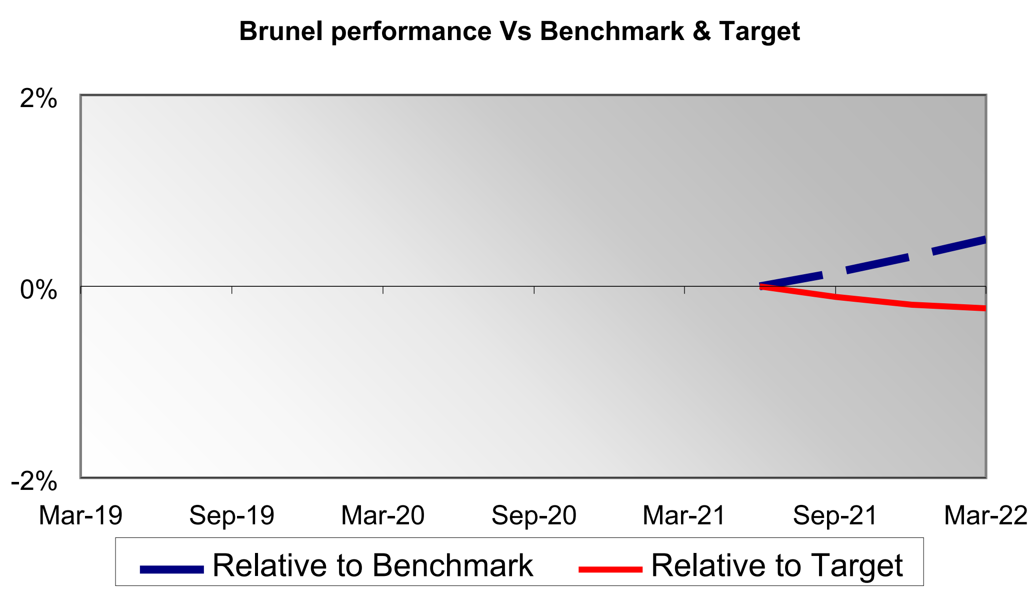
9.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
196.8	**£ Corporate Bonds**	**-6.0**	**-6.2**	**+0.2**

9.2 The Brunel Sterling Corporate Bond portfolio is managed by Royal London Asset Management.

9.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was strongly negative.

9.4



10. Brunel (Multi Asset Credit)

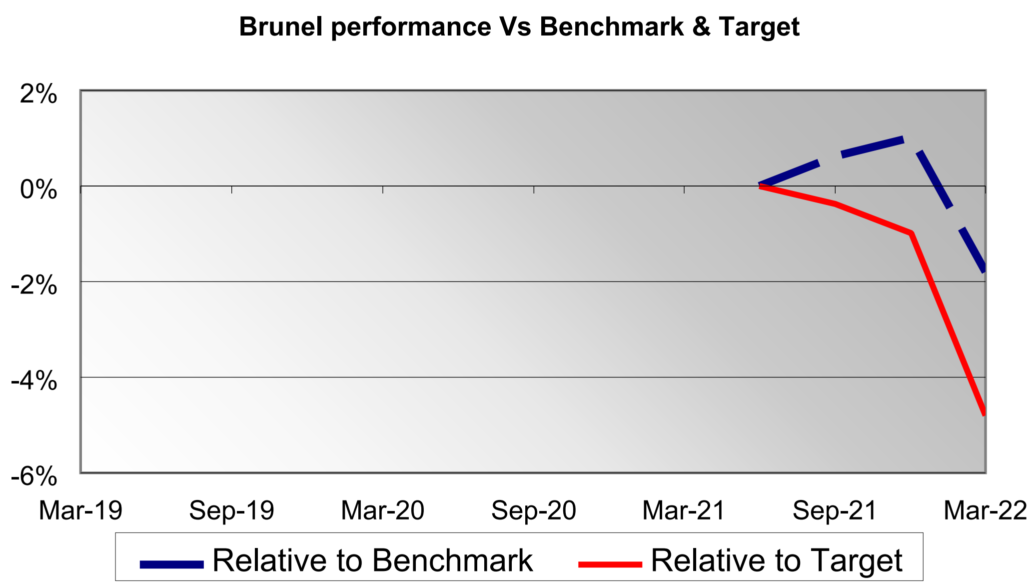
10.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
77.7	Multi Asset Credit	-2.7	0.1	-2.8

10.2 The Brunel Sterling Corporate Bond portfolio is managed by a combination of CQS, Neuberger Berman and Oaktree.

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

10.4



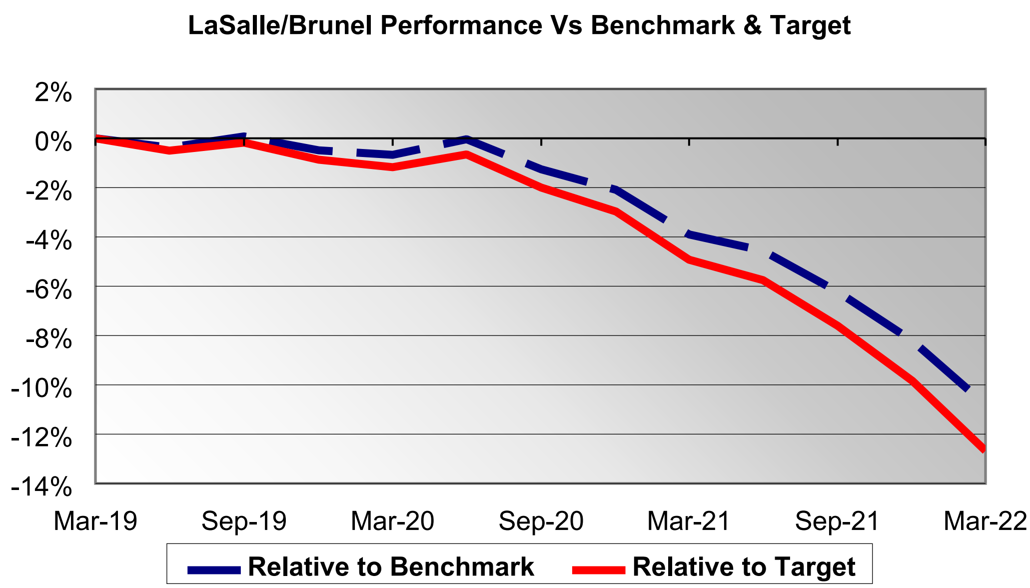
11. LaSalle/Brunel (Property Fund of Funds)

11.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
			Performance	
Value as at 31 Mar £m		Fund for quarter %	Benchmark for quarter %	Relative to Benchmark %
227.9	**UK Property**	**3.9**	**5.6**	**-1.7**
18.1	**Cash**			
246.0	**Total**	**3.7**	**5.6**	**-1.9**

11.2 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.

11.3 Brunel's target is to outperform the benchmark by an annualised return of 0.5% over continuous five to seven year periods after all fees have been deducted.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**17.0**	**23.1**	**-6.1**
3 years	**4.9**	**8.0**	**-3.2**
5 years	**5.7**	**7.8**	**-2.1**
10 years	**6.2**	**8.2**	**-2.0**

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
73.1	Private Equity	2.9	0.1	+2.8

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

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

12.4 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	27.9	14.8	+13.1
3 years	20.4	14.9	+5.5
5 years	17.0	11.6	+5.4
10 years	16.8	13.5	+3.3

13. Brunel (Global private equity)

13.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Value as at 31 Mar £m	Quarter to 31 March 2022	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
10.2	**Private Equity**	**7.3**	**0.1**	**+7.2**

13.2 Brunel have invested in a number of private equity funds on the Fund's behalf and just over 20% of our commitment has been drawn. The portfolio is still very immature but appears to be making good progress at generating positive returns.

13.3 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	**22.9**	**14.8**	**+8.1**
3 years	Initial investment in December 2020		

14. South West Ventures Fund

14.1 The fund continues to make reasonable progress.

15. Combined Fund

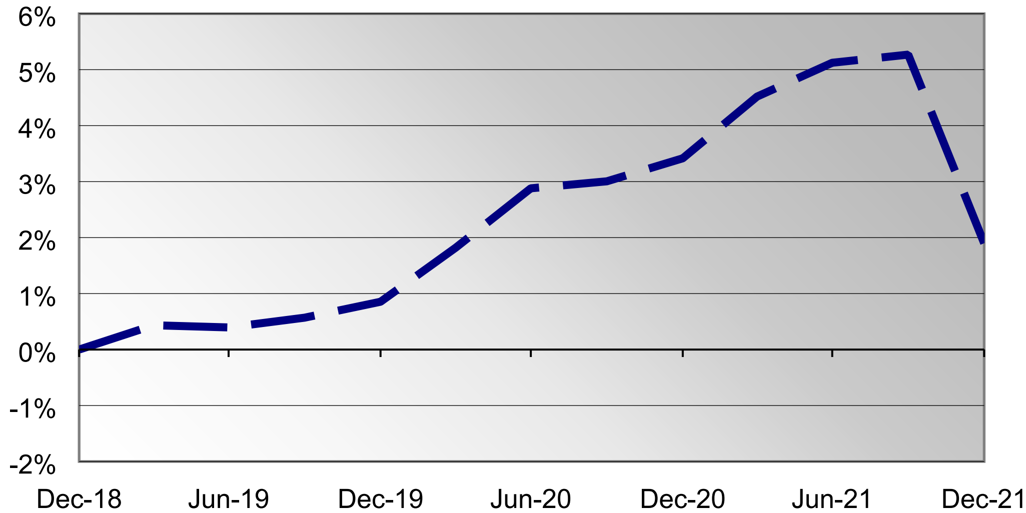
15.1 The performance for the quarter to 31st March 2022 is summarised in the following table:

Quarter to 31 March 2022				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
782.6	Brunel (Passive Gl Eq)	-2.4	-2.4	+0.0
392.5	Brunel (GHA Eq)	-8.0	-2.3	-6.7
13.3	ASI (UK Eq)	-18.2	0.5	-17.7
489.0	Brunel (UK Eq)	-3.7	1.2	-2.5
189.1	Brunel (Small Cap Eq)	-10.0	-3.8	-6.2
108.1	Brunel (EM Eq)	-7.1	-4.3	-2.8
62.3	Brunel (Passive Gilts)	-12.3	-12.3	+0.0
80.9	Brunel (Passive I-L)	-6.3	-6.4	+0.1
196.8	Brunel (£ Corporate)	-6.0	-6.2	+0.2
77.7	Brunel (MAC)	-2.7	0.1	-2.8
246.0	Brunel (Prop)	3.7	5.6	-1.9
1.6	SWRVF	0.0	0.1	-0.1
73.1	Neuberger Berman	2.9	0.1	+2.8
10.2	Brunel (Private Eq)	7.3	0.1	+7.2
0.8	Brunel (holding in Co)	0.0	0.0	+0.0
113.3	Cash	0.1	0.1	+0.0
2,837.3	Whole Fund	-4.1	-1.7	-2.4

15.2 The fund, as a whole, underperformed its benchmark during the quarter. The level of absolute return was negative.

15.3 A asset allocation was flat for the quarter, so the underperformance was entirely due to underperformance of the underlying fund managers.

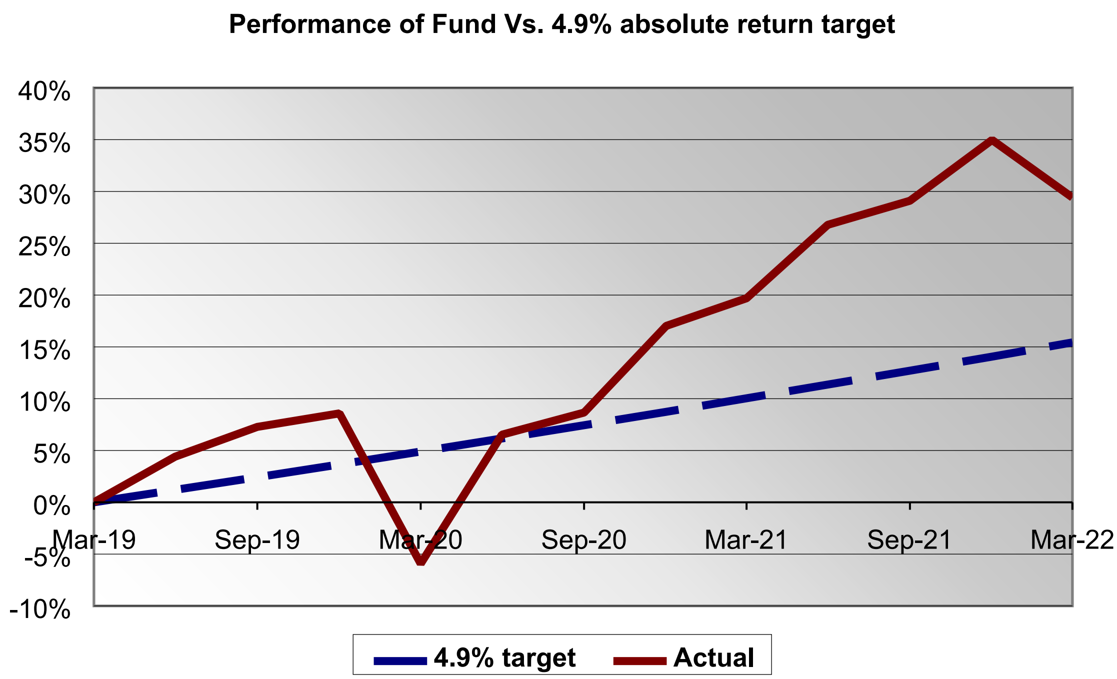
Whole Fund Performance Vs Benchmark



15.4 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	**8.1**	**9.7**	**-1.6**
3 years	**9.0**	**8.4**	**+0.6**
5 years	**7.2**	**7.1**	**+0.1**
10 years	**9.2**	**9.0**	**+0.2**

15.5 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.



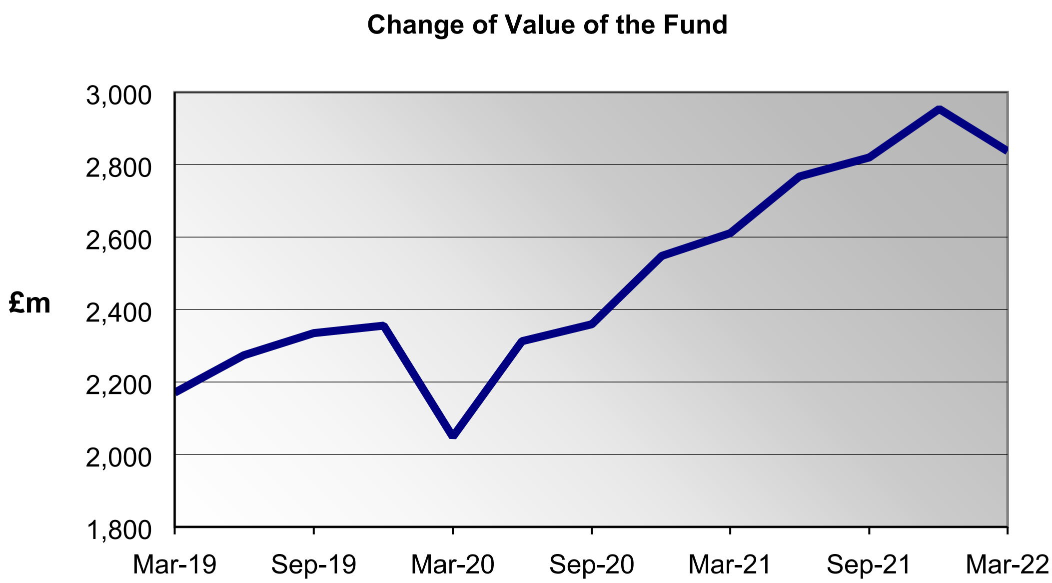
15.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Dec £m	%	Value as at 31 Mar £m	%	Strategic Weighting %
Brunel (Passive Gl Eq)	**802.0**	27	**782.6**	28	**25**
Brunel (GHA Eq)	**426.4**	14	**392.5**	14	**10**
ASI (UK Eq)	**16.2**	1	**13.3**	0	**0**
Brunel (UK Eq)	**507.5**	17	**489.0**	17	**20**
Brunel (Small Cap Eq)	**210.2**	7	**189.1**	7	**5**
Brunel (EM Eq)	**116.4**	4	**108.1**	4	**5**
Brunel (Passive Gilts)	**71.0**	2	**62.3**	2	**4**
Brunel (Passive I-L)	**86.3**	3	**80.9**	3	**4**
Brunel (Corp bonds)	**209.4**	7	**196.8**	7	**8**
Brunel (MAC)	**79.9**	3	**77.7**	3	**3**
Brunel/LaSalle (Prop)	**236.7**	8	**246.0**	9	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**76.8**	3	**73.1**	2	**0**
Brunel (Private Eq)	**7.7**	0	**10.2**	0	**5**
Brunel (holding in Co)	**0.8**	0	**0.8**	0	**0**
Cash	**104.8**	4	**113.3**	4	**1**
Whole Fund	**2,953.7**	100	**2,837.3**	100	**100**

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

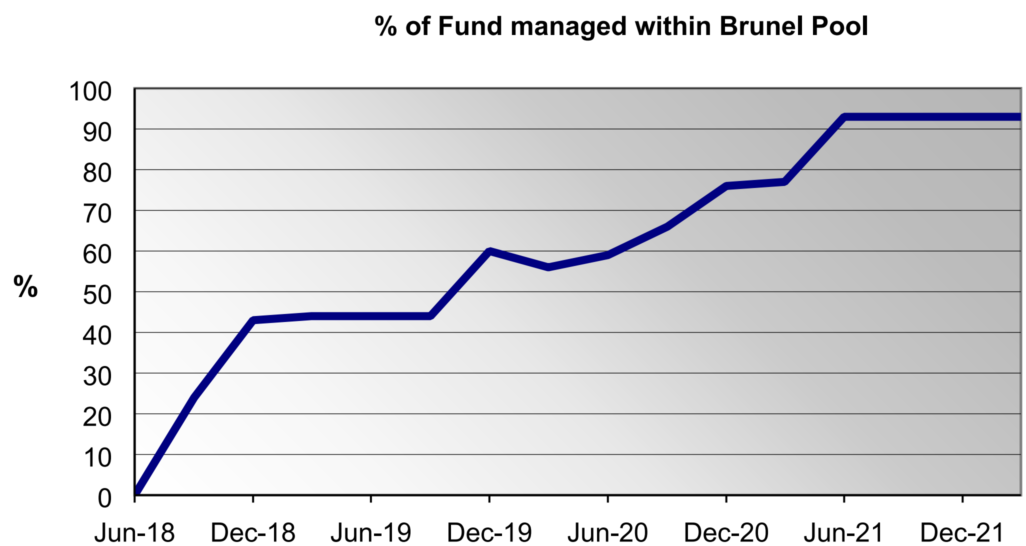
- £5.4m was withdrawn from the Neuberger Berman's Private equity mandate as cash was returned to us by these funds.
- £1.8m was added to the Brunel private equity fund as the underlying investments continued to drawdown on commitments.

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



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

	Value as at 31 Dec		Value as at 31 Mar	
	£m	**%**	**£m**	%
Pooled assets	**2,753.5**	93	**2,635.2**	93
Retained assets	**200.2**	7	**202.1**	7
Whole Fund	**2,953.7**	100	**2,837.3**	100

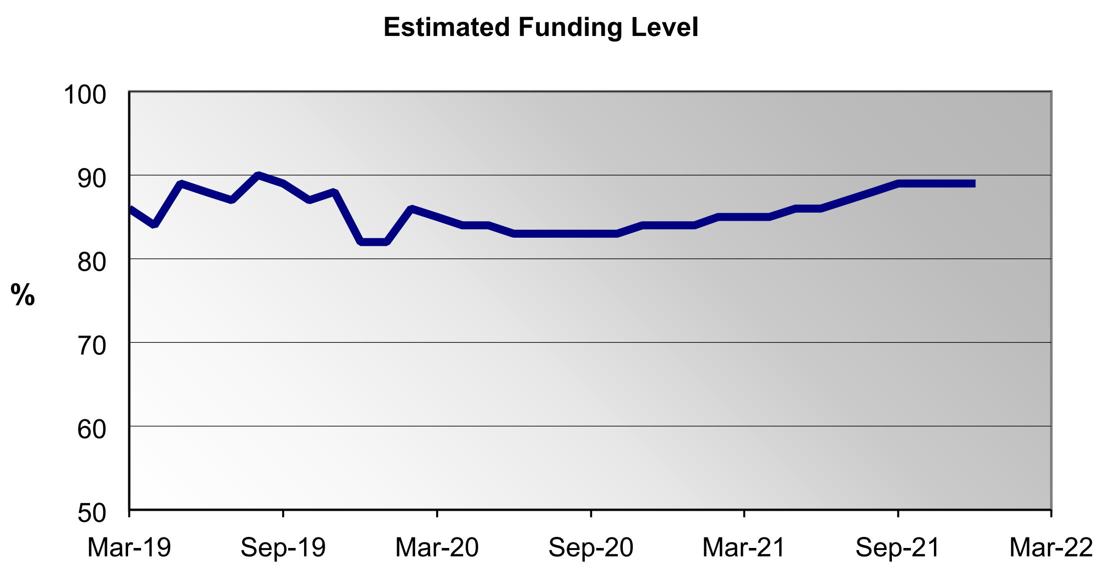


15.10 The Fund's Actuary, Barnett Waddingham, provided the following update to December 2021. We would not expect a further update until the valuation results are provided to committee in the autumn.

"The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2021 is 89.0% and the average required employer contribution would be 28.5% of payroll assuming the deficit is to be paid by 2039.
- This compares with the reported (smoothed) funding level of 85.7% and average required employer contribution of 24.3% of payroll at the 2019 funding valuation.

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



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Somerset County Council
Pensions Committee

Review of Administration Performance

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

1. Background

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

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

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

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

2. Issues for consideration

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

3. Administration team performance

3.1 Total performance against internal targets for the quarter ending 31st March 2022 was 86% (96% for High Priority procedures), bringing the total performance for the financial year 2021/22 to 88%.

3.2 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 31st March 2022 was also 86% (96% for High Priority procedures).

3.3 During the quarter, the team received 16 compliments, bringing the total received for the year to 131.

3.4 Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 31st March 2022 and for the financial year 2021/22 against Peninsula Pensions' internal targets and against the Disclosure Regulations.

3.5 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st January 2019 to 31st March 2022.

4. Employer updates

4.1 New Admitted Bodies:

- Aspens commenced a catering contract for Bridgwater Schools Academy Trust with effect from 1st August 2021 (late notification)

Academies:

- Preston School Academy joined the Midsomer Norton Schools Partnership on 1st February 2022.

- The following schools converted to academies and joined the Dunstan Catholic Educational Trust on 1st March 2022:
    - St Gildas Catholic Primary School, Yeovil
    - Our Lady of Mount Carmel Catholic Primary School, Wincanton
    - St Joseph and St Teresa Catholic Primary School, Wells
    - St Joseph's Catholic Primary & Nursery School, Burnham-on-Sea
    - St Joseph's Catholic Primary School, Bridgwater.

5. Background Papers

5.1 None

Appendix 1

Administration Performance – 1st April 2021 – 31st March 2022

Performance Summary

		01/04/2021 – 31/03/2022		Q4 2021/22	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	6,817	96%	96%	96%	96%
Medium Priority Procedures	9,358	83%	84%	80%	80%
Low Priority Procedures	2,961	86%	86%	85%	85%
TOTAL	**19,136**	**88%**	**88%**	**86%**	**86%**

High Priority

		01/04/2021 – 31/03/2022		Q4 2021/22	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	886	100%	100%	100%	100%
Complaints (Member)	52	100%	100%	100%	100%
Complaints (Employer)	0	-	-	-	-
Deaths	690	93%	94%	94%	94%
Payroll	674	96%	96%	91%	91%
Refunds	1,542	100%	100%	100%	100%
Deferred (Over 55)	436	100%	100%	100%	100%
Retirements (Active)	932	96%	96%	93%	93%
Retirements (Deferred)	1,605	89%	89%	93%	93%
TOTAL	**6,817**	**96%**	**96%**	**96%**	**96%**

Medium Priority

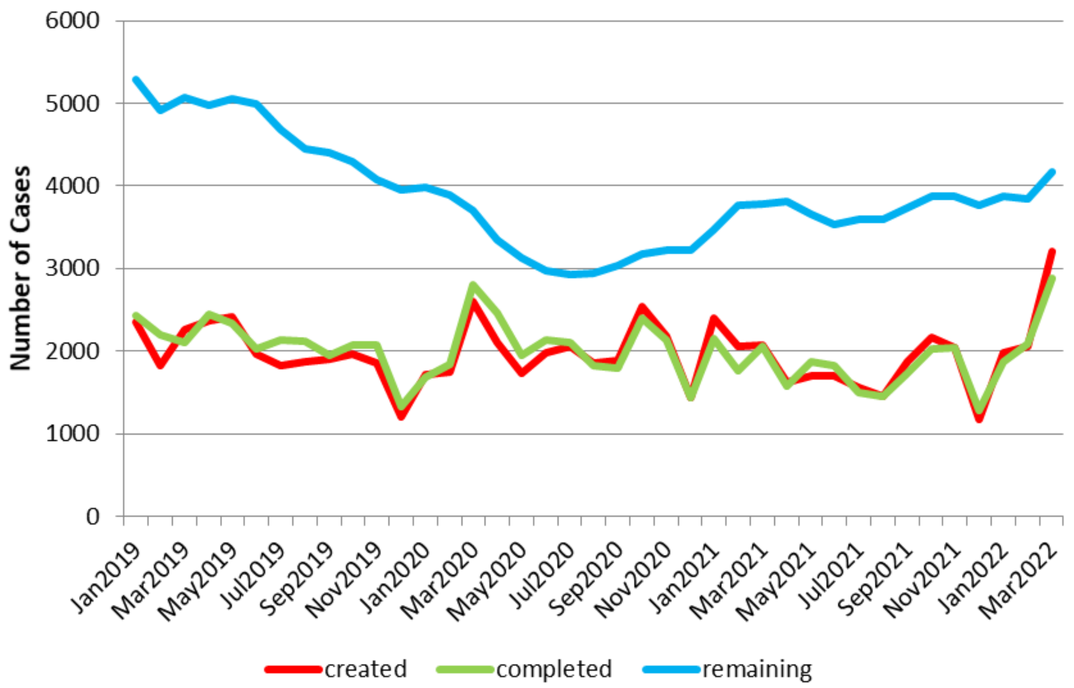
		01/04/2021 – 31/03/2022		Q4 2021/22	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamations	1,410	69%	71%	75%	78%
Deferred Benefits	2,700	64%	65%	46%	47%
Divorce Calculations	177	89%	89%	93%	93%
Employer Queries	417	71%	74%	61%	66%
Estimates (Bulk)	0	-	-	-	-
Estimates (Employer)	52	100%	100%	100%	100%
Estimates (Member)	174	91%	91%	100%	100%
General	1,710	98%	98%	98%	98%
HMRC	72	100%	100%	100%	100%
Member Self-Service	2,646	100%	100%	100%	100%
TOTAL	**9,358**	**83%**	**84%**	**80%**	**80%**

Low Priority

		01/04/2021 – 31/03/2022		Q4 2021/22	
	Total Cases	Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	170	41%	41%	52%	52%
GMP Queries	4	100%	100%	100%	100%
Interfund Transfers In	261	51%	52%	44%	46%
Interfund Transfers Out	273	75%	76%	83%	83%
Pension Top Ups	237	97%	97%	100%	100%
Frozen Refunds	1,555	95%	95%	90%	90%
New Starters	0	-	-	-	-
Pension Transfers In	231	93%	93%	96%	96%
Pension Transfers Out	230	88%	88%	97%	97%
TOTAL	**2,961**	**86%**	**86%**	**85%**	**85%**

Appendix 2

Administration Performance - 1st January 2019 – 31st March 2022



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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, Goodwin, the 95k cap and other matters. There has not been any movement from Government on any issues. Government did include reference to "local" investment" by the LGPS in the Levelling up White paper. Government is expected to issue a consultation on this and other investment related issues, such as Task Force for climate-related financial disclosures reporting by the LGPS. Initial indications from DLUHC were that the consultation would be in late summer but recent indications are that it could now be towards the end of calendar 2022.

4.2 Officers are working with Barnett Waddingham to provide the necessary data for the 2022 valuation exercise.

4.3 Officers are working on the accounts and financial statements of the fund. Once these are complete we will move on to the production of the annual report.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

None

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

Pensions Committee Business Plan for 2022 - 2023

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	Review Investment Strategy Statement	Medium	**Summer 2021**		New ISS adopted at March 2022 Committee meeting
Fund Governance	Review of risk register	Medium	**Early 2021**		Fully revised register adopted at March 2021 committee meeting
Fund Governance	Review of investment strategy and allocations to Brunel Portfolios	Medium	**Spring 2021**		New ISS adopted at March 2022 Committee meeting
Fund Governance	Review of ESG investment	High	**Spring 2021**		New ISS adopted at March 2022 Committee meeting
Fund Governance	Review of Committee and Board structures in advance of move to Unitary authority	Medium	**Spring 2022**		Paper will be put to March 2022 Committeee meeting
Fund Governance	Re-apporve all Strategies and policies post election	Medium	**Ongoing**		Paper will be put to first Committee meeting post May 2022 elections
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	**By end of 2022**		Paper will be put to first Committee meeting post May 2022 elections

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
16th September 2022	**FORMAL MEETING**	
	1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process	**AS**
	2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2022.	**AS**
	5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	6. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2022.	**AS**
	8. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	9. Annual Accounts and Investment Performance 2021/2022 To consider the accounts and investment performance for the year to 31 March 2022.	**AS**
Autumn 2022 TBC	**ANNUAL EMPLOYERS MEETING**	
	Annual Employers' Meeting of the Pension Fund To include provision of preliminary 2022 valuation results from the actuary	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
16th December 2022	**FORMAL MEETING**	
	1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process	**AS**
	2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2022.	**AS**
	5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	6. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2022.	**AS**
	8. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	9. Preliminary Results of the 2022 Actuarial Valuation To receive a report on the preliminary results from BW	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
March 2023 - TBC	**<u>FORMAL MEETING</u>**	
	1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process including a review of Committee and Board structures.	**AS**
	2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2022.	**AS**
	5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	6. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2022.	**AS**
	8. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	9. Resources review, Financial target setting and committee objectives setting To conduct a review of the resources available to the fund and to adopt a financial forecast, committee performance objectives for the 2023-2024 financial year and review the overal performance target for 2022 to 2025.	**AS/SM**
	10. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
June 2023 - TBC	**FORMAL MEETING**	
	1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process	**AS**
	2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.	**AS**
	3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2022.	**AS**
	5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**DH**
	6. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2022.	**AS**
	8. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	9. Fund Policies To review and where necessary update the fund's policies and documents.	**AS**

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

1. Summary

1.1 This report updates the committee on the position of the Pension Fund's provisional full year financial position at 31 March 2022 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

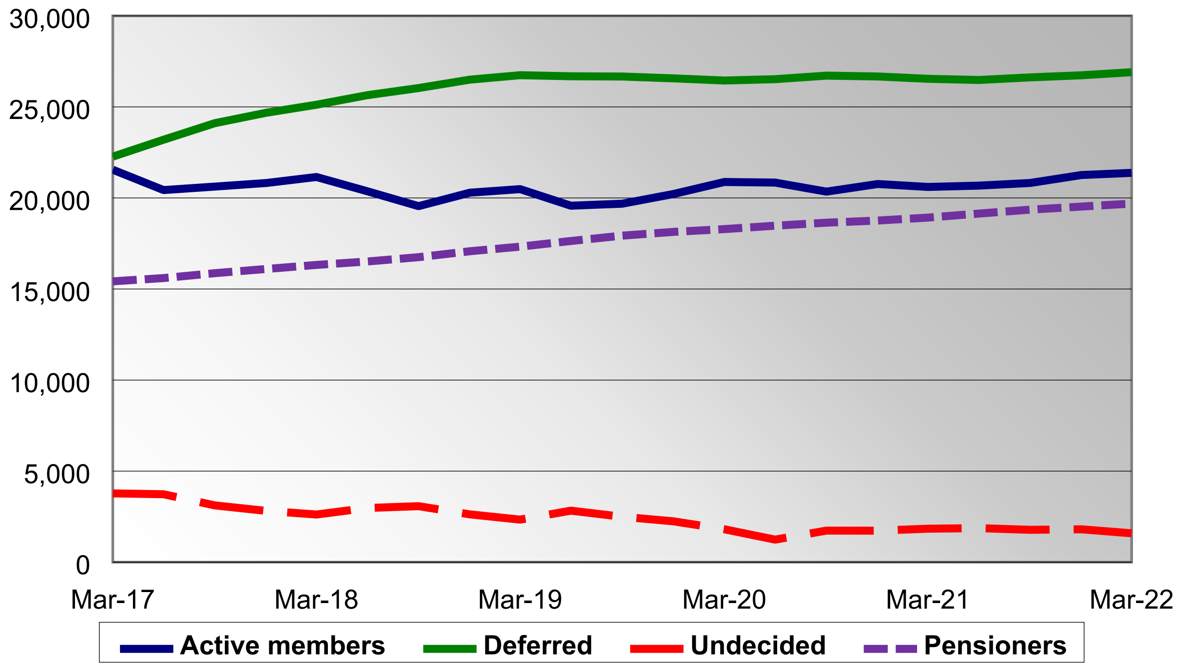
3.1 The outturn position for the full financial year to 31st March 2022 against the original forecast is shown in appendix A.

4. Membership Statistics

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

	31 Dec	31 Mar	Change
Active members	21,259	21,378	**+119**
Deferred	26,736	26,906	**+170**
Undecided	1,805	1,586	**-219**
Pensioners	19,526	19,690	**+164**
Total	**69,326**	**69,560**	**+234**

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



5. Background Papers

None

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

Pension Fund Financial Projection

2021 - 2022

	2020-2021 Full Year	2021-2022 Full Year			2021-2022 Full Year		
	Actual (a)	Budget (b)	Actual (c)	Variance (d)	Original Projection (e)	Q3 Projected Outturn (f)	Variance (g)
	£m	£m	£m	£m	£m	£m	£m
Contributions and other income							
Contributions	111.517	109.000	117.959	8.959	109.000	115.000	6.000
Recoveries from employers	3.043	2.100	2.728	0.628	2.100	2.100	0.000
Transfer values received	8.408	4.500	11.493	6.993	4.500	10.000	5.500
	122.968	**115.600**	**132.180**	**16.580**	**115.600**	**127.100**	**11.500**
Less benefits and other payments							
Recurring pensions	-84.305	-88.000	-87.162	0.838	-88.000	-88.000	0.000
Lump sum on retirement	-10.871	-15.000	-13.190	1.810	-15.000	-15.000	0.000
Lump sum on death	-1.912	-2.500	-1.994	0.506	-2.500	-2.500	0.000
Transfer values paid	-17.031	-10.000	-9.115	0.885	-10.000	-10.000	0.000
Contribution refunds	-0.377	-0.400	-0.320	0.080	-0.400	-0.600	-0.200
	-114.496	**-115.900**	**-111.781**	**4.119**	**-115.900**	**-116.100**	**-0.200**
Contributions after payments	**8.472**	**-0.300**	**20.399**	**20.699**	**-0.300**	**11.000**	**11.300**
Management Expenses							
Administrative expenses	-1.270	-1.500	-1.366	0.134	-1.500	-1.500	0.000
Investment management expenses	-7.183	-6.000	-8.511	-2.511	-6.000	-7.500	-1.500
Oversight and governance expenses	-0.681	-0.625	-0.585	0.040	-0.625	-0.625	0.000
	-9.134	**-8.125**	**-10.462**	**-2.337**	**-8.125**	**-9.625**	**-1.500**
Investment Income							
Investment income	33.203	6.000	15.602	9.602	6.000	12.500	6.500
Net Increase / Decrease (-) in fund	**32.541**	**-2.425**	**25.539**	**27.964**	**-2.425**	**13.875**	**16.300**

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Somerset County Council
Pensions Committee

Review of Pension Fund Risk Register

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

1. Summary

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

2. Issues for consideration

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

3. Changes since last meeting

3.1 There have been no changes since the last committee meeting.

4. Background

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

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

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

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

5. Consultations undertaken

None

6. Financial Implications

6.1 No direct implications

7. Background Papers

None

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

Somerset County Council Pension Fund Risk Register - June 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls) L	Current Risk Score (with known controls) 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 - Gov 1 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively, particulary 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		
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

Somerset County Council Pension Fund Risk Register - June 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls) L	Current Risk Score I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. 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 is within the draft of the new ISS .
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		
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.

Somerset County Council Pension Fund Risk Register - June 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls): L	Current Risk Score (with known controls): 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 - 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		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, particularly 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, corruption, 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
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		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

Somerset County Council Pension Fund Risk Register - June 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls...)		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 - 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		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		
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

Policies and Statements

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Author:	Anton Sweet: Funds and Investments Manager
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Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

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

2. Issues for consideration

2.1 The committee is asked to adopt the following policies:

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

3. Background

3.1 The Funding Strategy Statement is a requirement of the regulations and sets out how the Fund will seek to ensure it has sufficient assets to meet its future liabilities. It is written in conjunction with the Fund's actuary, Barnett Waddingham, to ensure it supports their work undertaking the triannual valuation. The version presented is the same as the version approved by Pensions Committee at the September 2021 meeting. This version incorporated the Fund's policy on exit payments, debt sharing agreements and debt deferral agreements, all of which became available following a change in the regulations. It is a requirement for the employers of the Fund to be consulted on regarding changes to the Funding Strategy Statement and the most recent consultation was during the spring of 2021 and no comments were received.

3.2 The Investment Strategy Statement was a new requirement of the LGPS (Management and Investment of Funds) Regulations 2016 and replaced the previous requirement for a Statement of Investment Principles and sets out the Fund's strategic asset allocation and its approach to responsible investing. The first version of the Investment Strategy Statement was adopted by Committee at the March 2017 meeting. The version presented is the same as the version approved by the Pensions Committee at the March 2022 meeting.

3.3 The Governance Compliance Statement is a requirement of the regulations and shows how the Fund complies with a set of best practice governance standards. This statement includes the Pensions Committee's Terms of Reference which are agreed by the Full County Council. The version presented today has not been altered from the previous adopted version. It is envisaged that both the Committee and the Board's terms of reference will be refreshed via the Somerset County Council's constitution Committee and then Full Council as part of the process of moving towards the new Unitary Council. Pensions Committee and Pension Board have been consulted on changes they would like to see as part of this review.

3.4 The Pensions Committee Scheme of Delegation was bought in to put in place formal standard delegations from the Committee to officers to allow for the sensible day to day running of the Fund. The version presented today has been amended to take into account changes in practice following the pooling of investments and a refresh to the "Contract Standing Orders" section to reflect the most recent version of that document.

3.5 The Pensions Committee training policy is in place as a way of codifying expectations on Committee members to ensure they meet the best practice standards on knowledge and understanding whilst discharging their duties in managing the Fund. The version presented today has not been altered from the previous adopted version. It is expected that as we work through a process of reviewing the skills and knowledge of Committee a refresh of the training policy may then be necessary.

3.6 The Communications policy is a requirement of the regulations and codifies how the Fund communicates with various stakeholders. The version presented today has not been altered from the previous adopted version. The Pension Board are due to review the Communications Policy at their next meeting and may subsequently request Committee review or update the policy.

3.7 The Administration Strategy is an optional requirement of the regulations and was first adopted by the SCC fund in March 2015. The version presented today has not been altered from the previous version approved by the Pensions Committee at the March 2020 meeting.

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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Somerset County Council Pension Fund Funding Strategy Statement

Contents

Introduction	2
Purpose of the Funding Strategy Statement	2
Aims and purpose of the Fund	3
Funding objectives	3
Key parties	4
Funding strategy	6
Funding method	7
Valuation assumptions and funding model	8
Contribution reviews between actuarial valuations	13
Deficit recovery/surplus amortisation periods	14
Pooling of individual employers	15
Risk-sharing	17
New employers joining the Fund	17
Admission bodies	17
New academies	19
Cessation valuations	19
Exit payment policy	20
Exit credit policy	21
Bulk transfers	22
Links with the Investment Strategy Statement (ISS)	22
Risks and counter measures	22
Financial risks	23
Demographic risks	23
Maturity risk	24
Regulatory risks	24
Employer risks	28
Governance risks	28
Monitoring and review	29

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.

Funding at start of contract

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

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

Contribution rate

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

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

Security

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

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

Risk-sharing

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

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

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

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

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

New academies

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

<u>Funding at start</u>

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.

<u>Contribution rate</u>

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.

McCloud/Sargeant judgements and cost cap

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

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

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

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation 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	31
The review process	32
Timeline where initiation is made by the administering authority	32
Timeline where initiation is made by the Scheme employer	33
Responsibility of costs	33
Triggering a contribution review	34
(i) change in the amount of the liabilities arising or likely to arise	34
(ii) change in the ability of the Scheme employer to meet its obligations	35
(iii) request from the Scheme employer for a contribution review	36
Assessing the appropriateness of a review	37
Appropriateness of a review due to change liabilities	38
Appropriateness of a review due to change ability to meet its obligations to the Fund	38
Method used for reviewing contribution rates	39
Appeals process	40

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.

<u>Information required from the Scheme employer</u>

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

Whether a contribution review is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, the Fund will allow an additional 21 days for further discussion with the employer to seek to resolve the issues raised. Employers are also entitled to raise any concerns direct to the Pension Board, via one of the Board's employer representatives.

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	42
Approach for exiting employers	43
Choosing a DDA or DSA	44
Managing of costs	45
Appeals process	45
Deferred Debt Agreements (DDAs)	46
Entering into a DDA	46
Information required from the employer	47
Assessing the proposal	47
Setting up a DDA	48
Monitoring a DDA	50
Terminating a DDA	52
Debt Spreading Agreements (DSAs)	53
Entering a DSA	53
Information required from the employer	53
Assessing the proposal	54
Setting up a DSA	55
Monitoring a DSA	56
Terminating a DSA	57

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

Whether a DDA or DSA arrangement is agreed or not is ultimately the decision of the administering authority. In the event of any dispute from the employer, the Fund will allow an additional 21 days for further discussion with the employer to seek to resolve the issues raised. Employers are also entitled to raise any concerns direct to the Pension Board, via one of the Board's employer representatives.

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.

Change in employer covenant

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.

Timeliness of payments

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
XXXXXXXXXXX

Somerset County Council Pension Fund

Investment Strategy Statement

1. Introduction

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

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

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

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

The Investment Strategy Statement will set out in more detail:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Asset Class	**Strategic Allocation**	**Role(s) within the strategy**	**Geography**	**Currency**
Equities				
Global Passive (FTSE Russell Paris Aligned series)	20%	Growth Inflation protection	Diversified	Diversified
UK Active	10%	Growth Inflation protection	UK	GBP
Global High Alpha Active	25%	Growth Inflation protection	Diversified	Diversified
Global Smaller Companies Active	5%	Growth Inflation protection	Diversified	Diversified
Emerging Market Active	5%	Growth Inflation protection	Diversified	Diversified
Total	**65%**			
Maximum	**100%**			

Bonds				
UK Gov't Bonds	4%	Stabilising	UK	GBP
UK Gov't Index linked bonds	4%	Stabilising Inflation protection	UK	GBP
Investment Grade corporate bonds	8%	Stabilising	Diversified	GBP
Multi-Asset Credit	3	Stabilising	Diversified	Diversified
Total	**19%**			
Maximum	**100%**			
Alternatives				
Property	10%	Growth Inflation protection	UK	GBP
Private equity	5%	Growth	Diversified	Diversified
Total	**15%**			
Maximum	**25%**			
Cash				
Cash	1%	Liquidity	UK	GBP
Total	**1%**			
Maximum	**100%**			

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

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

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

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

It is anticipated that the majority of assets held will be collective investment funds provided by Brunel Pension Partnership Ltd., the Fund's chosen pool provider. Each Brunel offering is created to meet a specification agreed by Brunel and its Clients. Clients regularly review the portfolios to ensure they continue to meet, and do not deviate from, the agreed specifications.

Whilst it is now anticipated that the majority of holdings will be in collective investment funds the Somerset Pension Fund can invest in the following asset types:

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

3. Risk measurement and management

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

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

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

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

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

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

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by the investment managers appointed on behalf of the Fund by the Brunel Pension Partnership.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

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

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

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

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Strategy seeks to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The Somerset Pension Fund also recognises the following (predominantly non-investment) risks:

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at relatively short notice.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Climate change risk: climate change is a systemic investment risk that may have an impact on investee companies as a result of both the consequences of climate change and the transition to a low carbon economy. The Fund's approach to climate change is included in section 5 of the Investment Strategy Statement, and the Fund will expect Brunel and other fund managers to have policies in place to manage the risk.

Cashflow risk: the Fund's cashflow is currently positive, in that income from contributions currently meet benefit obligations without the need to disinvest from the Fund's investments. Over time, it is likely that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Pensions Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

Governance: members of the Pensions Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Pensions Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

The Fund maintains a risk register which is considered by the Pensions Committee regularly and updated as necessary. The risk register considers a number of investment and non-investment risks such as those above.

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

4. Approach to asset pooling

The Somerset Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Somerset Pension Fund, through the Pensions Committee, retains the responsibility for setting the detailed strategic asset allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed strategic asset allocations of the participating funds by investing those funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Somerset Pension Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Somerset Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the Administering Authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. The Client Group will monitor Brunel's performance and service delivery for each of the established Brunel portfolios. The Somerset Pensions Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

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

Somerset's Pensions Committee approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and was completed (except for legacy private market assets) in July 2021.

Following the completion of the transition plan, virtually all of the Somerset Pension Fund's assets are invested through Brunel portfolios except certain cash holdings. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

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

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

- The Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- Social, environmental and ethical concerns will not inhibit the delivery of the Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- The Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Fund's investment managers will vote in accordance with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.

- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.
- More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at: https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/

Climate Change

The Somerset Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments unless action is taken to mitigate these risks. In recognising the need to address the risks associated with climate change posed to both the Fund's investments and our beneficiaries, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and play our part in helping deliver the goals of the Paris Agreement. The Somerset Pension Fund has therefore pledged that its portfolio of investments will be net-zero by 2040, or sooner if investment products allow. In order to achieve this goal, the Fund has set an initial target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, based on the March 2019 calculation of the WACI, to be reviewed in 2022. This recognises the need for significant progress in the earlier part of the period to 2040, with the intention of achieving at least a 50% reduction by 2030. These targets will also be applied to the Fund's exposure to fossil fuel reserves as a proxy for downstream scope 3 emissions which are not captured within the WACI calculation.

This will be achieved by the following strategy.

(a) We recognise that climate change will have impacts across our portfolios. This means we look to the Brunel Pension Partnership and all our asset managers to identify and manage climate-related financial risks as part of day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.

(b) The Somerset Pension Fund wants to play its part in achieving real economy emissions reductions. This means that we are looking for investee companies, irrespective of industry or type, to make significant reductions in their emissions, rather than just shifting our investments from higher emitting companies to lower emitting companies. The Fund does not therefore consider a top-down approach to disinvestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to both reduce climate and carbon risk and achieve real reductions in global emissions. Where investee companies fail to engage with climate change issues, selective disinvestment may be appropriate based on investment risk.

c) We are committed to working with Brunel to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time.

(d) The Somerset Pension Fund will collaborate via the Brunel Pension Partnership and the Local Authority Pension Fund Forum (LAPFF) to advocate policy and regulatory reforms aimed at achieving global net zero emissions by 2050 or sooner. This will include engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

(e) We expect the engagement and voting conducted on behalf of the Fund by LAPFF, Brunel and underlying investment managers to be consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2040 or sooner. The Fund's stewardship and voting policies are set out more fully in section 6 of the Investment Strategy Statement.

(f) Climate change risk and carbon reduction targets will be a consideration in reviews of the Fund's strategic asset allocation. This will be considered ensuring consistency with the Fund's fiduciary duty to achieve the investment returns required to meet its future pension liabilities.

(g) The Somerset Pension Fund adopts the Brunel Pension Partnership's climate change policy, found at the following link:
https://www.brunelpensionpartnership.org/climate-change/

(h) Somerset County Council has committed to reduce the carbon emissions from its operations to net-zero by 2030. This will include the operational emissions of the Somerset County Council Investment Team in the oversight of the Somerset Pension Fund's investments, and the administration of benefits by Peninsula Pensions in conjunction with Devon County Council.

(j) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint and reserves exposure on an annual basis. This will enable us to measure progress against the targets set out above. The Fund will also report on delivery through the Brunel Annual Climate Action Plan and work towards meeting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

6. Stewardship Policy

The Somerset Pension Fund is committed to responsible stewardship and believe that through stewardship it can contribute to the care, and ultimately long-term success, of all the assets within our remit.

The Fund supports and applies the UK Stewardship Code 2020 definition of stewardship: “Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society.”

The Somerset Pension Fund works with or through the Brunel Pension Partnership, the Local Authority Pension Fund Forum and/or other partners to pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues. From a bottom up perspective, this includes:

- Engaging with companies and holding them to account on material issues.
- Exercising rights and responsibilities, such as voting.
- Integrating environmental, social and governance factors into investment decision making.
- Monitoring assets and service providers.
- Collaborating with others.
- Advancing Policy through advocacy.

The Somerset Pension Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Somerset Pension Fund’s policy should be seen as fully consistent in all aspects. The full Brunel policy can be found at: https://www.brunelpensionpartnership.org/stewardship_report/

The following section sets out in detail the Somerset Pension Fund's policies on stewardship, including its policy on the exercise of rights, including voting rights, attached to investments.

Governance and Oversight

The Pensions Committee approves and is collectively accountable for the Fund's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by officers in line with the Fund's Scheme of Delegation. The Fund requires the Brunel Pension Partnership to provide a suite of public reports on their stewardship activities, and environmental, social and governance metrics to empower the Somerset Pension Fund's stewardship activities and to enable oversight.

The Somerset Pension Fund believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with that of the Brunel Pension Partnership, which in turn has been developed in collaboration with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of Brunel's clients and meets monthly, it provides an opportunity for clients to:

- Raise stewardship interests.
- Share best practice with Brunel and amongst partner funds.
- Provide insights on concerns, issues, and member perspectives.
- Shape priorities of Brunel and Equity Ownership Services (EOS) at Federated Hermes.
- Review reporting outputs.
- Knowledge share and receive in-depth reports on topics of interest.
- Access expertise.
- Consult on policy design and development.

Identifying and Prioritising Engagement

The Somerset Pension Fund will expect Brunel to identify engagement objectives in four ways:

- Top down, to identify thematic areas of risk and opportunity.
- Bottom up, to review exposure to individual companies and to specific ESG risks and opportunities. Companies should be identified through asset managers, collaborative engagement forums, external research, and Brunel's own internal ESG risk analysis.
- Reactively to events, for example, after a specific, usually significant, incident. The companies that Brunel actively engage with should be prioritised based on our level of exposure and the probability of successful outcome.
- Brunel should be responsive to client concerns. Where the Fund raises specific issues, which could be as a result of Fund member concerns or points raised by Pension Committee or Pension Board members, Brunel will be expected to engage with companies to address the concerns raised.

The Somerset Pension Fund is a global investor and seeks to apply the principles of good stewardship globally. It is a strong advocate of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aims to adopt best practice. As a UK-based investor our key reference points are the UK Stewardship Code 2020 and UK Corporate Governance Code and guidance produced by UK industry bodies, for example, the British Venture Capital Association (BVCA – private equity) RI toolkit.

The Somerset Pension Fund is committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. The Fund publishes an annual review of its stewardship and engagement activities in its Annual Report which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support the Fund's compliance with the Shareholder Rights Directive II. The Fund is a strong supporter of the UK Corporate Governance Code and the application of the Companies Act S172 (Duty to promote the success of the company). It believes that corporate behaviour in line with the spirit of the Act more broadly is essential to the Fund's objective of contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Somerset Pension Fund encourages companies either to comply with such codes or to fully explain their reasons for noncompliance. However, it is also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

Transparency and Collaboration

Good stewardship requires a good understanding of the assets that the Fund invests in. This is done in collaboration with Brunel, who do it directly, through EOS at Federated Hermes, their asset managers, and other initiatives. Working closely with company boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. It is also acknowledged that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions.

The Fund publishes regular updates on its stewardship activities, including quarterly engagement and voting activity analysis presented to the Pension Committee, and the annual review included in the Fund's Annual Report.

The Fund believes that working collaboratively is essential to delivering its objectives as the scope and scale of investments means that we need to draw on the expertise of others, including Brunel, the Local Authority Pension Fund Forum (LAPFF), and not least the asset managers employed by both Brunel and directly by the Fund. In addition to managers and specialist advisors, the Fund supports a number of organisations and initiatives that enable its ability to work collaboratively – for example this includes membership of LAPFF. The Fund's reporting will evidence its activities.

Conflicts of Interest

Somerset County Council has a robust Code of Conduct and Conflicts of Interest policy, which all members of the Pensions Committee (whether Somerset County Councillors or not) are required to adhere to. The policies can be found at: [Members Code of Conduct]

Pensions Committee members are required to make declarations of interest prior to committee meetings in line with the Council's code of conduct and interest rules. This would ensure that if committee members had any personal interests in any company that the Fund invests in that may have an impact on stewardship activity then those interests would be declared and managed.

The management of conflicts is important in building long-term relationships with the companies the Fund invests in and with its partnerships. In particular, the Fund expects Brunel to have a robust approach to conflicts of interest. This includes having comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of the Somerset Pension Fund and other clients, including the Fund's members and employers.

The effective management of potential Conflicts of Interest is a key component of Brunel's due diligence on all asset managers and service providers, as well as ongoing contract management. Conflict of interest clauses are included in investment management agreements. Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, Brunel's appointed engagement voting provider, approach conflicts of interest are available on their website at:
https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf

Data and Information

The Fund recognises that ESG data is a developing discipline and is a strong advocate for improved disclosure from companies and assets in which it invests. The Fund will use a variety of data sources to analyse the ESG risks of its investments and asset allocation strategy. It expects Brunel to use its own analysis and that of its asset managers to inform its stewardship activity and risk ESG management, as well as media and company reports and a variety of third party proprietary and public data sources.

Given the lack of standardisation and transparency across ESG data, differing methodologies can lead to different outputs and biases. On behalf of the Fund and other clients, Brunel use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in Brunel's Responsible Investment Policy and Climate Change Policy.

These sources of data are embedded into quarterly reports reviewed by Brunel at quarterly Brunel Investment Risk Committee meetings and are included in the reports provided to the Somerset Pensions Committee.

The Fund recognises that data provision is a continuously evolving area. The Fund supports Brunel's policy of reviewing their use of providers annually and providing feedback where developments could be made. Brunel seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure the availability of robust, independent and effective data to work collegiately with external asset managers on the management of the whole spectrum of investment risks.

Voting

Responsibility for the exercise of voting rights has been delegated to the Brunel Pension Partnership. For the Brunel passive portfolios, Brunel have further delegated voting to Legal and General Investment Management but have retained the right to direct split voting on significant issues. The below link provides information on Legal and General Investment Management's approach to active ownership.

https://www.lgim.com/uk/en/capabilities/corporate-governance/

Brunel have adopted voting guidelines, following extensive consultation with their client funds, which can be found on their website.

The Somerset Pension Fund requires that Brunel will always seek to exercise its rights as shareholders through voting. This means seeking to vote 100% of available ballots. However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified.

Votes should be cast applying the following principles:

Consistency: Brunel should vote consistently on issues, in line with their Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. This should include consideration of engagement with companies when voting.

No abstention: Brunel should aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where a vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.

Supportive: Brunel should aim to be knowledgeable about companies with whom they engage and to always be constructive. Brunel should aim to support boards and management where their actions are consistent with protecting long-term shareholder value.

Long-term: Brunel should seek to protect and optimise long-term value for shareholders, stakeholders and society.

Engagement: Brunel should support aligning voting decisions with company engagement and escalate the vote if concerns have been raised and not addressed in the prior year.

Transparency: The Somerset Pension Fund expects Brunel to be transparent and publish voting activity no less than twice per year.

The Somerset Pension Fund expects that companies will conduct themselves as follows:

Accountability: The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders.

Transparency: We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance.

One Share, One Vote: We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal.

Informed votes: We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting.

Development: We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion).

The Somerset Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF also conducts significant engagement with companies on behalf of their member funds, and where there is a significant issue to be voted on at a company AGM they will issue a voting alert, with a recommendation to member funds on how to vote.

Where a voting alert has been issued by LAPFF, the Somerset Pension Fund expects that Brunel (and Legal and General Investment Management) should give consideration to LAPFF's recommendation when deciding how to vote. Brunel should report back to the Fund on how they have voted and the rationale for their vote, especially where they vote differently to the LAPFF recommendation.

In exceptional circumstances, the Somerset Pension Fund may direct a split vote where the Fund has a specific investment policy commitment. Brunel has made provisions to allow clients, by exception, to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM.

The following issues are of particular concern to the Somerset Pension Fund in determining how shares should be voted. The Fund's policies on these issues align with Brunel's voting guidelines, which are not repeated in full here, but more details can be found at:
https://www.brunelpensionpartnership.org/voting_guidelines/

Sustainability: Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability. A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.

Human and Natural Capital: Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity. Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks. Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve long term returns.

Company Boards – Conduct and Culture: Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct.

Board Composition and Effectiveness: The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The Somerset Pension Fund believes that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background. Robust succession planning at the Board and senior management level is vital to safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

Executive Remuneration: Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

- Simplicity: pay schemes should be clear and understandable for investors as well as executives.
- Shareholding: the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success.
- Alignment and quantum: pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership.
- Accountability: remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company.
- Stewardship: companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration.
- Behaviour: the most senior executives should willingly embrace the approach described. If they do not, boards should consider the implications.

Audit: The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

Protection of Shareholder and Bondholder Rights: The rights of shareholders and bondholders should be protected, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder meetings. We also support adherence to the highest possible standards on listed stock exchanges.

Stock Lending and Share Recall

The Fund permits holdings in its segregated portfolios to be lent out to market participants. Stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing. The stock lending programme is managed by Brunel, and the Somerset Pension Fund adopts Brunel's policies on stock lending and share recall.

Voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence. Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. The Fund expects Brunel to undertake a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- An approved borrowers list.
- Retention of 5% of any one stock.
- On average, stock will be lent no longer than 21 days.
- Restrictions on acceptable collateral.

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where Brunel decides not to stock lend, for example where they have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend is a collective decision made by Brunel's clients and is supported by the Somerset Pension Fund. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Brunel's approach to responsible stock lending is outlined in further detail in a separate policy.

Fixed Interest

Fixed interest instruments are debt instruments and therefore do not usually confer voting rights. However, the Fund believes that well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment.

Where voting rights are not attached and where opportunity to engage is limited, stewardship focuses on the managers' investment decision-making. The Somerset Pension Fund expects Brunel to integrate Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, the Fund, via Brunel, will have the opportunity to vote at company meetings (AGM/EGMs). The Fund would look to Brunel to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

Private Markets

Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and long-term nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners (LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, the Somerset Pension Fund would expect Brunel to pay particular attention to ESG and sustainability throughout the selection process. We believe that well governed investments and those with strong ESG and sustainability characteristics will offer better long-term risk-adjusted returns.

Managers should have firm ESG and climate change policies in place, and these should be considered across the value chain, from investment due diligence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence Brunel examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. The Fund and Brunel will support managers and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of the investment, position in the capital structure and the influence that does or does not permit.

Stewardship actions across private markets include:

- Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets.
- Assessing the manager’s approach to diversity and inclusion and where possible tracking metrics to substantiate claims.
- Assessing the manager’s knowledge and commitment to Responsible Investment and climate change mitigation and avoidance.
- Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.
- Supporting the manager’s ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)
- Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework
- Assessing the awareness, training, capacity and track record on Responsible Investment issues
- Working with managers to improve transparency and quality of the manager’s ESG approach and reporting.

Further details of Brunel’s approach to private markets are included in the Brunel Stewardship Policy.

Reporting

The Pension Committee will monitor Brunel's engagement with the companies they have invested in, through the regular reporting arrangements in place. Brunel and LGIM's voting records will be reported to Committee on a quarterly basis.

The Somerset Pension Fund Annual Report each year includes a report focusing on stewardship and voting activity. A summary of Brunel's stewardship activities is also included.

7. Advice taken

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

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

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

8. Arrangements for reviewing this statement

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
XXXXXXXXXX

Annex 1

Working in line with Myners

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

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

Principle 1: Effective Decision Making

Administering authority should ensure that:

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

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

Principle 2: Clear Objectives

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

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

Principle 3: Risk and Liabilities

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

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

The fund is fully compliant with this principle.

Principle 4: Performance Assessment

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

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

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

Principle 5: Responsible Ownership

Administering authorities should:

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

The fund is fully compliant with this principle.

Principle 6: Transparency and Reporting

Administering authorities should:

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

The fund is fully compliant with this principle.

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Governance Compliance Statement

Introduction

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

This statement is required to set out:

(a) whether the Administering Authority delegates its function or part of its function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the administering authority;

(b) if the authority does so:-

  (i) the terms, structure and operational procedures of the delegation,

  (ii) the frequency of any committee or sub-committee meetings,

  (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;

(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and

(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).

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

Delegation of management of Pension Fund

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

PENSION COMMITTEE OF THE SOMERSET COUNTY COUNCIL PENSION FUND

TERMS OF REFERENCE

1. Introduction

1.1 This document sets out the terms of reference of the Pensions Committee of Somerset County Council. The Pensions Committee is a committee with delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972.

1.2 The terms of reference will be formally approved by the Council as the Administering Authority and by the Committee itself thereafter.

1.3 These terms of reference shall be reviewed by the Council on the advice of the Committee and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Committee.

2. Definitions

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

3. Purpose and functions of the Committee

3.1 The Committee discharges the functions of the Council in its role as the administering authority of the Somerset County Council Pension Fund as defined in the LGPS Regulations.

3.2 The Committee's principal duties are:

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

4. Membership of the Committee

4.1 The Committee shall consist of 8 members and be constituted as follows:

(a) Seven employer representatives

(i) Four employer representative will be county councillors who are not a member of the Pension Board or Cabinet and will be selected by the Administering Authority having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

(ii) One employer representative of the 5 district councils that are members of the Fund to be selected by the district councils collectively having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

(iii) One employer representative of the Police and Crime Commissioner for Avon & Somerset to be selected by the Police and Crime Commissioner having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

(iv) one employer representative to be nominated by the remaining employers within the Fund who are not represented by (i)-(iii) above having demonstrated their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will arrange for a voting process of the qualifying employers.

(b) One scheme member representative:

(i) To be nominated by the Unions.

4.2 The Chair will be appointed annually by the Council as Administering Authority.

4.3 Due to the specialist knowledge requirements of Committee members, substitutes to the appointed members of the Committee are not permitted.

4.4 The committee will also be attended by:

(i) an officer; and

(ii) a specialist independent adviser. In this respect the term independent means:

(i) having no current employment, contractual, financial or other material interest in either Somerset County Council or any scheme employer in the Fund; and

(ii) not being a member of the LGPS in the Fund.

The independent advisor will be a remunerated position.

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

(a) ensuring the Board delivers its purpose as set out in the Committee's terms of reference;

(b) the arrangements for meetings of the Committee;

(c) ensuring that Committee meetings are productive and effective and that opportunity is provided for the views of all Committee members to be expressed and considered; and

(d) seeking to achieve the consensus of all Committee members on the business presented to the Committee and ensure that decisions are properly put to a vote when that cannot be reached.

6. Conflicts of interest

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

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

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

7. Knowledge and understanding including training

7.1 All new members must follow an induction training plan and all members of the Committee will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.

7.2 The Committee has adopted a training policy and all members of the Committee are expected to meet the requirements of that policy.

7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

8. Term of office and removal from office

8.1 The members of the Committee serve for a four year term, subject to the following:

(a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
(b) the representatives of the district councils and the Police and Crime Commissioner for Avon and Somerset can be replaced by the relevant appointing group at their behest, but with a view to maintaining stability of membership;
(c) the members' representative may be replaced by the Unions, but with a view to maintaining stability of membership.

8.2 Members of the Committee will be expected to attend all meetings and training sessions. This will be recorded and published.

8.3 Other than by ceasing to be eligible for appointment to the Committee, Committee members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Committee at a meeting of the Committee where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.

8.4 Arrangements shall be made for the replacement of Committee members in line with the procedures for their original appointment.

9. Meetings

9.1 The frequency of meetings is to be determined by the Committee once it has agreed a workplan, with a minimum of four meetings annually. In addition to this, training sessions will be held as necessary to ensure that Committee members have sufficient knowledge and skills to undertake the role.

9.2 The Chair of the Committee may call additional meetings with the consent of other members of the Committee. Urgent business of the Committee between meetings may, in exceptional circumstances, be conducted via communications between members of the Committee including telephone conferencing and emails.

9.3 The Committee will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.

9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Committee. Committee meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Committee and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

10. Quorum

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

11. Voting rights

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

12. Code of Conduct

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

13. Allowances and Expenses

13.1 Any councillor of the Council appointed to the Committee will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).

13.2 Reimbursement of expenses for all members of the Committee will be claimable in line with Somerset County Council's agreed expenses rates.

14. Budget

14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Committee will be met by the Fund.

14.2 The Council's Community Governance Team will provide the secretariat services to the Committee, the cost of which will be met by the Fund.

15. Accountability and reporting

15.1 The Committee is accountable solely to the County Council for the effective operation of its functions.

15.3 The Committee shall report annually to Full Council on its work.

16. Data protection and Freedom of Information

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

Compliance with the guidance

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

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

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

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	**Compliant**	All members of the Pensions Committee receive equal access to the papers and training and have equal speaking rights in the consideration and discussion of all matters as part of the decision making processes.

C – Role of members		
a) That Committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	**Compliant**	All new members receive regular specific training and access to external training and seminars. On appointment this includes specific time with lead officers to provide an induction into the role and a background to the Fund. Copies of relevant Committee Reports and Annual Reports are also made available. Specific Terms of Reference are also in place as part of the Fund's Governance Policy Statement and specific legal guidance as to the role of Members has been provided to the Committee by the County Council Monitoring Officer. All Committee Members also understand that they are not there to represent or promote their own personal or political interests, and that they must declare any self-interest or conflicts of interest of a financial or non-financial nature and abstain from participation in that item on the agenda if appropriate.
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.	**Compliant**	Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.

D – Voting		
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	**Compliant**	All members of the Pensions Committee have full voting rights.
E – Training, facility time and expenses		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	**Compliant**	A formal training policy for members has been adopted by the Pensions Committee. The Committee forward work plan provides for specifically tailored training days, together with access to, and support for, external training provision and attendance at appropriate seminars. All members are encouraged to undertake regular training including attendance at the specific training days. All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	**Compliant**	All Pensions Committee members have equal access and rights to training and related support.

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

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

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

Local Pensions Board

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

PENSION BOARD OF THE SOMERSET COUNTY COUNCIL PENSION FUND

TERMS OF REFERENCE

1. Introduction

1.4 This document sets out the terms of reference of the Pension Board of Somerset County Council. The Pension Board is established under Section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).

1.5 The Board is established by Somerset County Council in its capacity as the Administering Authority of the Somerset County Council Pension Fund and operates independently of the Pensions Committee.

1.6 The terms of reference will be formally approved by the Council as the Administering Authority and by the Board itself at its first meeting.

1.7 These terms of reference shall be reviewed by the Council on the advice of the Board and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Board.

2. Definitions

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

3. Purpose and functions of the Board

3.1 The regulations state that the role of the Board is to assist the Administration Authority to:

(a) secure compliance with:
- the LGPS Regulations;
- any other legislation relating to the governance and administration of the LGPS; and
- the requirements imposed by the Pensions Regulator in relation to the LGPS, and

(b) ensure the effective and efficient governance and administration of the LGPS.

3.2 The Board will assist the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy and can only challenge decisions made by the Pensions Committee where the Board considers a decision to be in breach of the relevant Regulations (or overriding legislation). The Board's role is to have oversight of the governance process for making decisions and agreeing policy.

3.3 In discharging its role, the Board's remit shall cover all aspects of governance and administration of the LGPS, including funding and investments. The Board must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the Public Service Pensions Act 2013.

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

(a) monitor compliance with the relevant legislation and Codes of Practice set by The Pensions Regulator;

(b) review and ensure compliance of the Fund's:
- (i) governance compliance statement
- (ii) funding strategy statement
- (iii) pension administration strategy statement
- (iv) discretionary policy statement
- (v) communications policy statement
- (vi) statement of investment principles
- (vii) annual report and accounts

(c) review and scrutinise the performance of the Fund in relation to its governance and administration, policy objectives and performance targets;

(d) ensure policies and processes are in place so that employers comply with their obligations under the regulations;

(e) review the processes for setting strategy, policy and decision-making and ensure they are robust;

(f) agree the annual internal audit plan for the Fund;

(g) consider the output of any internal audit work carried out on the Fund;

(h) consider the external audit report on the Fund's Annual Report and Statement of Accounts;

(i) review the Fund's risk register;

(j) monitor the Fund's Internal Dispute Resolution Procedures;

(k) from time to time the administering authority may consult the Board or ask assistance on specific issues.

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

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

4. Membership of the Board

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

(a) Three employer representatives

(i) one employer representative will be a county councillor who is not a member of the Pension Committee and will be selected by the Administering Authority having taken account of their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the Local Government Pension Scheme;

(ii) two employer representatives to be nominated by the employers having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

(b) Three scheme member representatives

i) two members representatives will be nominated by the recognised trade unions having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS;

ii) one members representative will be open to all scheme members. The administering authority shall contact scheme members advising them of the role and seeking nominations and asking them to demonstrate their capacity to represent other scheme members, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

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

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

(e) ensuring the Board delivers its purpose as set out in the Board's terms of reference;

(f) the arrangements for meetings of the Board;

(g) ensuring that Board meetings are productive and effective and that opportunity is provided for the views of all Board members to be expressed and considered;

(h) seeking to achieve the consensus of all Board members on the business presented to the Board and ensure that decisions are properly put to a vote when that cannot be reached.

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

6. Conflicts of interest

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

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

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

7. Knowledge and understanding including training

7.1 All new members must follow an induction training plan and all members of the Board will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.

7.2 All members must be prepared to participate in such regular personal training needs analysis or other processes as are put in place to ensure that they maintain the required level of knowledge and understanding to carry out their role.

7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

8. Term of office and removal from office

8.1 The members of the Board serve for a four year term, subject to the following:

(a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;

(b) the two union nominated member representatives can be amended at any time by the unions, but with a view to maintaining stability of membership.

8.2 Members of the Board will be expected to attend all meetings and training sessions. This will be recorded and published. The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors

8.3 Subject to 8.4 below, a Board member can be removed from the Board in the following circumstances (but not limited to):

(a) A poor attendance record;

(b) if a member does not undertake training as requested by the administering authority;

(c) if a member is In breach of Council's Code of Conduct / Declarations policy;

(d) if a member has a conflict of interest that cannot be managed in accordance with the Board's conflicts policy;

(e) if a representative member ceases to represent his constituency e.g. leaves the employer so no longer has the capacity to represent the Fund's employers.

8.4 Other than by ceasing to be eligible for appointment to the Board, Board members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Board at a meeting of the Board where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.

8.5 Arrangements shall be made for the replacement of Board members in line with the procedures for their original appointment.

9. Meetings

9.1 The frequency of meetings is to be determined by the Board once it has agreed a workplan, with a minimum of two meetings annually. In addition to this, training sessions will be held as necessary to ensure that Board members have sufficient knowledge and skills to undertake the role.

9.2 The Chair of the Board may call additional meetings with the consent of other members of the Board. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and emails.

9.3 The Board will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.

9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Board. Board meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Board and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

10. Quorum

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

11. Voting rights

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

12. Code of Conduct

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

13. Allowances and Expenses

13.1 Any councillor of the Council appointed to the Board will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).

13.2 Reimbursement of expenses for all members of the Board will be claimable in line with Somerset County Council's agreed expenses rates.

14. Budget

14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Board will be met by the Fund.

14.2 The Council's Community Governance Team will provide the secretariat services to the Board, the cost of which will be met by the Fund.

14.3 The Board will have open access to all officers involved in the running of the Fund and any advisors already employed by the Fund (e.g. the Fund's Actuary).

14.4 The Board may make requests to the Section 151 Officer to approve any additional expenditure required to fulfil its obligations which will then be charged to the Fund. This would include any officer resources not already employed by the Fund.

15. Accountability and reporting

15.1 The Board is accountable solely to the County Council for the effective operation of its functions.

15.2 The Board shall report to the Pensions Committee as often as the Board deems necessary and at least annually on:

(a) a summary of the work undertaken;

(b) the work plan for the next 12 months;

(c) areas raised to the Board to be investigated and how they were dealt with;

(d) any risks or other areas of potential concern it wishes to raise;

(e) details of training received and planned; and

(f) details of any conflicts of interest and how they were dealt with.

15.3 The Board shall report annually to Full Council on its work. It will also and as necessary from time to time report to Full Council any breach in compliance, or other significant issue, which has not been resolved to the satisfaction of the Board within a reasonable time of being reported to the Pensions Committee.

15.4 The Board shall report to the Scheme Advisory Board:

(a) any areas of persistent non-compliance;

(b) any areas of non-compliance with the LGPS Regulations that have been reported to the Pensions Committee and full council but persist to be of a material concern.

15.5 The Board shall report to the Pensions Regulator all material breaches of the Pensions Regulator regulatory guidance, following notification to full council and the Pensions Committee.

16. Data protection and Freedom of Information

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

Arrangements for reviewing the Governance Compliance Statement

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
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Pensions Committee Scheme of Delegation

Introduction

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

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

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

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

This scheme of delegation will refer in turn to each of the main responsibilities of the Committee as laid out in the Committee's terms of reference.

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

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

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

<u>Ensure all contributions due are collected from employers.</u>

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

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

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

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

Decide the aims of the investment policy.

Committee agree the aims of the investment policy and publish this in the form of the funding strategy statement and investment strategy statement having regard to advice provided by officers and advisors as appropriate.

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

Make arrangements for managing the fund's investments.

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

The Chief Financial Officer is responsible for the appointment of a global custodian for the fund, the management of this contract and any related investment decisions.

Where the Committee decide that assets will be managed in-house the Chief Financial Officer will make suitable arrangements for these assets in accordance with any guidelines provided by Committee. All investment decisions with respect to in-house managed funds are taken by officers.

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

Regularly monitor investment performance.

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

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

The Committee will review the performance of all fund managers and the fund as a whole quarterly.

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

The Chief Financial Officer will make arrangements for the production and audit of the fund's annual report and accounts. The Committee will adopt the completed annual report.

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

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

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

The Chief Financial Officer will appoint a suitable actuary for the fund and undertake all necessary tasks and discussions with the actuary in order to allow the actuary to complete the valuation.

The Committee will meet with the actuary as they deem appropriate.

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

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

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

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

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

Contract Standing Orders

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

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

Section 16.4, Section 22.8 & Section 23.7
Exempt in full. The pension fund does not use purchase orders.

Section 38.1
Table to be amended such that contract values over £250,000 to be approved by the Chief Financial Officer.

Section 39
Section to be amended to remove any reference to, or need for, a purchase order. Contracts to be signed by the Chief Finance Officer or Officers he specifically delegates this responsibility to.

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

Introduction

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

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

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

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

CIPFA Knowledge and Skills Framework

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

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

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

Annual Training Commitment

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

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

New members should have 1-3 days training via:

- Receiving1/2 day in-house induction training on the LGPS and its benefits, the membership and role of the Committee and the current investment structure of the fund.

- Reading the Pension Committee Members Handbook containing key documents such as the Fund Members guide, the Fund Annual Report and Financial Statement and background reading and knowledge building for 1/2 day.

- Attending at least one days external training on relevant topics.

- Attending the annual employers communications meeting.

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

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

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

Level 3 - Member serving longer than 3 years

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

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

Suitable Events

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

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

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

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

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

Introduction

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

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

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

Scheme members

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

- Peninsula Pensions issues statutory notifications to new scheme members on a monthly basis, including information about how to access a full scheme guide and other documents.

- Peninsula Pensions will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.

- Peninsula Pensions will send newsletters to current scheme members and pensioners once a year.

- Peninsula Pensions will run presentations for scheme members as and when requested by employers.

- Information about the scheme, including a full scheme guide, is available on the Peninsula Pensions website www.peninsulapensions.org.uk .

- Member self-service is available via the Peninsula Pensions website for current and deferred scheme members, allowing members to view their record, update their address and run simple estimates.

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

Scheme employers

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

Communication provided will include:

- an annual meeting to give an update on the investment and administration of the fund, together with key developments affecting the LGPS (this will include details of the current actuarial position of the fund);

- a meeting twice a year for employers about administration;

- a quarterly e-zine covering updates and administrative matters;

- site visits to employers when requested;

- formal consultation on regulatory issues with employers;

- training seminars for employers; and

- employer forms and guides available on the Peninsula Pensions website.

Elected members

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

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

- The fund will provide specific technical training sessions.

Miscellaneous

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

- The fund will issue an annual report and accounts to employing authorities, elected members and other interested stakeholders.

- The fund will review and maintain a funding strategy statement after consulting employing authorities.

- The fund will review and maintain the statement of investments principles after consulting employing authorities.

- Peninsula Pensions is working towards providing all communications electronically (including newsletters and annual benefit statements) and will contact all scheme members about this in due course. The option to continue to receive communications via post will remain available.

Arrangements for reviewing this policy

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
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