Public Agenda Pack

Notice of Meeting of

PENSION FUND COMMITTEE

Friday, 16 June 2023 at 10.00 am

Luttrell Room - County Hall

To: The members of the Pension Fund Committee

Chair: Councillor Simon Coles

Councillor John Cook-Woodman
Councillor Habib Farbahi
Councillor Mike Hewitson
Councillor Michael Dunk
Councillor David Fothergill
Councillor Peter Seib

Paul Butler – Avon & Somerset Police & Crime Commissioner
Sarah Williams – representing other employers
Sarah Payne (UNISON) – representative of pension scheme members

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For further information about the meeting, including how to join the meeting virtually, please contact Democratic Services democraticservicesteam@somerset.gov.uk.

All members of the public are welcome to attend our meetings and ask questions or make a statement **by giving advance notice** in writing or by e-mail to the Monitoring Officer at email: democraticservicesteam@somerset.gov.uk by **5pm on Monday, 12 June 2023**.

This meeting will be open to the public and press, subject to the passing of any resolution under the Local Government Act 1972, Schedule 12A: Access to Information.

The meeting will be webcast and a recording made.

Issued by (the Proper Officer) on Thursday, 8 June 2023

AGENDA

Pension Fund Committee - 10.00 am Friday, 16 June 2023

Public Guidance Notes contained in Agenda Annexe (Pages 5 - 6)

Click here to join the online meeting (Pages 7 - 8)

1 Apologies for Absence

To receive any apologies for absence.

2 Minutes from the Previous Meeting (Pages 9 - 14)

To approve the minutes from the Pensions Committee meeting held on the 10 March 2023.

3 Declarations of Interest (Pages 15 - 16)

To receive and note any declarations of disclosable pecuniary interests, other registrable interests and non-registrable interests in respect of any matters included on the agenda for consideration at this meeting.
(The other registrable interests of Councillors of Somerset Council, arising from membership of City, Town or Parish Councils and other Local Authorities will automatically be recorded in the minutes.)

4 Public Question Time

The Chair to advise the Committee of any items on which members of the public have requested to speak and advise those members of the public present of the details of the Council's public participation scheme.

For those members of the public who have submitted any questions or statements, please note, a three minute time limit applies to each speaker and you will be asked to speak before Councillors debate the issue.

We are now live webcasting most of our committee meetings and you are welcome to view and listen to the discussion. The link to each webcast will be available on the meeting webpage, please see details under 'click here to join online meeting'.

5 Independent Investment Advisor's Report

To receive a verbal update on developments in financial markets.

6 Review of Investment Performance (Pages 17 - 44)

To consider this report from the Funds & Investments Manager.

7 Review of Administration Performance (Pages 45 - 54)

To consider this report from the Head of Peninsula Pensions.

8 Business Plan Update (Pages 55 - 62)

To consider this report from the Funds & Investments Manager.

9 Finance and Membership Statistics Update - Appendix A to follow (Pages 63 - 64)

To consider this report from the Funds & Investments Manager.

10 Review of Pension Fund Risk Register (Pages 65 - 70)

To consider this report from the Funds & Investments Manager.

11 Policies and Statements (Pages 71 - 144)

To consider this report from the Funds & Investments Manager.

12 Brunel Update (Pages 145 - 146)

13 Knowledge and Skills

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

14 Any Other Business of Urgency

The Chairman may raise any items of urgent business.

Guidance notes for the meeting

Council Public Meetings

The legislation that governs Council meetings requires that committee meetings are held face-to-face. The requirement is for members of the committee and key supporting officers (report authors and statutory officers) to attend in person, along with some provision for any public speakers. Provision will be made wherever possible for those who do not need to attend in person including the public and press who wish to view the meeting to be able to do so virtually.

Inspection of Papers

Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

They can also be accessed via the council's website on Committee structure - Modern Council (somerset.gov.uk)

Members' Code of Conduct requirements

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

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.

Public Question Time

If you wish to speak or ask a question about any matter on the Committee's agenda please contact Democratic Services by 5pm providing 3 clear working days before the meeting. (for example, for a meeting being held on a Wednesday, the deadline will be 5pm on the Thursday prior to the meeting) Email democraticservicesteam@somerset.gov.uk or telephone 01823 357628.

Members of public wishing to speak or ask a question will need to attend in person or if unable can submit their question or statement in writing for an officer to read out, or alternatively can attend the meeting online.

A 20-minute time slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been agreed. Each speaker will have 3 minutes to address the committee.

You must direct your questions and comments through the Chair. You may not take a direct part in the debate. The Chair will decide when public participation is to finish. If an item on the agenda is contentious, with many people wishing to attend the meeting, a representative should be nominated to present the views of a group.

Meeting Etiquette for participants

Only speak when invited to do so by the Chair.
Mute your microphone when you are not talking.
Switch off video if you are not speaking.
Speak clearly (if you are not using video then please state your name)
If you're referring to a specific page, mention the page number.
There is a facility in Microsoft Teams under the ellipsis button called turn on live captions which provides subtitles on the screen.

Exclusion of Press & Public

If when considering an item on the agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.
If there are members of the public and press listening to the open part of the meeting, then the Democratic Services Officer will, at the appropriate time, ask participants to leave the meeting when any exempt or confidential information is about to be discussed.

Recording of meetings

The Council supports the principles of openness and transparency. It allows filming, recording, and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting.

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Pensions Committee

Minutes of the Pensions Committee meeting held on Friday 10 March 2023 at 10.00am in County Hall, Taunton.

Present: Cllr S Coles (Chair), Cllr J Cook-Woodman, Cllr P Seib, Cllr Farbahi, Mr P Butler, Ms S Payne. Mr R Bryant (Pensions Board member)
Others present virtually: Ms S Williams, Cllr P Clayton, Cllr A Kendall, Ms C Burton (Independent Advisor to the Fund), Mr N Behan, Mr A White.

Absent: Cllr R Henley.

1 **Declarations of Interest** – agenda item 2
There were no new declarations made.

2 **Minutes of the Previous Meeting** – agenda item 3
The Committee agreed and the Chair signed the minutes of the meeting held on 16 December 2022 as an accurate record.

3 **Public Question Time** – agenda item 4
There were no Committee Manager read a question that was received in advance of the meeting was petition presented or questions asked/statements made by members of the public.

4 **Somerset Unitary** – agenda item 5
The Funds and Investments Manager reported that he did not have much to report as the arrangements for the both the Pensions Board and the Pensions Committee, including their membership and terms of reference in the new Somerset Council had been approved at the last meeting of Somerset County Council.
He did request that the name of the Pension Fund be changed to the Somerset Council Pension Fund, so that it matched the name of the new Council (removing the word County) and this was accepted unanimously by the Committee.

6 **Review of Investment Performance** – agenda item 7
The Funds and Investment Manager provided Members with an overview of his report that detailed investment performance for the quarter up to 31 December 2022, highlighting the following:

- The residual holding in the Aberdeen Standard Investments (UK Equities) Fund was liquidated to cash last December, meaning there would be no

further reports on that holding and an update on how that cash had been reallocated would be provided in the next quarterly report;
- The Combined Fund update showed the overall value of the Fund at 31 December to be £2.863bn and the Fund had outperformed benchmark to 0.9%;
- The Brunel funds had performed well in the quarter and this appeared to have been carried on in to 2023;
- It was noted that the UK stock market was not linked to the UK economy due to many of those companies being global with activity occurring overseas;
- Progress on the 3 year actuarial cycle was noted as the latest actuarial review was underway;
- An update was provided on the Brunel pooling and it was noted that the remuneration policy which had not been agreed at a recent meeting would be resolved remuneration policy, lot of pressure to find solution quickly
- It was noted changes to the remuneration policy had not been agreed at the Brunel shareholders meeting but there was agreement to secure a resolution that could be agreed quickly.

The Committee noted the report.

5 **Independent Investment Advisor's Report** – agenda item 6

The Independent Investment Advisor – Caroline Burton, referred to the information she had recently circulated and invited questions.
There was a brief discussion about interest rates and their impact on mortgage rates and mortgage debt levels; the rate of inflation and the impact on the labour market.
The Committee noted the verbal update.

8 **Review of Administration Performance**

The Head of Peninsula Pensions - Rachel Lamb presented the report and highlighted the following:
- Performance from 1 October 2022 to 31 December 2022 had been measured against the required statutory requirements;
- Overall performance had reached 90% against target and 92% performance in the high priority areas, such as retirement or death of a policy holder;
- Attention was drawn to Appendix 1 showed a more detailed breakdown of achievement in all areas, with a chart highlighting the last month;

- Appendix 2 provided detail on the output and performance of the administrative team between 1 April 2022 and 31 December 2022;.
- Appendix 3 provided a comparison of the work of the team from 2021 to 2022;
- Appendix 4 provided detail about progress towards achieving compliance with the national Pensions Dashboard Programme (PDP) and the revised deadlines were noted, with a short presentation being provided;
- Appendix 5 highlighted employer performance in the last quarter and the strategy was being updated;
- 22 compliments had bene received in the last quarter, and there had been no new admitted bodies in that period.

Questions were invited.

- A member asked for an update on staffing levels and it was noted the team had 6 vacancies and the job description and accompanying advert had been refreshed in an attempt to make it more attractive and it was requested that an update on staffing be provided at the next meeting.
- A member asked on Appendix 4 and it was explained that the steering group had been a national grouping and had not involved anyone in Somerset.

The Committee noted the report.

9 **Business Plan Update**

The Investment and Funds Manager presented the report and highlighted the following:

- Still awaiting guidance/information from government on several matters.
- It was noted that one of the London Boroughs had passed a resolution to consider leaving the London pool of Pension Funds (32) and if this happened it might cause a ripple effect, there was a brief discussion about pooling and it was agreed that updates would be provided.
- The business plan, outlining agenda items/reports for future meetings was noted.

The Committee noted the report.

10 **Finance and Membership Statistics Update**

The Fund and Investment Manager presented the report and highlighted the following:

- The quarter had seen no major movements in overall figures.

- It was noted that the progress was in line with projections.
- It was confirmed that employer exit credits were included to reflect change in government regulations.

The Committee accepted the report.

11 **Review of Pension Fund Risk Register**

The Fund and Investment Manager presented the report to monitor risks contained on the risk register, noting there had been no changes since his last update.

The Committee noted the report.

12 **Resources review, financial forecast setting and objective setting**

The Committee considered a report that asked Members to consider the set objectives for the fund, the resources necessary to attain those objectives and a definition or measurement mechanism for success.

There was a discussion of the report and the Committee agreed the proposed budget and to maintain the absolute return target for the fund, and that the resources available were adequate.

The report was accepted.

13 **Cash Management strategy**

The Committee considered this report that sought approval for the management of the Fund's cash and the strategy and counter party strategy. It was noted that since 1 April 2010 the pension fund cash had been managed by the Council's investments team on a completely segregated basis.

During the discussion Members considered the Cash Management Strategy attached as Appendix A to the report and the revised Counterparty criteria for the investment of sterling cash balances attached as Appendix B to the report.

There was a discussion about the Cash Management Strategy and the Committee agreed to approve the Cash Management Strategy; the Counter party strategy; to re-appoint the in-house team to manage the cash balances on a segregated basis and therefore not to appoint an external cash manager.

The Committee accepted this report.

14 **Knowledge and Skills**

The Fund and Investment Manager gave a verbal update on plans for undertaking an assessment of the Committee and Board's knowledge and skills.

- As reported at the previous meeting, a knowledge and skills questionnaire has now been completed in conjunction with Barnett Waddingham, and the Chair noting that the completion rate had reached 50% and he encouraged all to participate and provide feedback.

There were no questions and the Committee noted the update.

15 **Any Other Business of Urgency**

The Chair, after ascertaining there were no other items of business, thanked all those present for attending.
The Chair noted the next meeting of the Committee would be held on Friday 16 June 2023 and the next meeting of the Pensions Board will be held on Friday 28 April 2023.

The meeting closed at 11.55am.

Cllr Coles
Chair of the Pensions Committee

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SOMERSET COUNCIL

COUNCILLORS WHO ARE ALSO CITY, TOWN AND/OR PARISH COUNCILLORS

SOMERSET COUNCILLOR	CITY, TOWN AND/OR PARISH COUNCIL
Steve Ashton	Crewkerne Town Council / Hinton St George Parish Council
Suria Aujla	Bridgwater Town Council
Jason Baker	Chard Town Council
Lee Baker	Cheddon Fitzpaine Parish Council
Marcus Barr	Wellington Town Council
Mike Best	Crewkerne Town Council
Alan Bradford	North Petherton Town Council
Theo Butt Philip	Wells City Council
Simon Carswell	Street Parish Council
Norman Cavill	West Monkton Parish Council
Peter Clayton	Burnham Highbridge Town Council
Nick Cottle	Glastonbury Town Council / St Edmunds Parish Council
Adam Dance	South Petherton Parish Council
Tom Deakin	Taunton Town Council
Caroline Ellis	Taunton Town Council
Ben Ferguson	Axbridge Town Council
Bob Filmer	Brent Knoll Parish Council
Andrew Govier	Wellington Town Council
Pauline Ham	Axbridge Town Council
Philip Ham	Coleford Parish Council
Ross Henley	Wellington Town Council
Edric Hobbs	Shepton Mallet Town Council
John Hunt	Bishop’s Hull Parish Council
Val Keitch	Ilminster Town Council
Andy Kendall	Yeovil Town Council
Jenny Kenton	Chard Town Council
Tim Kerley	Somerton Town Council
Marcus Kravis	Minehead Town Council
Tony Lock	Yeovil Town Council
Martin Lovell	Shepton Mallet Town Council
Mike Murphy	Burnham Highbridge Town Council
Graham Oakes	Yeovil Town Council / Yeovil Without Parish Council
Sue Osborne	Ilminster Town Council
Kathy Pearce	Bridgwater Town Council
Emily Pearlstone	Ilchester Parish Council
Evie Potts-Jones	Yeovil Town Council

Wes Read	Yeovil Town Council
Leigh Redman	Bridgwater Town Council
Mike Rigby	Bishop's Lydeard and Cothelstone Parish Council
Tony Robbins	Wells City Council
Dean Ruddle	Somerton Town Council
Peter Seib	Brympton Parish Council / Chilthorne Domer Parish Council
Heather Shearer	Street Parish Council
Gill Slocombe	Bridgwater Town Council
Brian Smedley	Bridgwater Town Council
Federica Smith-Roberts	Taunton Town Council
Jeny Snell	Yeovil Town Council / Brympton Parish Council
Andy Soughton	Yeovil Town Council
Richard Wilkins	Curry Rivel Parish Council
Dave Woan	Yeovil Town Council
Ros Wyke	Westbury-sub-Mendip Parish Council

The memberships of City, Parish or Town Councils will be taken as being declared by these Councillors to be other registerable interests in the business of the Somerset Council meeting and need not be declared verbally.

Monitoring Officer of Somerset Council

Somerset Council
Pension Fund Committee

Review of Investment Performance

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 anton.sweet@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 2023 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 Somerset Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

6. Background Papers

None

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

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Item 7
Appendix A

Review of Investment Performance for the Quarter to 31st March 2023

1. Brunel - LGIM (Passive Global Equity)

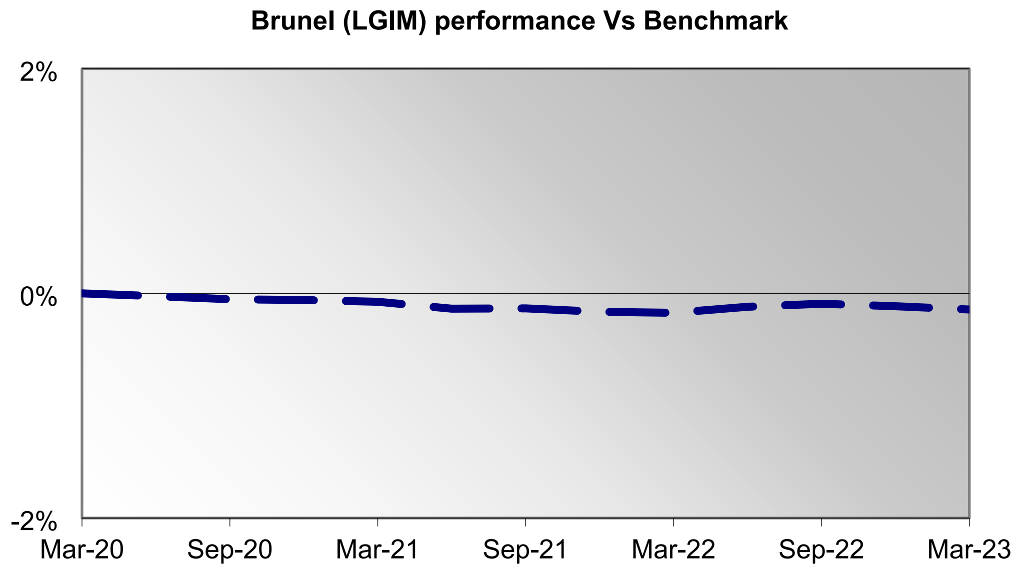
1.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
586.3	Global equities	6.5	6.5	+0.0

1.2 During the quarter to 30th June 2022 passive equity was switched from the standard FTSE Developed Equity benchmark to the Paris aligned FTSE Carbon Transition Benchmark (CTB) in accordance with the new Investment Strategy Statement approved by the Committee at its March 2022 meeting.

1.3 The portfolio matched the performance of the benchmark during 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	**0.3**	**0.1**	**+0.2**
3 year	**17.1**	**17.0**	**+0.1**
5 years	Initial investment in July 2018		

2. Brunel - (Global High Alpha Equity)

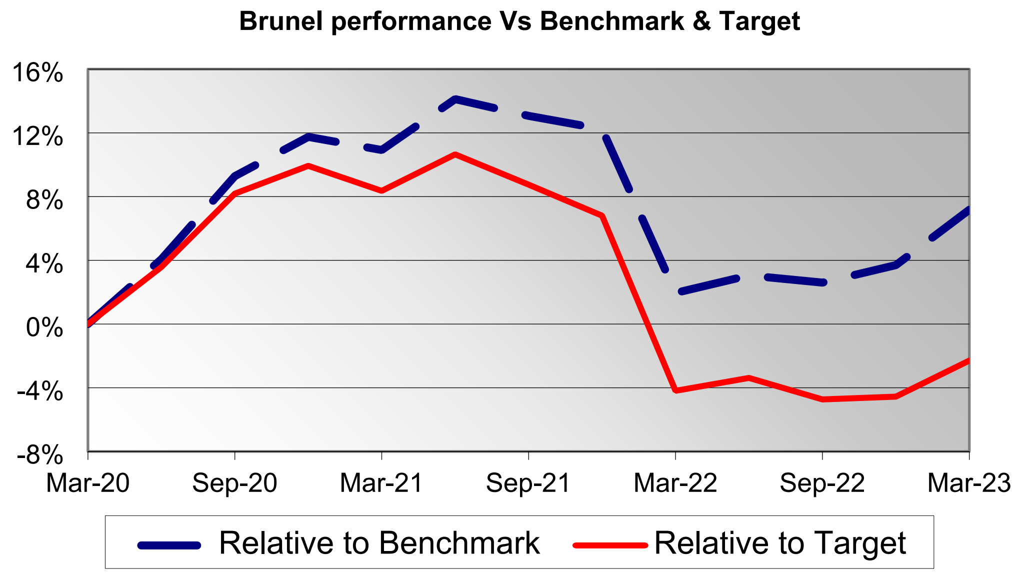
2.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
796.0	**Global equities**	**7.1**	**5.0**	**+2.1**

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. The benchmark for the portfolio is the MSCI World Index.

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

2.4 The Brunel GHA portfolio'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	**2.6**	**-0.5**	**+3.1**
3 years	**18.7**	**7.1**	**+1.6**
5 years	Initial investment in November 2019		

3. Brunel (UK Equities)

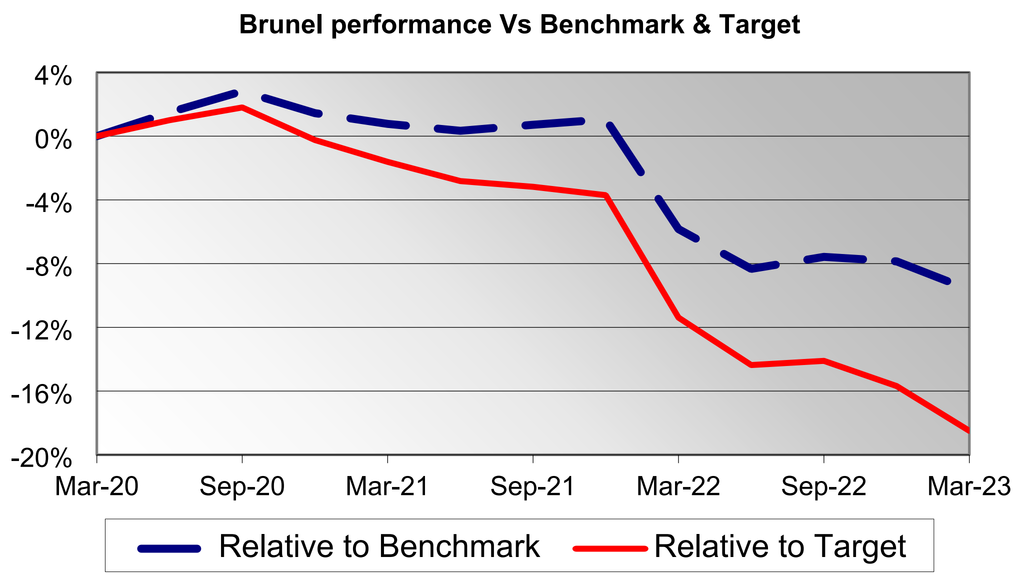
3.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
317.2	**UK**	**2.3**	**3.4**	**-1.1**

3.2 The Brunel UK portfolio is managed by a combination of Invesco and Baillie Gifford. The benchmark for the portfolio is the FTSE All-Share excluding Investment Companies Index.

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

3.4 The Brunel UK portfolio'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.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**1.3**	**3.9**	**-2.6**
3 years	**11.9**	**14.4**	**-2.5**
5 years	Initial investment in November 2018		

4. Brunel (Global Smaller Companies Equity

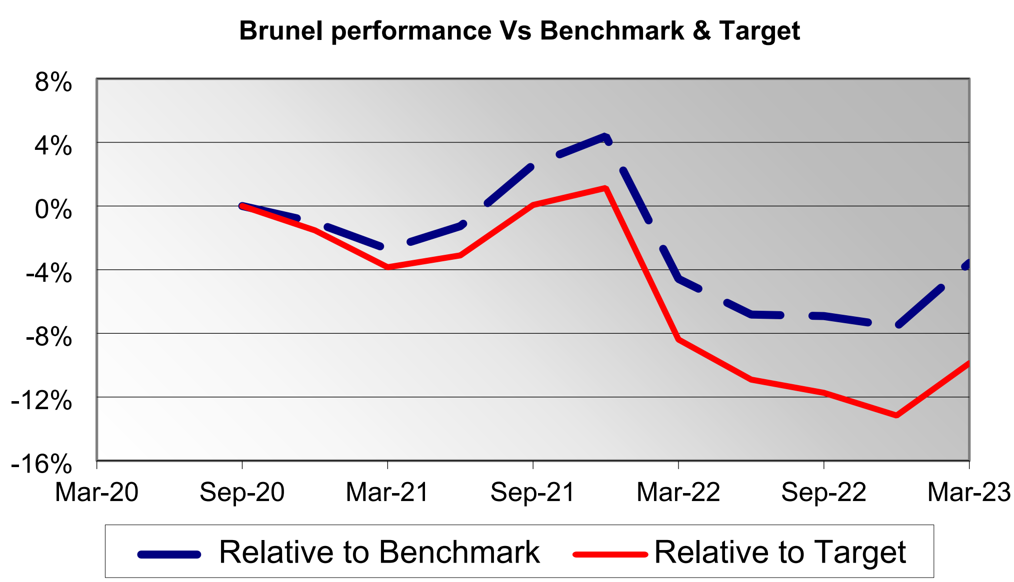
4.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
183.7	Smaller Companies	5.0	1.5	+3.5

4.2 The Brunel Smaller Companies Market portfolio is managed by a combination of Montanaro Asset Management, American Century and Kempen Capital Management. The benchmark is the MSCI World Small Cap Index

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

4.4 The Brunel Smaller Companies portfolio'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	**-2.8**	**-3.5**	**+0.7**
3 years	Initial investment in September 2020		

5. Brunel (Emerging Market Equity)

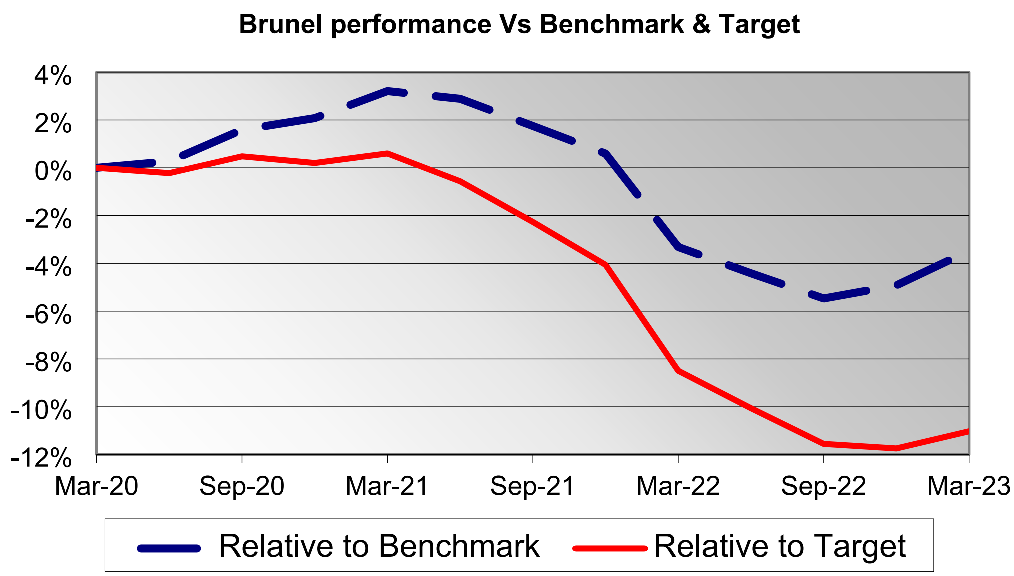
5.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
102.5	**Emerging Market**	**2.4**	**1.1**	**+1.3**

5.2 The Brunel Emerging Market portfolio is managed by a combination of Genesis Investment Management, Wellington Management and Investec Asset Management. The benchmark is the MSCI Emerging Markets Index.

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

5.4 The Brunel Emerging Market portfolio'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%.



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	**-5.1**	**-4.9**	**-0.2**
3 years	**6.9**	**7.9**	**-1.0**
5 years	Initial investment in October 2019		

6. Brunel (Passive Gilts)

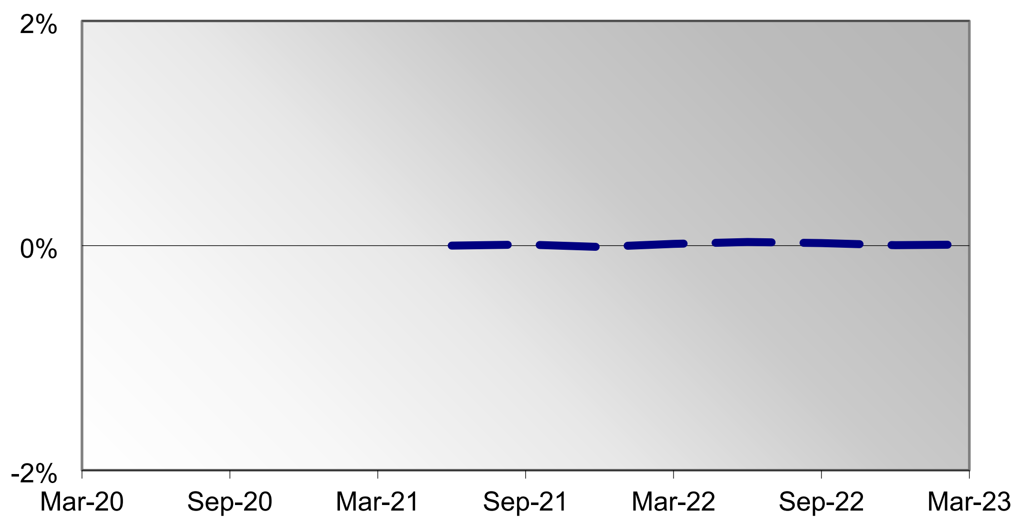
6.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
43.8	**UK Gilts**	**2.8**	**2.8**	**+0.0**

6.2 The Blackrock managed passive UK Gilts Fund matched the performance of the benchmark for the quarter. The benchmark is FTSE Actuaries UK Gilts over 15 years index. Absolute performance was positive.

6.3

Brunel (Blackrock) performance Vs Benchmark



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-29.7**	**-29.7**	**+0.0**
3 years		Initial investment in June 2021	

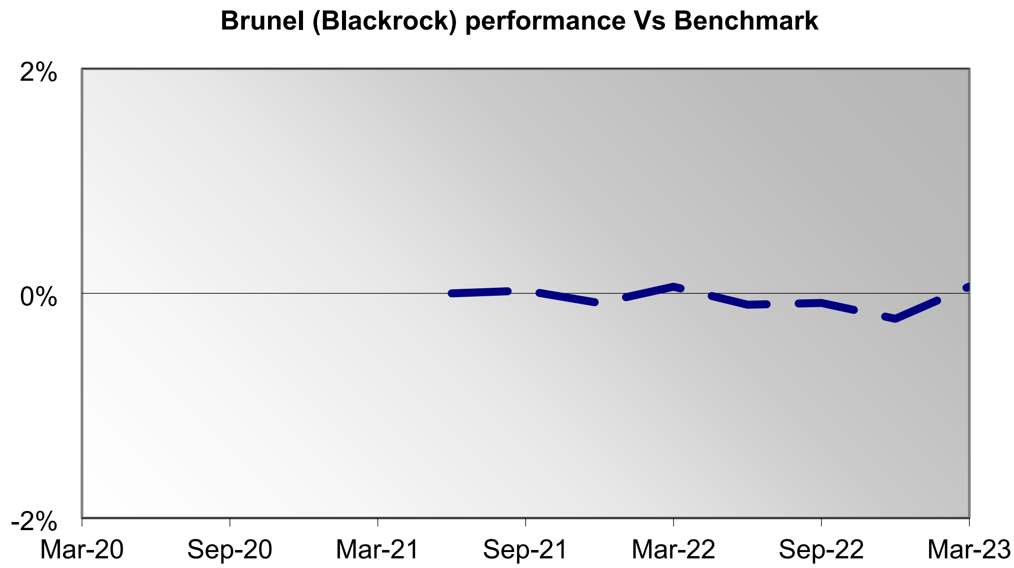
7. Brunel (Passive (index-Linked Gilts)

7.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
56.3	**UK Index-Linked Gilts**	**5.4**	**5.0**	**+0.4**

7.2 The Blackrock managed passive UK Index-Linked Gilts Fund slightly underperformed the benchmark for the quarter. The benchmark is FTSE Actuaries UK Index Linked Gilts over 5 years index. Absolute performance was positive.

7.3



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-30.4**	**-30.4**	**+0.0**
3 years		Initial investment in June 2021	

8. Brunel (Sterling Corporate Bonds)

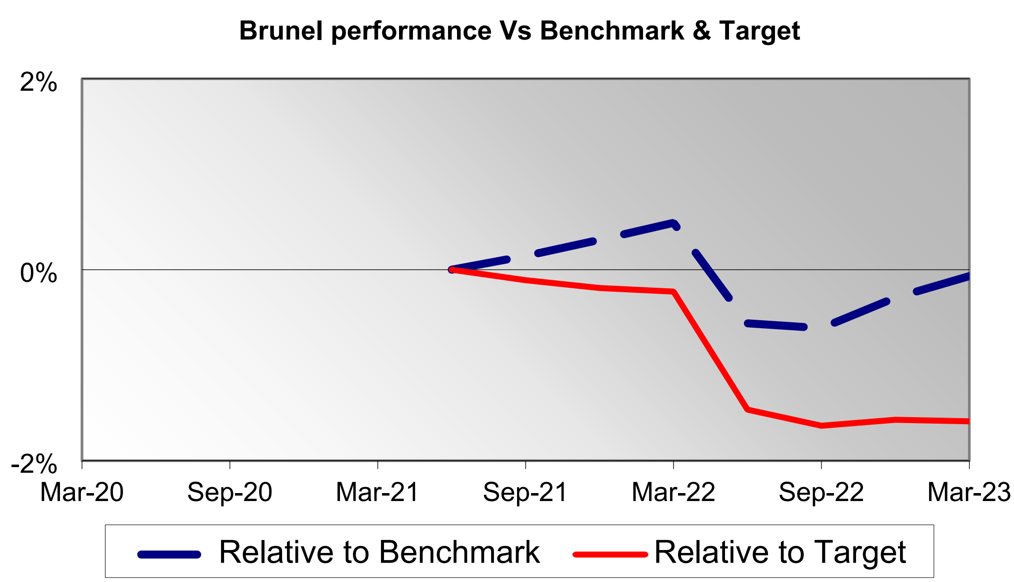
8.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
195.8	**£ Corporate Bonds**	**2.6**	**2.3**	**+0.3**

8.2 The Brunel Sterling Corporate Bond portfolio is managed by Royal London Asset Management. The benchmark is iBoxx Sterling Non-Government bonds index.

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

8.4 The Brunel Sterling Corporate Bond portfolio's target is to outperform the benchmark by an annualised return of 1% over continuous three to five-year periods after fees have been deducted.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-10.7**	**-10.2**	**-0.5**
3 years	Initial investment in July 2021		

9. Brunel (Multi Asset Credit)

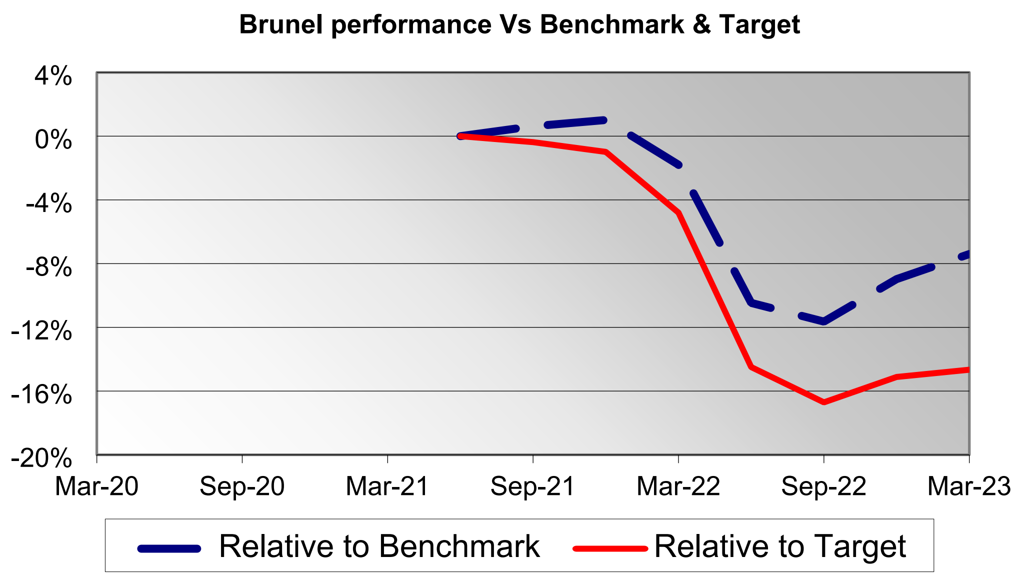
9.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Value as at 31 Mar £m	Quarter to 31 March 2023	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
94.9	**Multi Asset Credit**	**2.7**	**0.9**	**+1.8**

9.2 The Brunel Sterling Corporate Bond portfolio is managed by a combination of CQS, Neuberger Berman and Oaktree. The Benchmark is Cash (SONIA).

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

9.4 The Brunel Multi Asset Credit portfolio's target is to outperform the benchmark by an annualised return of 4% to 5% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 4%.



9.5 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	**-3.5**	**2.2**	**-5.7**
3 years		Initial investment in June 2021	

10. LaSalle/Brunel (Property Fund of Funds)

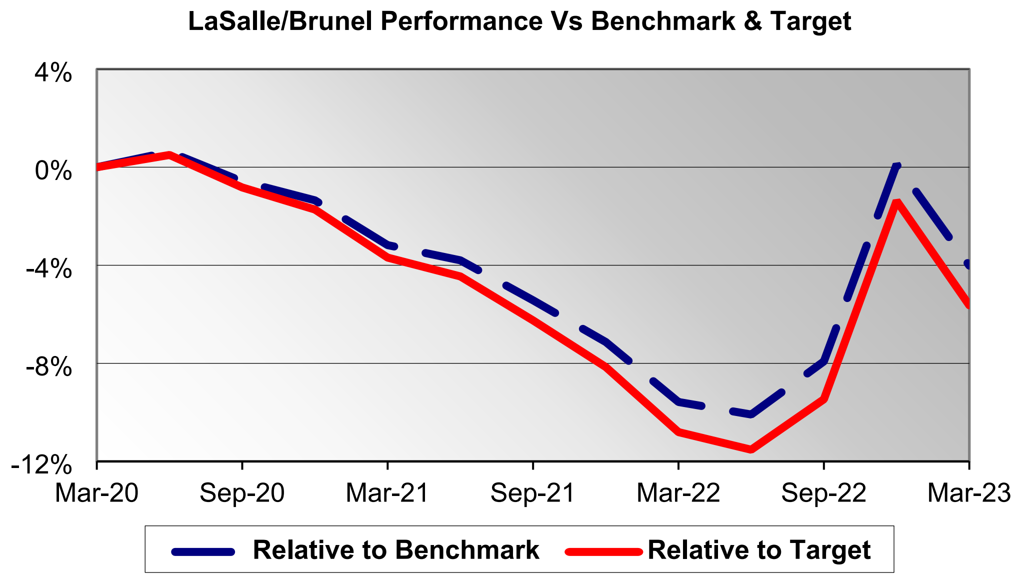
10.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
224.5	**UK Property**	**-4.4**	**-0.2**	**-4.2**
1.0	**Cash**			
225.5	**Total**	**-4.0**	**-0.2**	**-3.8**

10.2 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. The benchmark is MSCI/AREF All balanced funds index.

10.3 The portfolio outperformed the benchmark for the quarter. Absolute performance was strongly negative.

10.4 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.



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

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	**-10.9**	**-14.5**	**+3.6**
3 years	**1.3**	**2.6**	**-1.3**
5 years	**1.4**	**2.5**	**-1.1**
10 years	**5.1**	**6.4**	**-1.4**

11. <u>Neuberger Berman (Global Private Equity)</u>

11.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
80.4	**Private Equity**	**2.6**	**0.9**	**+1.7**

11.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP. The benchmark is Cash (Bank of England Base Rate)

11.3 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.

11.4 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	**24.9**	**0.1**	**+24.8**
3 years	**24.7**	**17.0**	**+7.7**
5 years	**20.6**	**11.1**	**+9.5**
10 years	**17.4**	**11.6**	**+5.8**

12. Brunel (Global private equity)

12.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
18.1	**Private Equity**	**-1.2**	**0.9**	**-2.1**

12.2 Brunel have invested in a number of private equity funds on the Fund's behalf and 27.9% of our cycle 2 commitment has been drawn. The portfolio is still very immature but appears to be making good progress at generating positive returns. The benchmark is Cash (Bank of England Base Rate).

12.3 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	**12.8**	**-8.3**	**+21.1**
3 years	Initial investment in December 2020		

13. South West Ventures Fund

13.1 The fund continues to make reasonable progress.

14. Combined Fund

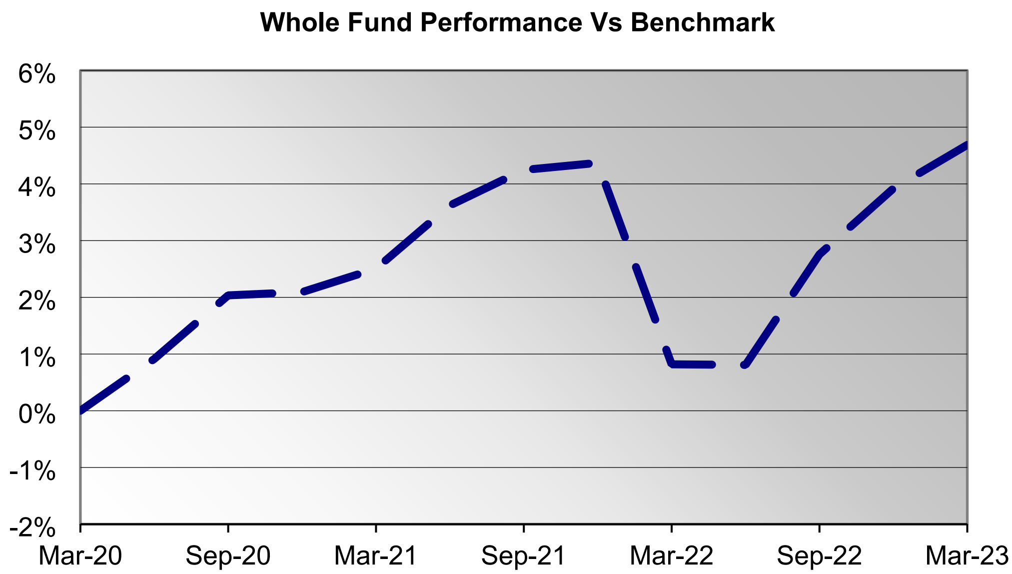
14.1 The performance for the quarter to 31st March 2023 is summarised in the following table:

Quarter to 31 March 2023				
Value as at 31 Mar £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
586.3	Brunel (Passive Gl Eq)	6.5	6.5	+0.0
796.0	Brunel (GHA Eq)	7.1	5.0	+2.1
317.2	Brunel (UK Eq)	2.3	3.4	-1.1
183.7	Brunel (Small Cap Eq)	5.0	1.5	+3.5
102.5	Brunel (EM Eq)	2.4	1.1	+1.3
43.8	Brunel (Passive Gilts)	2.8	2.8	+0.0
56.3	Brunel (Passive I-L)	5.4	5.0	+0.4
195.8	Brunel (£ Corporate)	2.6	2.3	+0.3
94.9	Brunel (MAC)	2.7	0.9	+1.8
225.5	Brunel (Property)	-4.0	-0.2	-3.8
1.6	SWRVF	0.0	0.9	-0.9
80.4	Neuberger Berman	2.6	0.9	+1.7
18.1	Brunel (Private Eq)	-1.2	0.9	-2.1
0.8	Brunel (holding in Co)	0.0	0.0	+0.0
95.2	Cash	0.9	0.9	+0.0
2,798.1	Whole Fund	4.1	3.6	+0.5

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

14.3 Asset allocation was flat for the quarter, therefore all of the outperformance came from fund manager performance.

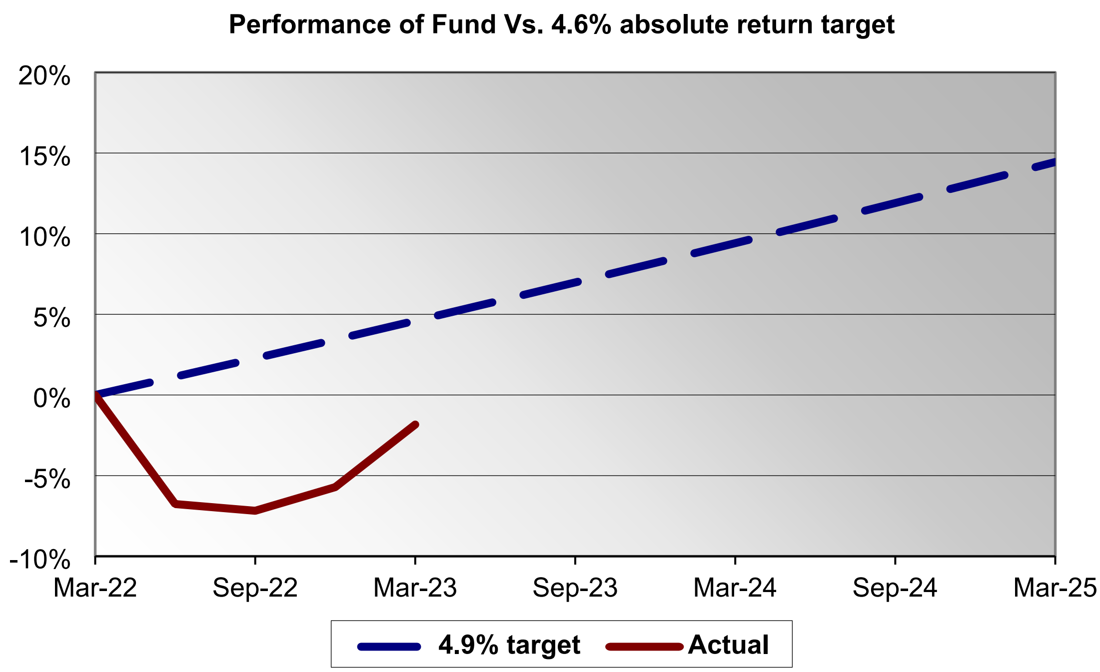
14.4



14.5 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	-1.8	-4.7	+2.8
3 years	10.5	9.3	+1.2
5 years	6.0	5.4	+0.6
10 years	7.6	7.1	+0.5

14.6 At the March 2023 committee meeting the committee adopted an absolute return target of 4.6% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2022 valuation. Progress against this target for the 2022 to 2025 actuarial cycle is shown in the graph below.



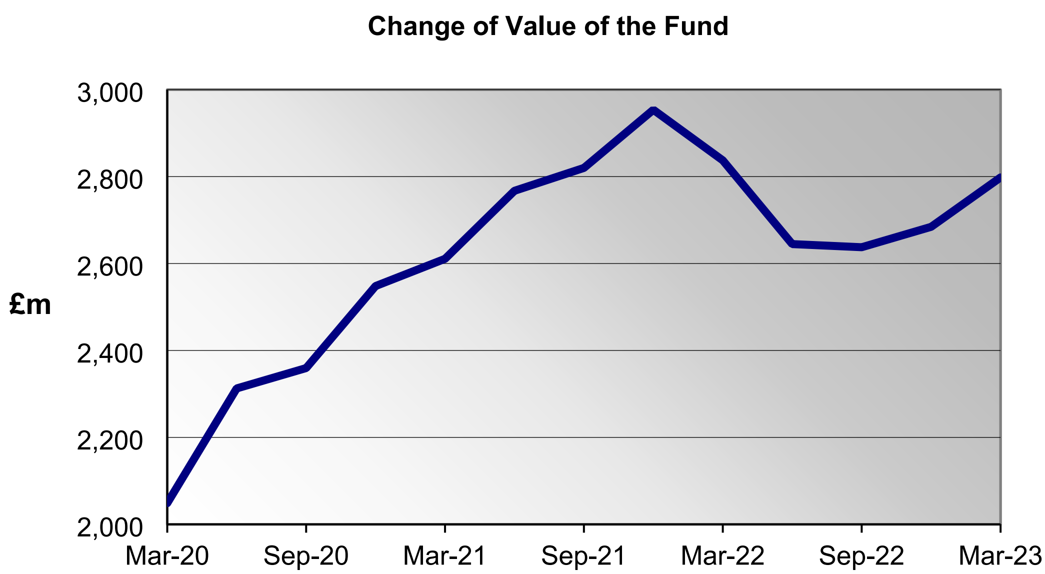
14.7 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Dec £m	%	Value as at 31 Mar £m	%	Strategic Weighting %
Brunel (Passive Gl Eq)	**550.5**	20	**586.3**	21	**20**
Brunel (GHA Eq)	**743.6**	28	**796.0**	28	**25**
Brunel (UK Eq)	**310.2**	11	**317.2**	11	**10**
Brunel (Small Cap Eq)	**175.0**	7	**183.7**	7	**5**
Brunel (EM Eq)	**100.1**	4	**102.5**	4	**5**
Brunel (Passive Gilts)	**42.6**	2	**43.8**	2	**4**
Brunel (Passive I-L)	**53.4**	2	**56.3**	2	**4**
Brunel (Corp bonds)	**171.3**	6	**195.8**	7	**8**
Brunel (MAC)	**73.1**	3	**94.9**	3	**3**
Brunel/LaSalle (Prop)	**229.8**	8	**225.5**	8	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**80.8**	3	**80.4**	3	**0**
Brunel (Private Eq)	**16.1**	1	**18.1**	1	**5**
Brunel (holding in Co)	**0.8**	0	**0.8**	0	**0**
Cash	**135.5**	5	**95.2**	3	**1**
Whole Fund	**2,684.4**	100	**2,798.1**	100	**100**

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

- £20m was added to the Brunel Sterling Corporate Bond fund.
- £20m was added to the Brunel Multi Asset Credit fund.
- £5m was added to the Brunel Property fund as part of additional funding agreed in January 2022.
- £2.4m was withdrawn from the Neuberger Berman's Private equity mandate as cash was returned to us by these funds.
- £2.3m was added to the Brunel private equity fund as the underlying investments continued to drawdown on commitments.

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

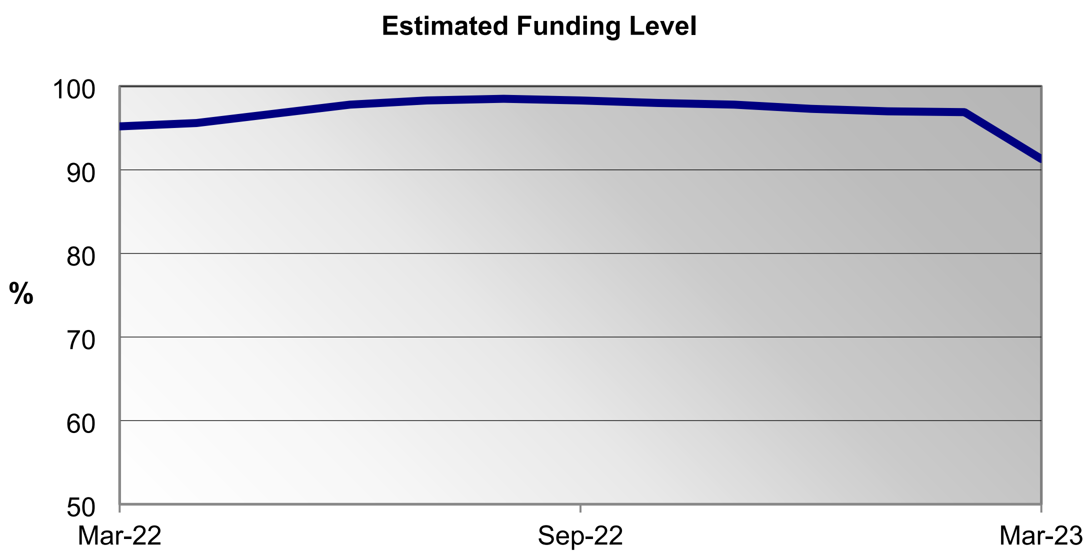


14.10 The Fund's Actuary, Barnett Waddingham, have provided the following update.

"The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2023 is 91.3%
- This compares with the reported (smoothed) funding level of 95.2% 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."



Pooling Update

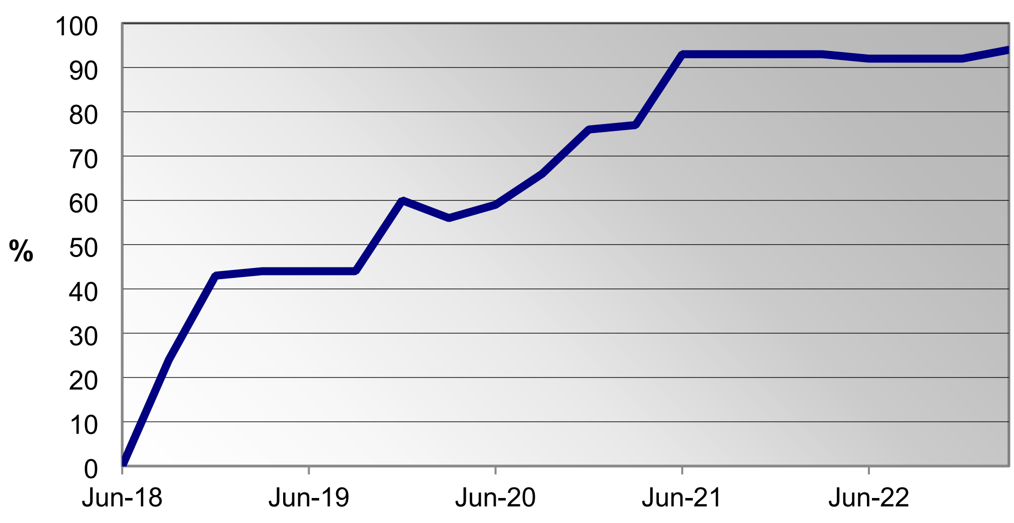
15.1 Under guidance published by the Government on "LGPS: Investment Reform Criteria and Guidance" in November 2015 we are required to work towards the pooling of the Fund's investment assets with other LGPS funds with pooling beginning in April 2018.

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

15.3 Somerset largely completed its transition of assets to Brunel in summer 2021, with only some legacy private equity investments and cash not invested via the pool. 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	**2,465.7**	92	**2,620.1**	94
Retained assets	**218.7**	8	**178.0**	6
Whole Fund	**2,684.4**	100	**2,798.1**	100

% of Fund managed within Brunel Pool



Somerset Council
Pension Fund Committee

Review of Administration Performance

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
Author:	Rachel Lamb: Head of Peninsula Pensions
Contact Details:	(01392) 383000 Rachel.lamb@devon.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Background

1.1 Peninsula Pensions monitors performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the statutory requirements regarding the disclosure of pension information.

Peninsula Pensions' will be reviewing the Pension Administration Strategy and targets included within it in the 2023 year, which includes the internal target for Peninsula Pensions and expected performance requirements from individual Fund employers. The information provided within this report is therefore based around the statutory targets as outlined above.

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

1.3 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 the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 31st March 2023 was 92% (92% also for High Priority procedures). For the 12-month period 1st April 2022 to 31st March 2023, it was 89% overall (94% for High Priority procedures).

3.2 During the quarter, the team received 10 compliments.

3.3 Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Somerset Pension Fund only for both the quarter ending 31st March 2023, and the full year 1st April 2022 – 31st March 2023, against the statutory Disclosure Regulations. It also includes a graph which shows the monthly trend analysis on the percentage of high, medium, and low priority cases completed within timescales for the current financial year.

3.4 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st April 2022 to 31st March 2023. The bottom chart shows how many of the 'remaining' tasks outstanding to be actioned are awaiting information from another third party (member/employer) and therefore are on 'reply due'.

3.5 Appendix 3 of the report highlights the amount of work received over the previous 12 month rolling period, compared to the same period in the previous year. The chart currently is showing an increase in demand.

4. Employer updates

4.1 New Admitted Bodies: None

Academies:

- 1 January 2023 Christ Church C of E First School joined Baths & Wells Academy Trust.
- 1 March 2023 Clevedon Learning Trust merged with Futura Learning Partnership.
- 1 March 2023 Crispin School joined Wessex Learning Trust.

Cessations: None

5. Background Papers / Other updates

5.1 McCloud:
Member factsheet link for information: The McCloud judgment and your LGPS pension (publishing.service.gov.uk)

Recruitment:
For information, during the period January 2023 – March 2023, Peninsula Pensions had a total of 7 staff vacancies.

Appendix 1

Administration Performance – 1st January 2023 – 31st March 2023
(Somerset Pension Fund)

Performance Summary

	Total Cases	Performance (Disc Regs)
High Priority Procedures	**2089**	**92%**
Medium Priority Procedures	**2549**	**90%**
Low Priority Procedures	**882**	**94%**
TOTAL	**5520**	**92%**

High Priority Cases

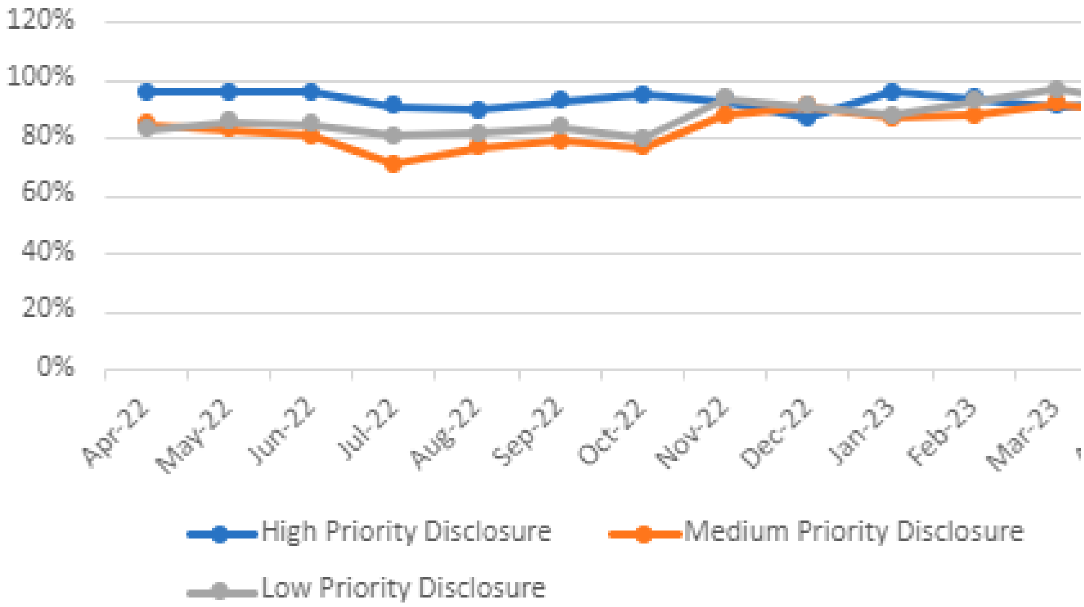
	Total Cases	Performance (Disc Regs)
Changes	275	97%
Complaints (Member)	24	100%
Complaints (Employer)	0	-
Deaths	197	80%
Deferred (over 55)	123	89%
Payroll	349	97%
Refunds	438	100%
Retirements (Active)	241	82%
Retirements (Deferred)	442	94%
TOTAL	**2089**	**92%**

Medium Priority Cases

	Total Cases	Performance (Disc Regs)
Amalgamation of Records	253	68%
Deferred Benefit Calculations	576	76%
Divorce Calculations	46	91%
Employer Queries	105	74%
Estimates (Bulk)	0	-
Estimates (Employer)	23	100%
Estimates (Member)	41	98%
General	530	99%
HMRC	12	100%
Member Self-Service	963	100%
TOTAL	**2549**	**90%**

Low Priority Cases

	Total Cases	Performance (Disc Regs)
Estimates (Other)	58	98%
GMP Queries	5	100%
Interfund Transfers In	80	79%
Interfund Transfers Out	112	81%
Pension Top Ups	78	100%
Frozen Refunds	427	97%
New Starters	1	100%
Pension Transfers In	59	97%
Pension Transfers Out	62	95%
TOTAL	**882**	**94%**


120%
100%
80%
60%
40%
20%
0%
Apr-22
May-22
Jun-22
Jul-22
Aug-22
Sep-22
Oct-22
Nov-22
Dec-22
Jan-23
Feb-23
Mar-23
High Priority Disclosure
Medium Priority Disclosure
Low Priority Disclosure

Administration Performance – 1st April 2022 – 31st March 2023
(Somerset Pension Fund)

Performance Summary

	Total Cases	Performance (Disc Regs)
High Priority Procedures	**7580**	**94%**
Medium Priority Procedures	**10399**	**87%**
Low Priority Procedures	**3581**	**87%**
TOTAL	**21560**	**89%**

High Priority Cases

	Total Cases	Performance (Disc Regs)
Changes	1324	98%
Complaints (Member)	81	100%
Complaints (Employer)	2	100%
Deaths	645	78%
Deferred (over 55)	631	86%
Payroll	1466	97%
Refunds	935	100%
Retirements (Active)	904	91%
Retirements (Deferred)	1592	93%
TOTAL	**7580**	**94%**

Medium Priority Cases

	Total Cases	Performance (Disc Regs)
Amalgamation of Records	1633	62%
Deferred Benefit Calculations	2602	64%
Divorce Calculations	186	94%
Employer Queries	664	66%
Estimates (Bulk)	0	-
Estimates (Employer)	42	100%
Estimates (Member)	130	95%
General	1722	99%
HMRC	67	100%
Member Self-Service	3353	100%
TOTAL	**10399**	**87%**

Low Priority Cases

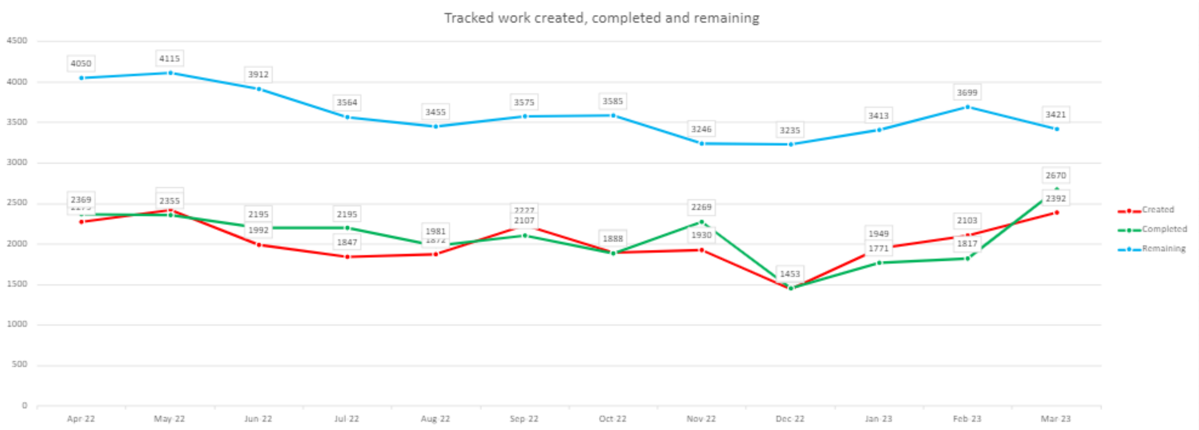
	Total Cases	Performance (Disc Regs)
Estimates (Other)	221	76%
GMP Queries	9	100%
Interfund Transfers In	383	64%
Interfund Transfers Out	405	75%
Pension Top Ups	265	99%
Frozen Refunds	1747	93%
New Starters	1	100%
Pension Transfers In	265	93%
Pension Transfers Out	285	84%
TOTAL	**3581**	**87%**

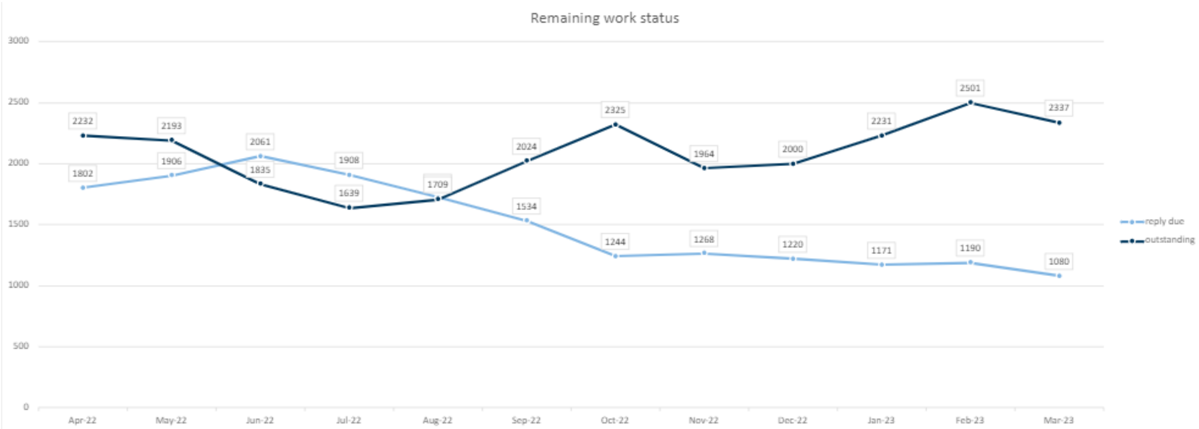
Appendix 2

Administration Performance

1st April 2022 – 31st March 2023

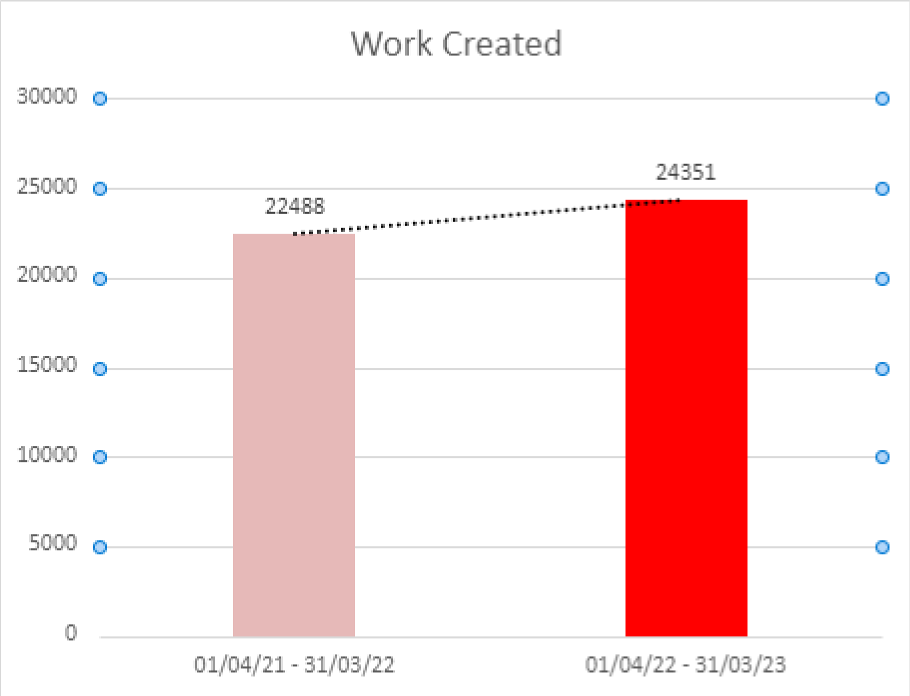
Month	Created	Completed	completion rate	Remaining	reply due	outstanding
Mar-23	2392	2670	111.62%	3421	1080	2337

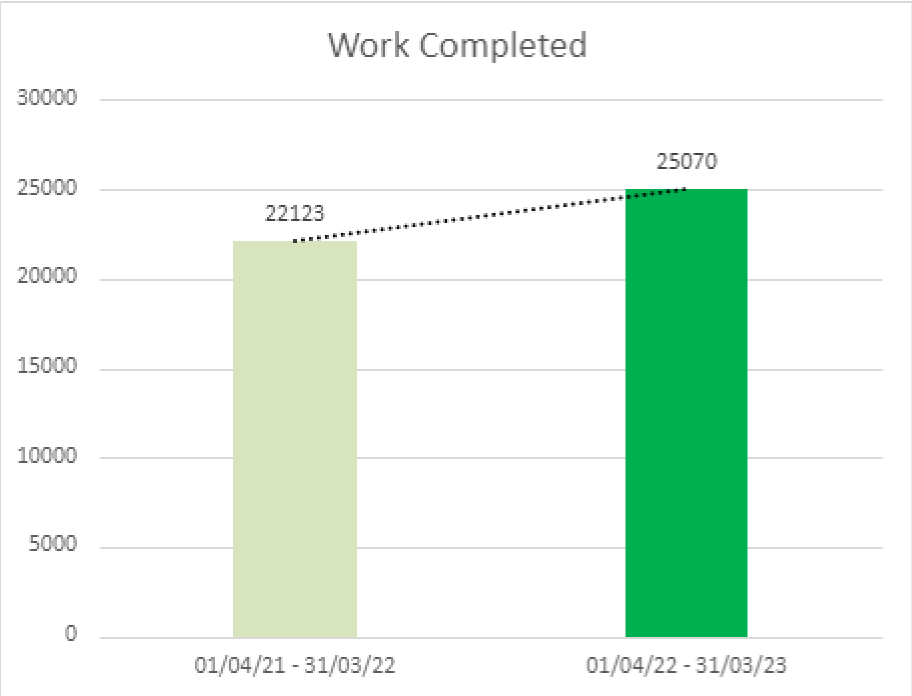




Work received 12 month rolling period 1st April 2022 – 31st March 2023 (against same period for previous financial year)

from	to	Work Created	Work Completed	Average Monthly Work Remaining
01/04/2021	31/03/2022	22488	22123	3772
01/04/2022	31/03/2023	24351	25070	3606





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Somerset Council
Pension Fund Committee

Business Plan Update

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 anton.sweet@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 Council Pension Fund (the Fund) is a statutory scheme with Somerset Council acting as the 'administering authority' in accordance with the relevant legislation. This means that the Council is responsible for taking all the executive decisions in respect of the Fund.

3.2 To meet its responsibilities in this respect the Council has delegated executive decision making powers for the Fund to the Pension Fund Committee. A business plan has been produced to help ensure that the Pension Fund 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, LGPS and levelling up and other matters. DLUHC did issue a consultation on McCloud on 30th May with responses due by 30th June. The consultation is specifically aimed at fine tuning a number of technical issues with the Government's proposed McCloud response.

4.2 The formal valuation results were issued by Barnett Waddingham on 29th March and distributed to all interested parties.

4.3 Grant Thornton have undertaken their planning work for the 2022-23 audit. The Fund's financial statements for the year to 31 March 2023 are not complete at the time of writing but it is anticipated they will be around the time of the Pension Fund Committee meeting. Grant Thornton will start the main audit work in July.

4.4 A review of the Communication Strategy is still a pending piece of work. Peninsula Pensions are reviewing their communication practices and we wish to capture and significant changes in any review of the Communication Strategy.

4.5 In consultation with Barnett Waddingham we are looking to refresh the Funding Strategy Statement, this is normal practice following the valuation. It a first draft is an agenda item for this meeting. It will then go to consultation with the employers before coming back to Committee for formal adoption later in the year.

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 2023 - 2024

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 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**		New Terms of reference to be adopted post vesting day
Fund Governance	Re-apporve all Strategies and policies post election	Medium	**Ongoing**		Policies re-approved at July 2022 meeting
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	**By end of 2023**		Verbal update is part of meeting agenda
Fund Governance	Review Funding Strategy Statement	Medium	**Summer 2023**		First draft on the agenda for this meeting.
Fund Governance	Review Communication Strategy	Medium	**Summer 2023**		
Fund Governance	Review of risk register	Medium	**Autumn 2023**		
Fund Governance	Review Investment Strategy Statement	Medium	**Summer 2024**	Refreshed ISS due by March	

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
15th Sept 2023	**<u>FORMAL MEETING</u>**	
	1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2023.	**AS**
	3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**RL**
	4. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	5. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2023.	**AS**
	6. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	7. Annual Accounts and Investment Performance 2022/2023 To consider the accounts and investment performance for the year to 31 March 2023.	**AS**
	8. Fund Policies To review and where necessary update the fund's policies and documents. Funding Strategy Statement	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
15th December 2023	<u>**FORMAL MEETING**</u>	
	1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2023.	**AS**
	3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**RL**
	4. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	5. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2022.	**AS**
	6. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
15th March 2024	**<u>FORMAL MEETING</u>**	
	1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2023.	**AS**
	3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**RL**
	4. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	5. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2023.	**AS**
	6. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	7. 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 2024-2025 financial year and review the overal performance target for 2022 to 2025.	**AS/SM**
	8. 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 2023 - 2024

Date	Proposed Items of Business	Lead Officer
June 2024 - TBC	<u>**FORMAL MEETING**</u>	
	1. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.	
	2. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2022.	**AS**
	3. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.	**RL**
	4. Business Plan Update To consider progress against the Committees approved business plan.	**AS**
	5. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2022.	**AS**
	6. Review of Pension Fund Risk Register To review the risks within the fund and form an approriate risk register for the fund.	**AS**
	7. Fund Policies To review and where necessary update the fund's policies and documents.	**AS**

Somerset Council
Pension Fund Committee

Finance and Membership Statistics Update

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 anton.sweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 This report updates the committee on the position of the Pension Fund's provisional end of quarter 4 financial position at 31 March 2023 and related matters. This is a standard item of committee business.

2. Issues for consideration

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

3. Financial position

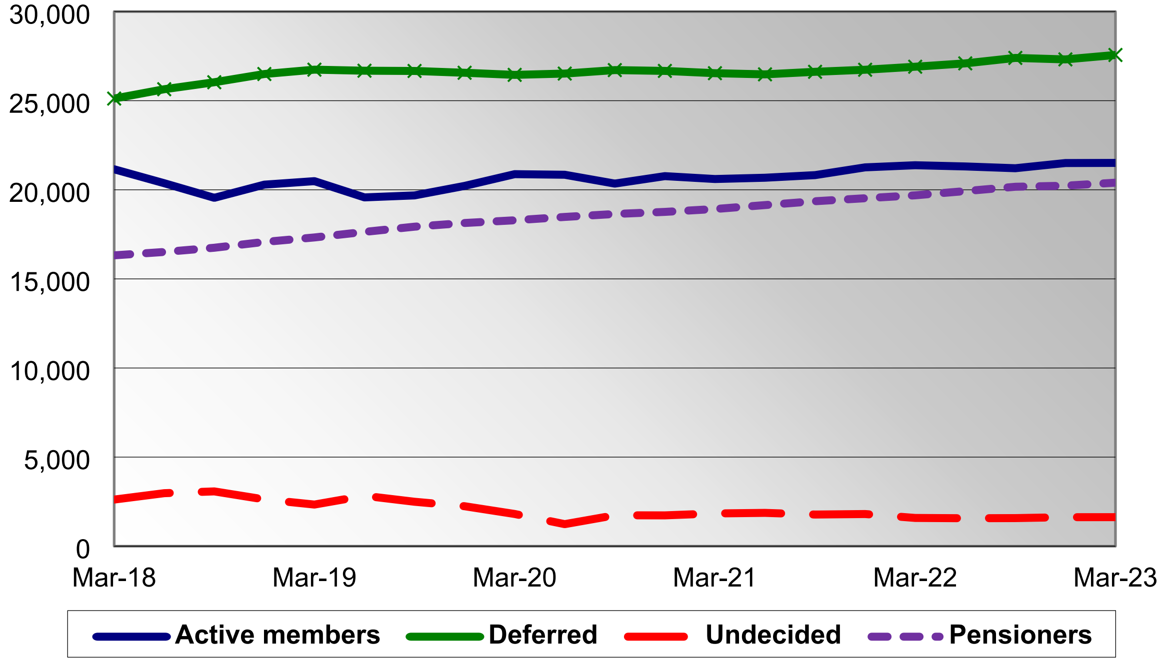
3.1 The outturn position for the financial 2023-2024 year to 31st March 2023 against the original forecast is shown in appendix A.

4. Membership Statistics

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

	31 Dec	31 March	Change
Active members	21,501	21,508	**+7**
Deferred	27,317	27,565	**+248**
Undecided	1,628	1,630	**+2**
Pensioners	20,229	20,399	**+170**
Total	**70,675**	**71,102**	**+427**

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.

Somerset Council
Pension Fund Committee

Review of Pension Fund Risk Register

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
Author:	Anton Sweet: Funds and Investments Manager
Contact Details:	(01823) 359584 anton.sweet@somerset.gov.uk
Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 In response to CIPFA guidance recommending the adoption and monitoring of a risk register for LGPS funds the Pensions Fund 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 PF – Admin 5 has been adjusted following a discussion at the April Pension Fund Board 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 Council Pension Fund Risk Register - June 2023 **Item 10 Appendix A**

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	Current Risk Score I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF - Gov 1 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively, particularly as a result of insufficient knowledge and skills	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12 Amber	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 Green		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 Amber		4	3	12 Amber		on-going with quarterly review		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 Green		2	4	8 Green		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 Red	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 Amber		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 Council Pension Fund Risk Register - June 2023 **Item 10 Appendix A**

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF - 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 Green		2	4	8 Green		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 Green		2	4	8 Green		on-going with quarterly review	There was a proposal at April Pension Fund Board meetingto increase the score of this but due to subsequent developments this is no longer necessary	
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 Green		2	4	8 Green		on-going with quarterly review		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration. As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption.

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF - 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 Green		2	3	6 Green		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 Amber	Receipt of revised regulations in respect of the exit cap, McCloud and Goodwin	2	3	6 Green		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 Green		2	4	8 Green		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 Green		2	3	6 Green		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 Council Pension Fund Risk Register - June 2023

Item 10 Appendix A

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place) L	Current Risk Score (with known controls in place) I	Combined score	Additional mitigating actions/control measurers planned to achieve target score	Target Risk score L	Target Risk score I	combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
1. PF - Admin5 2. SCC Section 151 Officer	Vulnerability to long-term staff sickness and/or retention and recruitment issues, especially for higher graded posts, within Somerset Council and Peninsula Pensions.	None, other than experience of other staff within the sections	3	3	9 Amber		2	3	6 Green		on-going with quarterly review	Risk clarified and liklihood score increased following discussion at April Pension Fund Board meeting.	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 Green		2	4	8 Green		on-going with quarterly review		
1. PF - Admin7 2. SCC Section 151 Officer	Civil Contingency Event	SCC and Peninsula would follow their established business continuity plans	3	2	6 Green		3	2	6 Green		on-going with quarterly review		Amended from COVID risk December 2022 at Board's request.

Somerset Council
Pension Fund Committee

Policies and Statements

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
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 pension fund is required to maintain a significant number of policies and statements in accordance with the LGPS regulations. 3 of these need to be refreshed for a variety of reasons.

2. Issues for consideration

2.1 The Committee is asked to review a draft of the Funding Strategy Statement (annex 1) and comment as appropriate. It is a requirement that we then consult the employers regarding the draft before it is adopted at a later Pension Fund Committee meeting.

2.2 The committee is asked to adopt the following policies:

- Pension Fund Committee Terms of Reference (annex 2).
- Pensions Committee Scheme of Delegation (annex 3).

3. Background

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

3.2 The previous version of the FSS was adopted by Pensions Committee at the September 2021 meeting, this incorporated the Fund's position on exit credits as permitted by amendment regulations laid before parliament on 27th August 2020 which come into force on 23rd September 2020.

3.3 In addition to reflecting the new regulations that came into force in September 2020 that update also incorporated the requirements of new Statutory guidance issued by MHCLG (now DLUHC) and guidance prepared by the Scheme Advisory Board for the LGPS, both of which were issued at the start of March 2021.

3.4 The draft as attached as appendix A is substantially the same as the version adopted in September 2021 although with updated sections regarding inflation, McCloud and GMP as applicable. The major change is in the section regarding “Cessation valuations”. It is proposed that for exits were the full cessation approach is required we change to a discount rate based on the same methodology as the valuation, but adjusted for an added level of prudence. Previously for these types of cessation the discount rate was set with regard to gilt yields at the cessation date.

3.5 The advantages of the new proposed methodology are that it provides a much more consistent value to liabilities for full cessation exits through time than under the current reference to gilt yields, which are very volatile through time.

3.6 The draft as presented has been considered by the Pension Fund Board at their meeting in April. No amendments were proposed by the Board.

3.7 As part of the process of the new unitary Somerset Council being created a fresh set of terms of reference for the Pension Fund Committee were adopted by Somerset Council. The Pension Fund Committee were asked to input into the process last year before the terms of reference were considered by Somerset County Council’s Constitution and Governance Committee in December before being included in the new Council’s Constitution. The Committee is asked to formally adopt and recognise the new terms of reference.

3.8 The Pension Fund 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 refresh the "Contract Standing Orders" section to reflect the most recent version of that document. A fresh set of Contract Standing Orders were adopted by Somerset Council as part of the new unitary’s fresh Constitution.

4. Consultations undertaken

4.1 The Pension Fund Board has been consulted on the draft of the Funding Strategy Statement.

4.2 As noted above the Terms of Reference have been subject to prior consultation of this committee, Constitution and Governance Committee and Full Council.

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 Council Pension Fund Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the Somerset 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 Council's strategy, in its capacity as administering authority, for the funding of the Somerset 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 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 Department for Levelling Up, Housing and Communities (DLUHC).

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 2022. The results of the 2022 valuation are set out in the table below:

2022 valuation results	
Surplus (Deficit)	(£139m)
Funding level	95%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 19.8% 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 2022 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. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation. The RPI assumption adopted as at 31 March 2022 was 3.2% p.a.

<u>Future pension increases</u>

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. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2022 was 2.9% p.a.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 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 2022 valuation was 4.6% 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 more prudent basis than the 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 2022 valuation is set out in the table below:

Financial assumptions as at 31 March 2022	
RPI inflation	3.2% p.a.
CPI inflation	2.9% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.6% 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 2022 valuation report.

McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on over the course of 2023 with revised Regulations effective from October 2023..

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sargeant judgment can be found below in the Regulatory risks section.

Guaranteed Minimum Pension (GMP) indexation and equalisation

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

The 2022 valuation approach 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, 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 2022 valuation varied from 4 years to 16 years. 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 2022 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 total contribution rate and have the same funding level
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.

<u>Forming/disbanding a funding pool</u>

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.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

Contribution payments

Employers pay contributions on a monthly basis. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. Monetary amounts are payable in 12 equal monthly instalments throughout the relevant year. However, we understand that in general, the administering authority will agree a schedule with employers based on 10 monthly instalments.

Employers must pay contributions in line with the Rates and Adjustments Certificate but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority.

New employers joining the Fund

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

Admission bodies

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

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

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

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

Contribution rate

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

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

Security

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

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

Risk-sharing

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

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

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

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

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

New academies

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

Funding at start

On conversion to academy status, the new academy will become part of the Academies funding pool and will be allocated assets based on the funding level of the pool at the conversion date. The level of assets transferred is subject to a maximum of 100% of the liabilities.

Contribution rate

The contribution rate payable when a new academy joins the Fund will be in line with the contribution rate certified for the Academies funding pool at the 2022 valuation.

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.

For example, 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.

Alternatively, if there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a basis more prudent than the ongoing funding basis, known as the full cessation approach. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence on this basis was last reviewed as part of the Fund's 2022 valuation, when a stochastic analysis was used to assess the "success probabilities" of certain levels of prudence, with the aim being to target a 85% success probability that an exiting employer's assets plus the calculated exit payment/credit will be sufficient to meet the residual liabilities. This corresponds to a 3.5% prudence adjustment in the discount rate assumption. This adjustment will be reviewed on a regular basis, and as a minimum as part of each actuarial valuation.

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.

Town and Parish Councils

A Town or Parish Council in the Fund will participate in the Fund as part of the Small Scheduled Bodies funding pool.

When a Town or Parish Council becomes an exiting employer, the exit valuation will generally be carried out by the Fund Actuary on an ongoing funding basis and the residual assets and liabilities in respect of the Town or Parish Council will remain in the Small Scheduled Bodies funding pool. Circumstances may arise where this approach is not appropriate and these will be revised on a case by case basis.
A Town or Parish Council may defer their exit if the last member leaves the Fund but the Town or Parish Council is intending to offer the Scheme to a new employee within the next three years. This will be in agreement with the Fund, and any suspension period will be time-limited and at the discretion of the Fund.

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. 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 8%, and decrease/increase the required employer contribution by around 3.2% 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 3%.

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 past two funding valuations, 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.

Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

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 published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) in 2019 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.
- 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 judgments, the cost control mechanism and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

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

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

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

The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS has been updated in light of these responses and will be revisited 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 control test happen at the same time.

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.

In November 2022, the ONS reclassified FE colleges as public sector employers. At the time of writing, this does not require any action for colleges with regards to the LGPS, and therefore there has been no change in treatment of these employers as a result of the reclassification.

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 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

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 2025.

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 Pension Fund Committee
Somerset Council Pension Fund
XXXXXXXXXXX

Appendix A

Somerset Council Pension Fund Contribution Review Policy

Contents

Introduction

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

Somerset 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 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 (now known as Department for Levelling Up, Housing and Communities (DLUHC)), and the Scheme Advisory Board's guide to employer flexibilities.

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

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

The review process

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

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

Timeline where initiation is made by the administering authority

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

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

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

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

Timeline where initiation is made by the Scheme employer

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

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

Responsibility of costs

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

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

Triggering a contribution review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Information required from the Scheme employer

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

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

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

Assessing the appropriateness of a review

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

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

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

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

Appropriateness of a review due to change in liabilities

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

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

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

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

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

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

Method used for reviewing contribution rates

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

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

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

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

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

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

Appeals process

To Be Confirmed

Approved by the Pension Fund Committee
Somerset Council Pension Fund
XXXXXXXXXXX

Appendix B

Somerset Council Pension Fund Deferred Debt and Debt Spreading Agreements Policy

Contents

Introduction

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

Somerset 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 (now known as Department for Levelling Up, Housing and Communities (DLUHC)), and the Scheme Advisory Board's guide to employer flexibilities.

Approach for exiting employers

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

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

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

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

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

Choosing a DDA or DSA

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

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

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

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

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

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

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

Managing of costs

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

Appeals process

To be confirmed

Deferred Debt Agreements (DDAs)

Entering into a DDA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

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

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

Setting up a DDA

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

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

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

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

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

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

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

Monitoring a DDA

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

<u>Change in funding position</u>

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

<u>Change in employer covenant</u>

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

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

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

Timeliness of payments

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

Strength of guarantee or security

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

Notifiable events from the deferred employer

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

Terminating a DDA

Events that may terminate a DDA

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

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

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

Process of termination

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

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

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

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

Debt Spreading Agreements (DSAs)

Entering a DSA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

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

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

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

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

Setting up a DSA

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

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

Monitoring a DSA

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

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

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

<u>Change in employer covenant</u>

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

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

<u>Timeliness of payments</u>

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

Strength of guarantee or security

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

Notifiable events from the exiting employer

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

Terminating a DSA

Events that may terminate a DSA

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

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

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

Process of termination

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

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

Approved by the Pension Fund Committee
Somerset Council Pension Fund
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Annex 2

PENSION FUND COMMITTEE OF SOMERSET COUNCIL PENSION FUND TERMS OF REFERENCE

1. Introduction

1.1 This document sets out the terms of reference of the Pensions Fund Committee of Somerset Council. The Pension Fund 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 a regular 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 Council Pension Fund.
- the Committee – The Pension Fund Committee of Somerset Council.
- the Board – The Pension Fund Board of Somerset Council.
- LGPS – The Local Government Pension Scheme

3. Purpose and functions of the Committee

3.1 The Committee will be provided with full delegated powers to discharge the functions of the Council in its role as the administering authority of the Somerset 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.
(xii) Put in place a written Scheme of Delegation to support the discharge of the above duties.

4. Membership of the Committee

4.1 The Committee shall consist of 10 members and be constituted as follows:

(a) Nine employer representatives

(i) Seven employer representatives will be Somerset councillors who are not a member of the Board or Executive 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 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;

(iii) one employer representative to be nominated by the remaining employers within the Fund who are not represented by (i) or (ii) 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 and Vice 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) Relevant officers; 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 Committee 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 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 Committee.

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 Council Annual Council Meeting, but with a view to maintaining stability of membership;
(b) the representatives of the Police and Crime Commissioner for Avon and Somerset can be replaced by them 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 Committee shall be 3 to include either the Chair or Vice-Chair.

11. Voting rights

11.1 Each of the 10 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 Committee will be required to formally sign up to comply with the Somerset Council Code of Conduct

13. Allowances and Expenses

13.1 Any councillor of the Council appointed to the Committee will be entitled to receive allowances in accordance with 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 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 Somerset 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.

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Pension Fund Committee Scheme of Delegation

Introduction

In order to meet its obligations from time to time the Pension Fund 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 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 Procedure Rules

The Contract Procedure Rules of Somerset Council apply to the operation of the Somerset Council Pension Fund, however the Contract Procedure Rules contain the ability for the Pension Fund Committee to exempt the fund from clauses where it is deemed this is necessary by Pension Fund 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 5.4, Section 16.4, section 20.4, section 21.6, 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 Pension Fund Committee
Somerset Council Pension Fund
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Somerset Council
Pension Fund Committee

Brunel Update

Lead Officer:	Jason Vaughan: Executive Director - Resources & Corporate Services
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Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 Brunel has a number of Governance layers to enable the Pension Funds to act as both owners and clients and ensure Brunel meets our needs. One of the Governance layers is the Brunel Oversight Board. This is a non-decision making body that allows representatives from each of the owner/client funds' Pension Fund Committees to gain assurance over the activity of Brunel.

1.2 Sarah Payne has been the Somerset Fund's representative on the Brunel Oversight Board. Sarah has indicated she is standing down from Pension Fund Committee and as such a new representative needs to be appointed. All members of the Committee are eligible.

1.3 The Brunel Oversight Board typically meets four times per year with meetings taking place at Brunel's offices near Temple Meads Station in Bristol. The meetings are hybrid and as such there is the option to attend virtually via MS Teams.

2. Issues for consideration

2.1 The Committee is asked to appoint a new representative to the Brunel Oversight Board.

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 Somerset 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.