Public Agenda Pack

Notice of Meeting of

PENSION FUND COMMITTEE

Friday, 15 September 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

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, 11 September 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, 7 September 2023

AGENDA

Pension Fund Committee - 10.00 am Friday, 15 September 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 Declarations of Interest

To receive and note any declarations of 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: City, Town & Parish Twin Hatters - Somerset Councillors 2023)

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

To approve the minutes from the previous meeting.

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 15 - 42)

To consider a report from the Funds & Investments Manager.

7 Review of Administration Performance (Pages 43 - 48)

To consider this report from the Head of Peninsula Pensions.

8 Business Plan Update (Pages 49 - 90)

To consider a report from the Funds & Investments Manager.

9 Finance and Membership Statistics Update (Pages 91 - 94)

To consider a report from the Funds & Investments Manager.

10 Review of Pension Fund Risk Register (Pages 95 - 100)

To consider a report from the Funds & Investments Manager.

11 Policies and Statements (Pages 101 - 160)

To consider a report from the Funds & Investments Manager.

12 Pension Fund Annual Report 2022 - 2023 (Pages 161 - 410)

To consider a report from the Funds & Investments Manager.

13 Knowledge and Skills

To receive a verbal update on plans for training of the Committee.

14 Any Other Business of Urgency

The Chair 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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Minutes of a Meeting of the Pension Fund Committee held in the Luttrell Room - County Hall, on Friday, 16 June 2023 at 10.00 am

Present:

Cllr Simon Coles (Chair)

Cllr John Cook-Woodman
Cllr Habib Farbahi
Cllr Peter Seib

Others present remotely:

Cllr Mike Hewitson
Cllr Councillor Anne Hills
Cllr Andy Kendall
Cllr Liz Leyshon
Rod Bryant
Town Cllr Anne Hills

1 Apologies for Absence - Agenda Item 1

Apologies were received from Councillors Michael Dunk, David Fothergill and Mike Hewitson (attending virtually).

Apologies were also received from Sarah Payne (Unison) and Paul Butler (Avon & Somerset Police & Crime Commissioner).

2 Minutes from the Previous Meeting - Agenda Item 2

Resolved that the minutes of the Somerset County Council Pensions Committee held on 10 March 2023 be confirmed as a correct record.

The Chair wished to express the Committee's gratitude and thanks to Sarah Payne, the UNISON representative, who had been involved with the Committee and pensions since 2004.

3 Declarations of Interest - Agenda Item 3

There were no additional declarations of interest made.

4 Public Question Time - Agenda Item 4

No members of public had registered to speak.

5 Independent Investment Advisor's Report - Agenda Item 5

The Advisor explained that whilst she believed interest rates would go up she was reasonably optimistic over the long term and made the following points:

- China's underperformance, which accounted for about 40% of the emerging markets index, was due to bad debt linked to property and that people's money sat unused.
- There had been a short run in Japan – which had been cheap for many years
- The property market was segmented and split with a lot of empty retail properties. Businesses that had downsized during Covid were now realising it was a mistake with staff returning to the office.

In response to a question about what the right product was in the high street, she explained that at the moment it was generally more service based or goods such as luxury foods, perfumes and coffee shops rather than heavy retail.

6 Review of Investment Performance - Agenda Item 6

The Funds and Investment Manager presented his Investment Performance report and pointed out that, in respect of the Combined Fund, the returns for the quarter were quite reasonable and that they had slightly outperformed their benchmark. He explained that inflation and interest rates were still dominating and that whilst there were signs that it might have peaked in the USA, it still had not yet done so in the UK.

In response to questions he confirmed:

- If investment returns were below target it is likely that it would affect the employer's contribution, which was recalculated by the Actuary every three years. He did not feel that the current situation was so severe that it merited a special recalculation.
- The current issues facing the housing market were unlikely to have an impact as 90% of the investments made were in commercial properties, for which, the market appeared to have bottomed out and property funds were now relatively stable.

7 Review of Administration Performance - Agenda Item 7

The Head of Peninsula Pensions presented her report on Administrative

Performance and highlighted:

- For the quarter ending 31 March 2023:
    - 92% of work was within target.
    - 92% of the high priority work was within target.
- For the last 12 months:
    - 89% of work was within target.
    - 94% of the high priority work was within target.
- They had received 10 compliments during the 3 months.
- Details of the McCloud case remedy had been sent out to all members.
- They had now recruited staff for all of their 7 vacancies (out of a total of 71 full time equivalents) and they would be starting at the end of June and in July.

8 Business Plan Update - Agenda Item 8

Members noted the update on progress since the last meeting.

In response to a question on how the Committee could be re-assured that all of its responsibilities, including delegated functions, were being complied with, the Investments Manager confirmed that, for the Committee's December meeting, he would include an agenda item to look at each item within the terms of reference and explain how it was addressed.

It was also confirmed that Grant Thornton's audit of the pension fund would be going to the Audit Committee as part of the formal sign off of the Council's accounts and it suggested that the Chairs of the two Committees and the Investment Manager meet to discuss the matter.

9 Finance and Membership Statistics Update - Appendix A to follow - Agenda Item 9

The Committee noted that Appendix A had not yet been completed and that this item would be brought back to the September meeting.

10 Review of Pension Fund Risk Register - Agenda Item 10

Members considered the Pension Fund Risk Register and noted that risk PF - Admin 5 had been amended following concerns raised by the Pension Fund Board over recruitment and retention at both Peninsula and Brunel.

The Committee was advised that an informal meeting with the Pension Fund Board to go through all of the risks was planned for the Autumn.

11 **Policies and Statements** - Agenda Item 11

The Committee reviewed the draft Funding Strategy Statement and, subject to some amendments to the tenses when referring to the McCloud judgement and the hyperlink on page 12 being shown in the form of the URL, they were happy with the draft.

Members then considered the Committee's terms of reference and scheme of delegation and unanimously agreed their adoption.

Resolved

1. To approve that amended draft Funding Strategy Statement be put out to consultation with the employers.

2. To adopt the Pension Fund Committee of Somerset Council Pension Fund Terms of Reference.

3. To adopt the Pension Fund Scheme of Delegation.

12 **Brunel Update** - Agenda Item 12

The Committee were updated on progress at Brunel and that the new remuneration policy had been passed by shareholders. A wider review of governance, specifically areas that shareholders vote on, is ongoing.

A wider discussion took place around the general direction of travel of the governance review and committee indicated they were comfortable with what was currently being considered. Ultimately any changes will require approval from Somerset via a vote signed off by the Section 151 officer. As previously agreed, Committee will be consulted but that will be outside of formal meetings.

The Committee then discussed the need for a replacement member on the Brunel Oversight Board following the resignation of the Committee's Unison representative, who was Somerset's previous representative.

Cllr Seib confirmed that he would be happy to be the representative on the Board although he would willingly step down if a new Somerset union representative was interested in the role once appointed to Committee.

Committee asked about progress on a new UNISON representative being appointed

Committee and it was confirmed that we had not received any contact. The Investment Manager will chase

Resolved

1. To note that the Investment Manager will continue discussions on Brunel's review of governance.

2. To appoint Cllr Peter Seib as the Committee's representative on the Brunel Oversight Board.

13 Knowledge and Skills - Agenda Item 13

The Committee heard that training had provided to the new members Cllr Dunk, Fothergill and Hewitt.

They were advised that hopefully there would be some capacity for training in the Autumn and this could be discussed further at the September meeting.

14 Any Other Business of Urgency - Agenda Item 14

None.

(The meeting ended at 11.59 am)

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CHAIR

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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 30 June 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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Review of Investment Performance for the Quarter to 30th June 2023

1. Brunel - LGIM (Passive Global Equity)

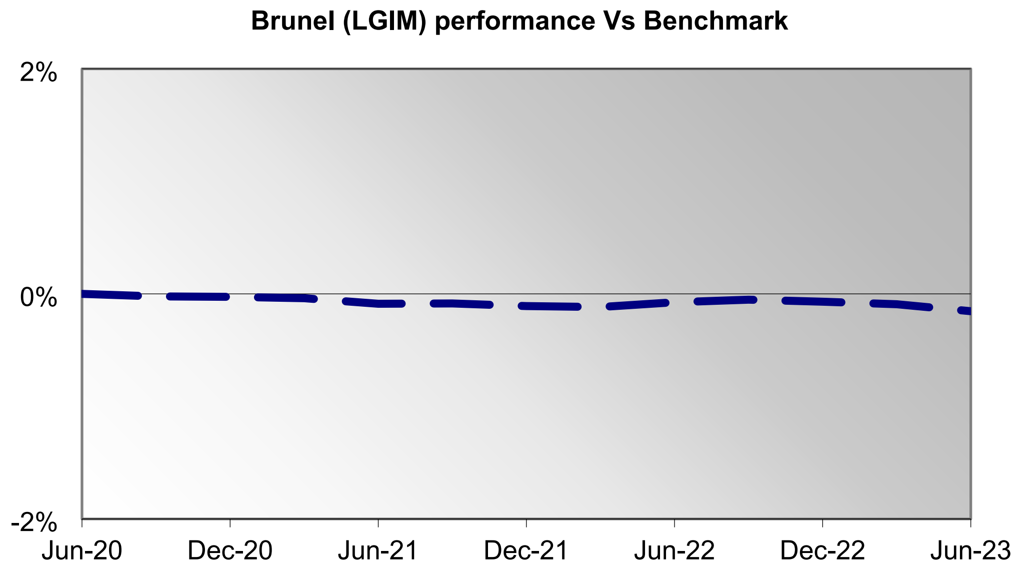
1.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
618.7	**Global equities**	**5.5**	**5.6**	**-0.1**

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	**16.2**	**16.2**	**+0.0**
3 year	**12.2**	**12.2**	**+0.0**
5 years	Initial investment in July 2018		

2. Brunel - (Global High Alpha Equity)

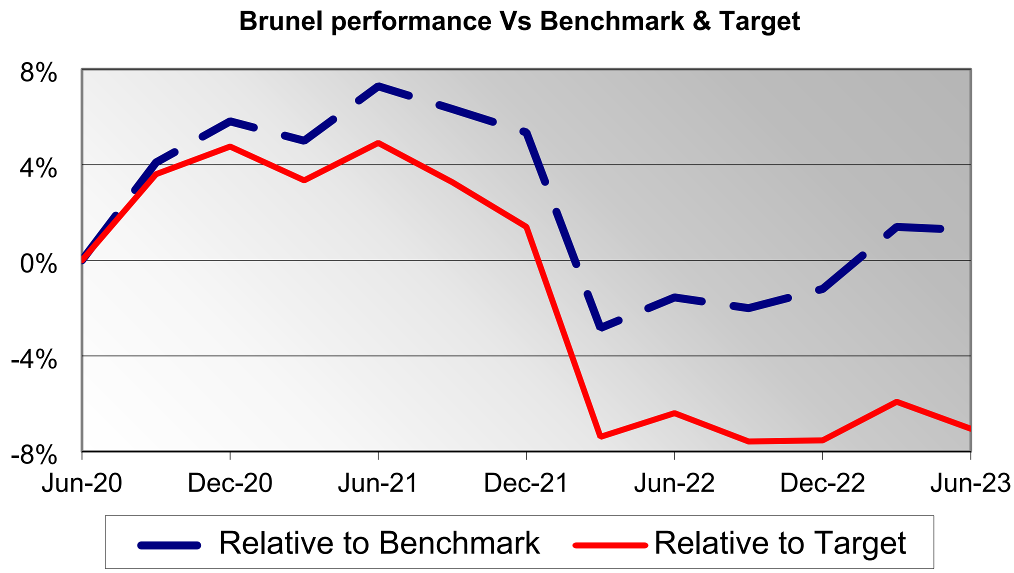
2.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
827.3	Global equities	3.9	4.1	-0.2

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 underperformed the benchmark during the quarter. Absolute performance was 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	**16.3**	**13.8**	**+2.5**
3 years	**11.9**	**11.6**	**+0.3**
5 years	Initial investment in November 2019		

3. Brunel (UK Equities)

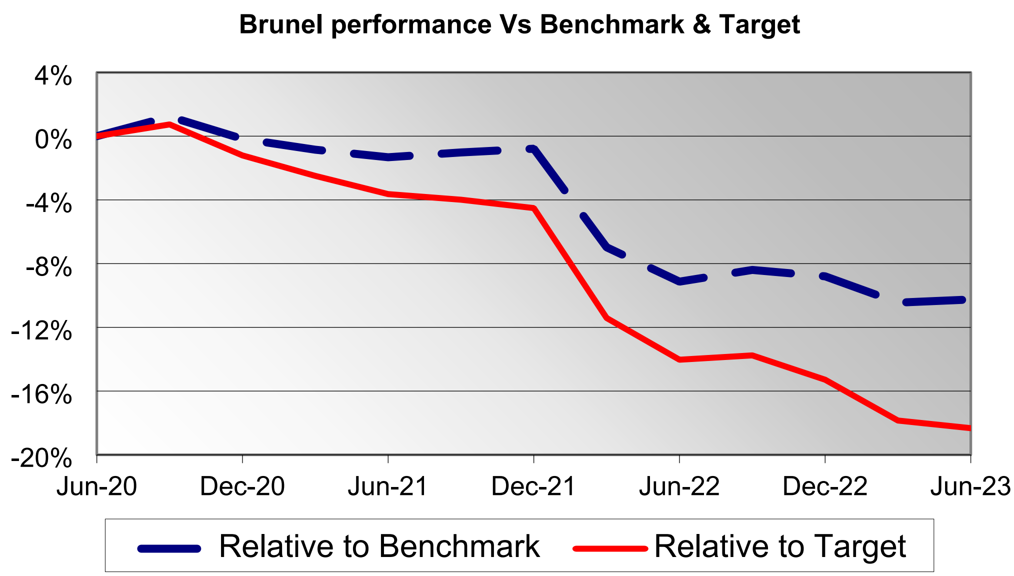
3.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
316.3	UK	-0.3	-0.4	+0.1

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 outperformed the benchmark during the quarter. Absolute performance was negative.

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	**8.1**	**8.4**	**-0.3**
3 years	**7.8**	**10.6**	**-2.8**
5 years	Initial investment in November 2018		

4. Brunel (Global Smaller Companies Equity

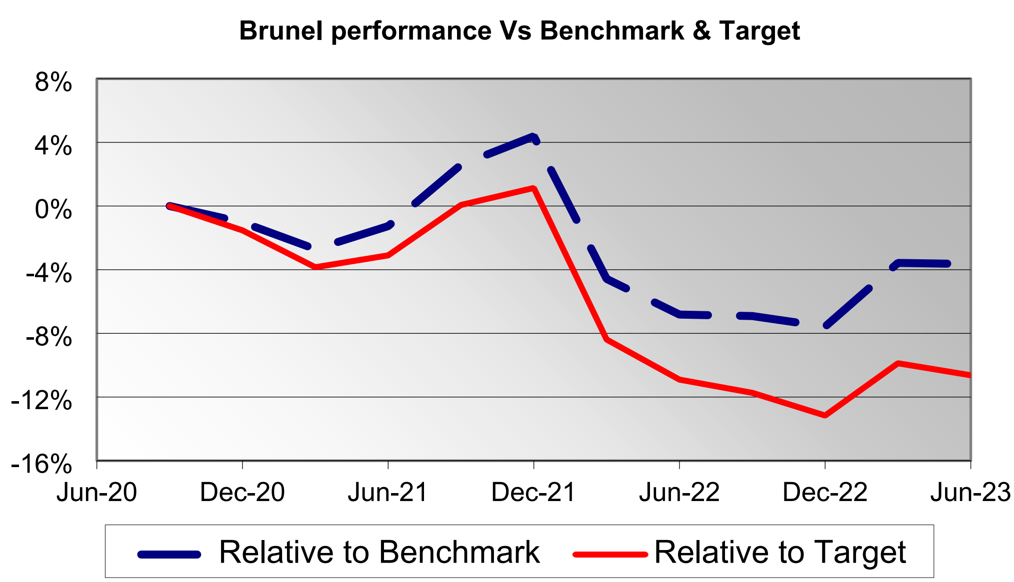
4.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
	Quarter to 30 June 2023			
184.4	**Smaller Companies**	**0.3**	**0.4**	**-0.1**

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 underperformed 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	11.2	7.9	+3.3
3 years	Initial investment in September 2020		

5. Brunel (Emerging Market Equity)

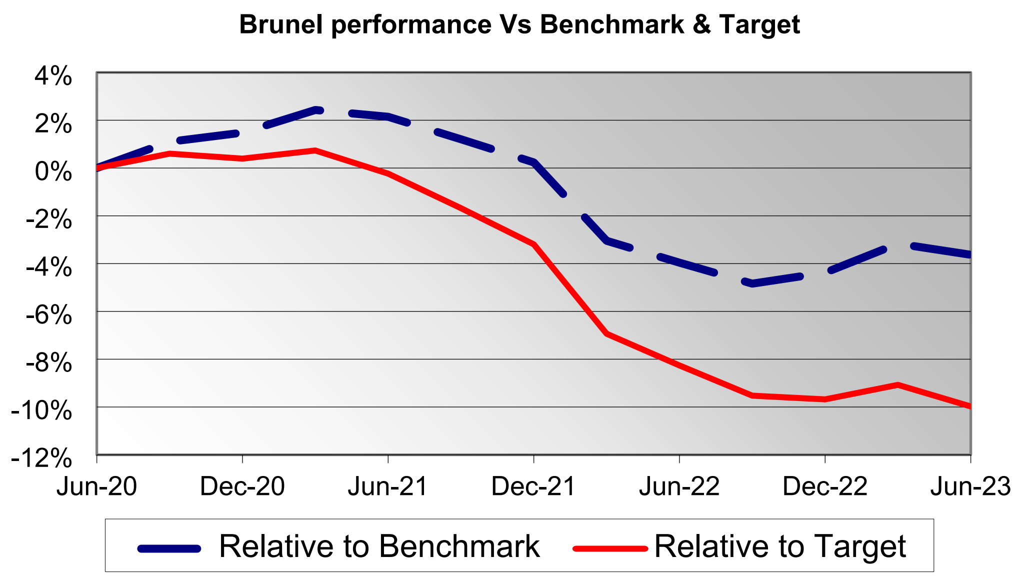
5.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
100.1	Emerging Market	-2.4	-1.9	-0.5

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	**-2.6**	**-2.8**	**-0.2**
3 years	**0.2**	**1.4**	**-1.2**
5 years	Initial investment in October 2019		

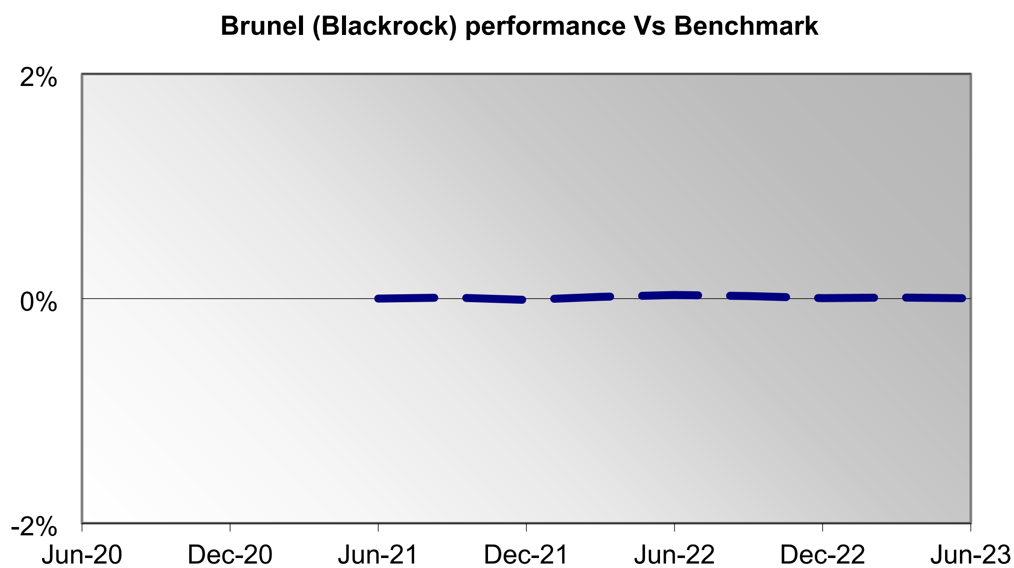
6. Brunel (Passive Gilts)

6.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
40.1	**UK Gilts**	**-8.3**	**-8.3**	**+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 strongly negative.

6.3



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	**-24.9**	**-24.9**	**+0.0**
3 years		Initial investment in June 2021	

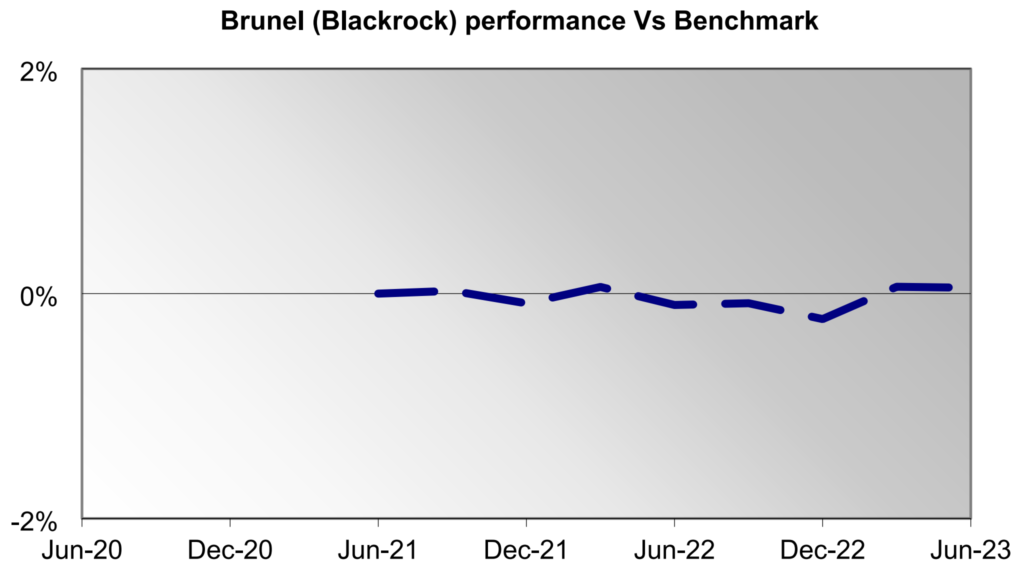
7. Brunel (Passive (index-Linked Gilts)

7.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

		Quarter to 31 March 2023		
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
51.9	**UK Index-Linked Gilts**	**-7.8**	**-7.8**	**+0.0**

7.2 The Blackrock managed passive UK Index-Linked Gilts Fund matched the performance of the benchmark for the quarter. The benchmark is FTSE Actuaries UK Index Linked Gilts over 5 years index. Absolute performance was strongly negative.

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	**-19.8**	**-20.0**	**+0.2**
3 years	Initial investment in June 2021		

8. Brunel (Sterling Corporate Bonds)

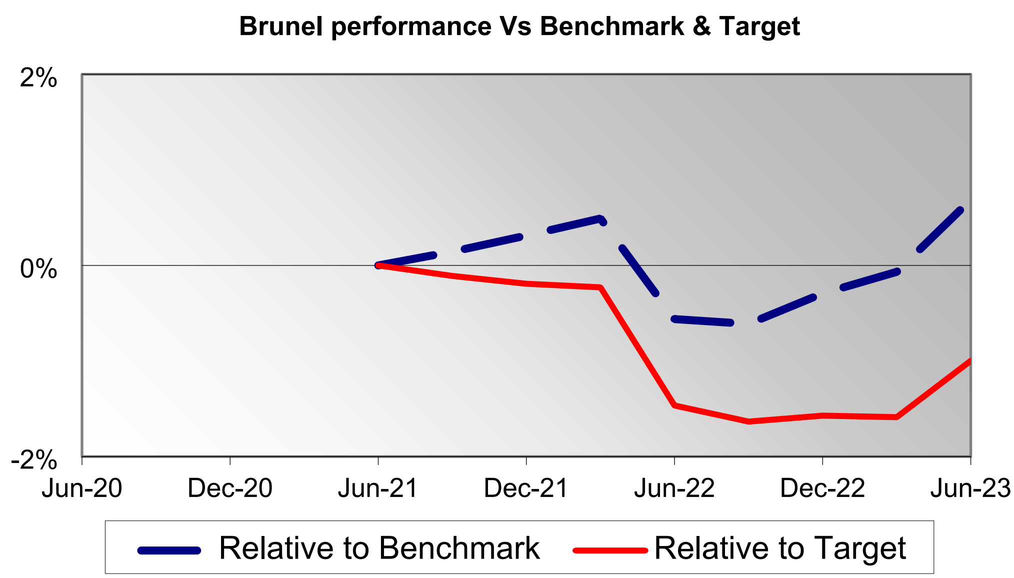
8.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
190.9	**£ Corporate Bonds**	**-2.6**	**-3.4**	**+0.8**

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 negative.

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	-5.5	-6.9	+1.4
3 years	Initial investment in July 2021		

9. Brunel (Multi Asset Credit)

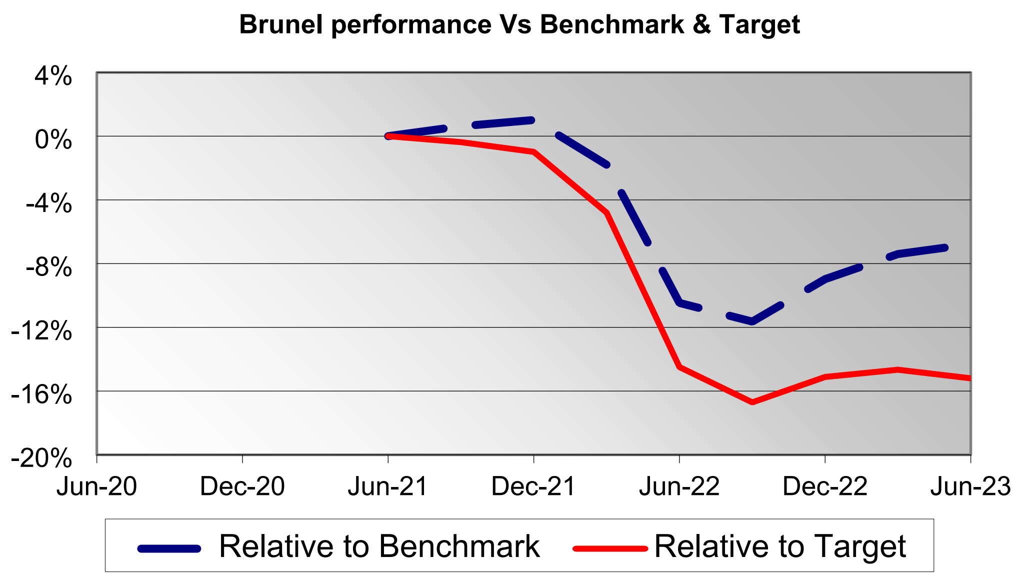
9.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Value as at 30 June £m	Quarter to 30 June 2023	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
96.6	Multi Asset Credit	1.8	1.1	+0.7

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	**7.5**	**3.1**	**+4.4**
3 years		Initial investment in June 2021	

10. LaSalle/Brunel (Property Fund of Funds)

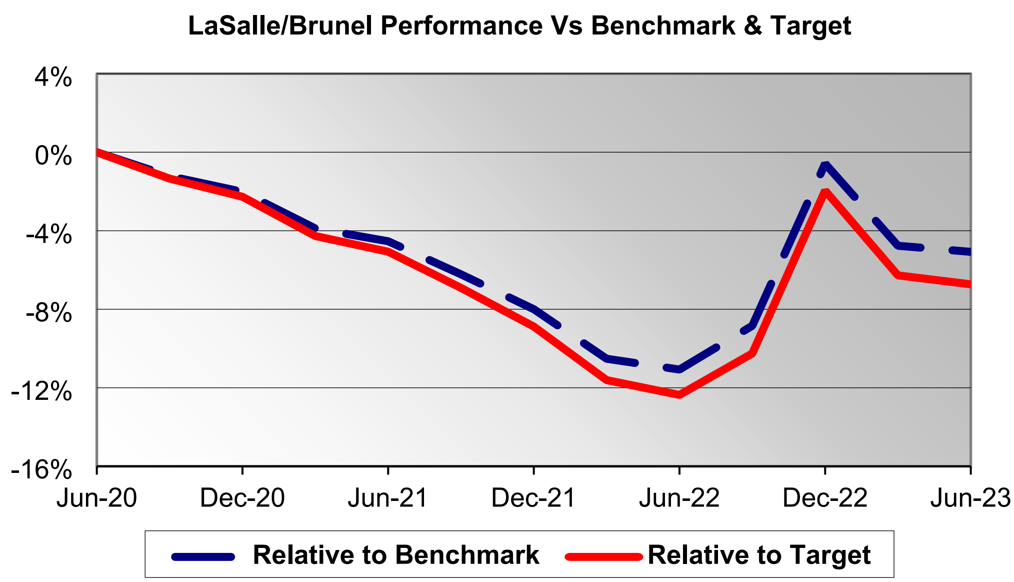
10.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
225.2	**UK Property**	**0.2**	**0.4**	**-0.2**
1.6	**Cash**			
226.8	**Total**	**0.2**	**0.4**	**-0.2**

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 underperformed the benchmark for the quarter. Absolute performance was slightly positive.

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	**-14.0**	**-17.4**	**+3.4**
3 years	**1.8**	**3.4**	**-1.6**
5 years	**1.1**	**2.2**	**-1.1**
10 years	**4.9**	**6.3**	**-1.4**

11. Neuberger Berman (Global Private Equity)

11.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
80.8	Private Equity	0.5	1.1	-0.6

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	22.5	16.2	+6.3
3 years	24.3	12.2	+12.1
5 years	20.3	10.6	+9.7
10 years	17.1	12.1	+5.0

12. Brunel (Global private equity)

12.1 The performance for the quarter to 30th June 2023 is summarised in the following table:

Quarter to 30 June 2023				
Value as at 30 June £m		**Fund for quarter %**	**Performance Benchmark for quarter %**	**Relative to Benchmark %**
21.0	**Private Equity**	**-0.1**	**1.1**	**-1.2**

12.2 Brunel have invested in a number of private equity funds on the Fund's behalf. 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	**-11.6**	**16.2**	**-27.8**
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 30th June 2023 is summarised in the following table:

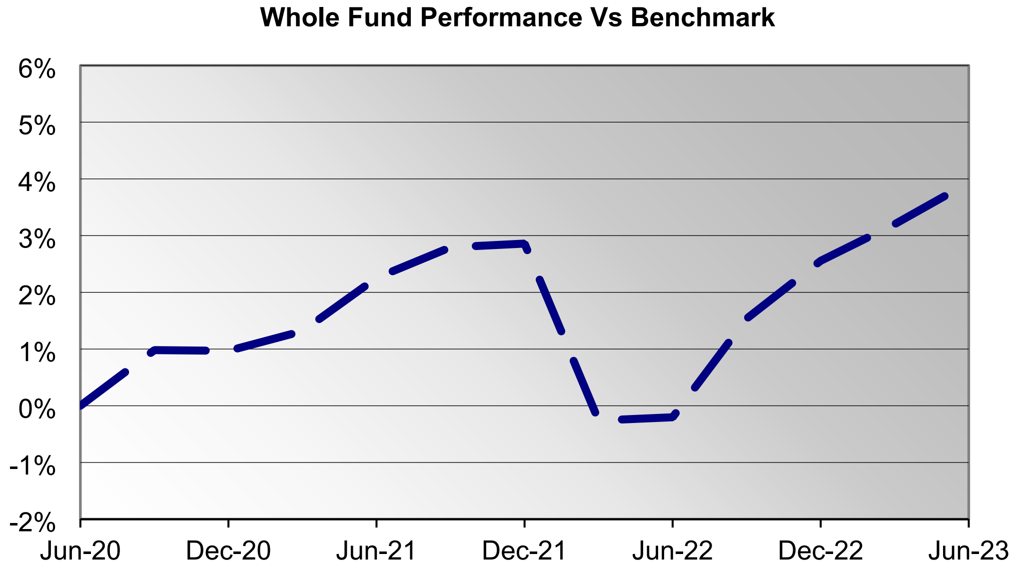
Quarter to 30 June 2023

Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
618.7	Brunel (Passive GI Eq)	5.5	5.6	-0.1
827.3	Brunel (GHA Eq)	3.9	4.1	-0.2
316.3	Brunel (UK Eq)	-0.3	-0.4	+0.1
184.4	Brunel (Small Cap Eq)	0.3	0.4	-0.1
100.1	Brunel (EM Eq)	-2.4	-1.9	-0.5
40.1	Brunel (Passive Gilts)	-8.3	-8.3	+0.0
51.9	Brunel (Passive I-L)	-7.8	-7.8	+0.0
190.9	Brunel (£ Corporate)	-2.6	-3.4	+0.8
96.6	Brunel (MAC)	1.8	1.1	+0.7
226.8	Brunel (Property)	0.2	0.4	-0.2
1.6	SWRVF	0.0	1.1	-1.1
80.8	Neuberger Berman	0.5	1.1	-0.6
21.0	Brunel (Private Eq)	-0.1	1.1	-1.2
0.8	Brunel (holding in Co)			
89.0	Cash	1.0	1.1	-0.1
2,846.3	Whole Fund	1.8	1.2	+0.6

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.

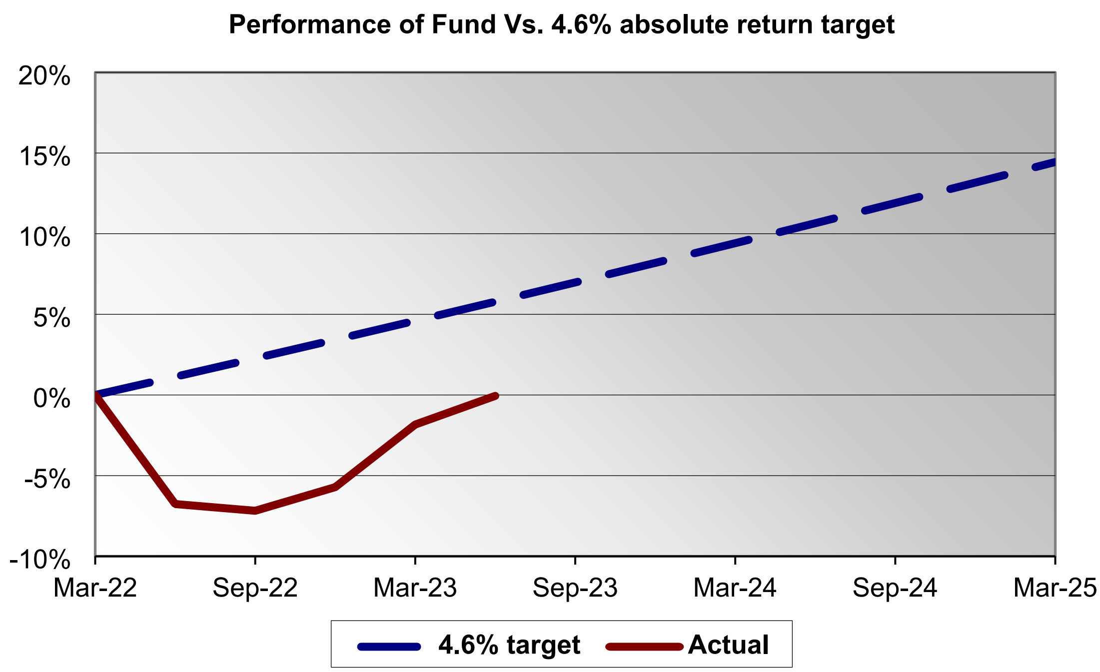
14.4



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	**7.2**	**3.5**	**+3.7**
3 years	**6.7**	**5.5**	**+1.2**
5 years	**5.3**	**4.6**	**+0.7**
10 years	**7.9**	**7.3**	**+0.6**

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.



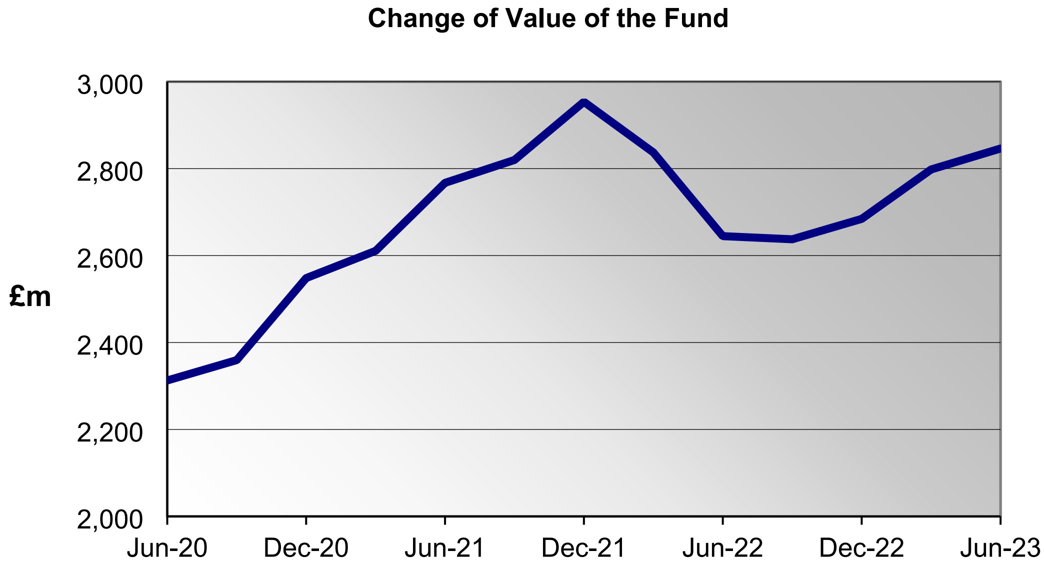
14.7 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Mar £m	%	Value as at 30 June £m	%	Strategic Weighting %
Brunel (Passive Gl Eq)	**586.3**	21	**618.7**	22	**20**
Brunel (GHA Eq)	**796.0**	28	**827.3**	29	**25**
Brunel (UK Eq)	**317.2**	11	**316.3**	11	**10**
Brunel (Small Cap Eq)	**183.7**	7	**184.4**	6	**5**
Brunel (EM Eq)	**102.5**	4	**100.1**	4	**5**
Brunel (Passive Gilts)	**43.8**	2	**40.1**	1	**4**
Brunel (Passive I-L)	**56.3**	2	**51.9**	2	**4**
Brunel (Corp bonds)	**195.8**	7	**190.9**	7	**8**
Brunel (MAC)	**94.9**	3	**96.6**	3	**3**
Brunel/LaSalle (Prop)	**225.5**	8	**226.8**	8	**10**
SWRVF	**1.6**	0	**1.6**	0	**0**
Neuberger Berman	**80.4**	3	**80.8**	3	**0**
Brunel (Private Eq)	**18.1**	1	**21.0**	1	**5**
Brunel (holding in Co)	**0.8**	0	**0.8**	0	**0**
Cash	**95.2**	3	**89.0**	3	**1**
Whole Fund	**2,798.1**	100	**2,846.3**	100	**100**

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

- £1m was added to the Brunel property.
- £2.8m 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.



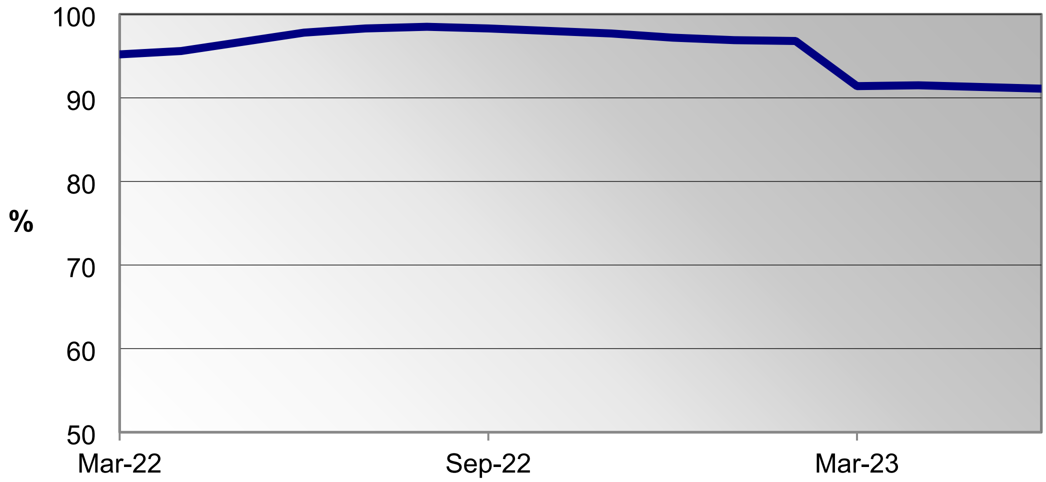
14.10 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 March 2023 is 91.1%
- 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.”

Estimated Funding Level



<u>Pooling Update</u>

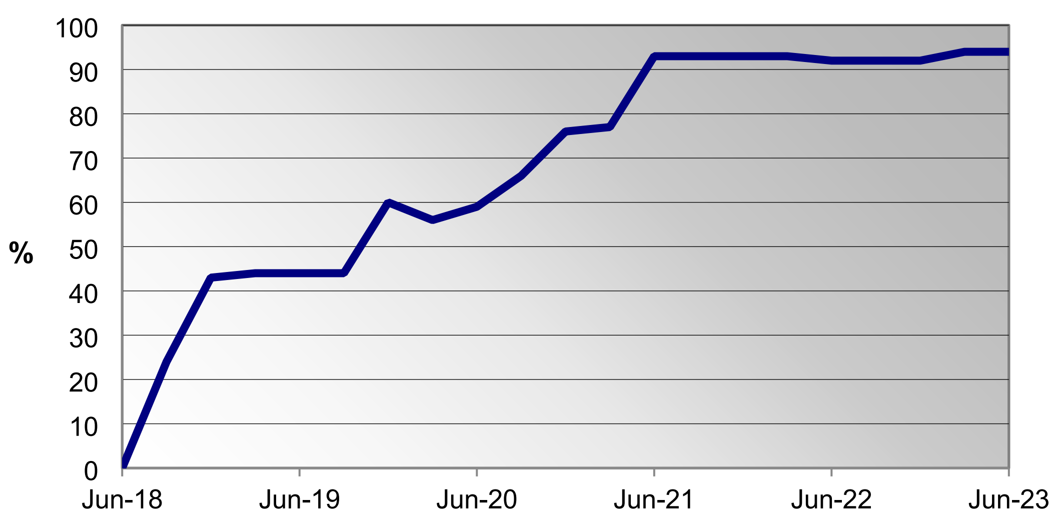
15.1 Under guidance published by the Government on "LGPS: Investment Reform Criteria and Guidance" in November 2015 we are required to work towards the pooling of the Fund's investment assets with other LGPS funds with pooling beginning in April 2018.

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 Mar		Value as at 31 June	
	£m	%	£m	%
Pooled assets	**2,620.1**	94	**2,674.1**	94
Retained assets	**178.0**	6	**172.2**	6
Whole Fund	**2,798.1**	100	**2,846.3**	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 30th June 2023 was 91% (93% for High Priority procedures).

3.2 During the quarter, the team received 15 compliments.

3.3 Appendix 1 of the report provides a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 30th June 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 since April 2022.

3.4 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st July 2022 to 30th June 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 Employers
1 April 2023 Taunton Town Council became an employer within the Somerset Pension Fund. It is a new Town Council following move to one council, with a few staff involved with TUPE across and a couple joining externally.

11 May 2023 South Petherton Parish Council became an employer within the Somerset Pension Fund, allowing access to the LGPS for the Parish Clerk and the Assistant Parish Clerk.

Academies
1 June 2023 Huish Episcopi Academy joining United Learning Trust.

Cessations
30 April 2023 Abri ceased membership of the LGPS.

5. Background Papers / Other updates

5.1 McCloud: Legislation published in July 2023: The Public Service Pensions and Judicial Offices Act 2022

Peninsula Pensions have staff resource allocated to work on the McCloud remedy when required and are in a good position with regards to the data preparation that was essential in advance of the remedy. One of the Technical & Training Officers on the team is leading the project and is working with DLUHC as part of the 'Statutory Guidance working group', which will support the drafting of the new guidance for administrators. We are therefore confident that we will be able to have input and interpret the legislation as intended/accordingly.

Recruitment:

For information, following a successful recruitment exercise, Peninsula Pensions are now fully resourced with all new recruits in training currently.

Appendix 1

Administration Performance – 1st April 2023 – 30th June 2023
(Somerset Pension Fund)

Performance Summary

	Total Cases	Performance (Disc Regs)
High Priority Procedures	**1829**	**93%**
Medium Priority Procedures	**2582**	**90%**
Low Priority Procedures	**547**	**91%**
TOTAL	**4958**	**91%**

High Priority Cases

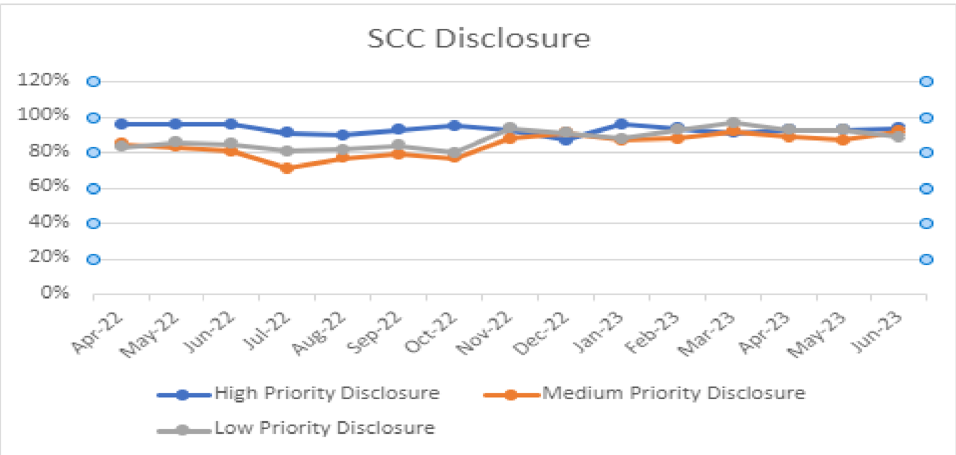
	Total Cases	Performance (Disc Regs)
Changes	231	96%
Complaints (Member)	17	100%
Complaints (Employer)	0	-
Deaths	214	78%
Deferred (over 55)	176	98%
Payroll	445	97%
Refunds	83	99%
Retirements (Active)	183	95%
Retirements (Deferred)	480	93%
TOTAL	**1829**	**93%**

<u>**Medium Priority Cases**</u>

	Total Cases	Performance (Disc Regs)
Amalgamation of Records	394	79%
Deferred Benefit Calculations	602	75%
Divorce Calculations	6	100%
Employer Queries	89	70%
Estimates (Bulk)	0	-
Estimates (Employer)	77	100%
Estimates (Member)	44	93%
General	429	100%
HMRC	7	100%
Member Self-Service	934	100%
TOTAL	**2582**	**90%**

<u>**Low Priority Cases**</u>

	Total Cases	Performance (Disc Regs)
Estimates (Other)	28	96%
GMP Queries	4	100%
Interfund Transfers In	61	79%
Interfund Transfers Out	70	70%
Pension Top Ups	105	98%
Frozen Refunds	220	97%
New Starters	0	-
Pension Transfers In	29	90%
Pension Transfers Out	30	100%
TOTAL	**547**	**91%**

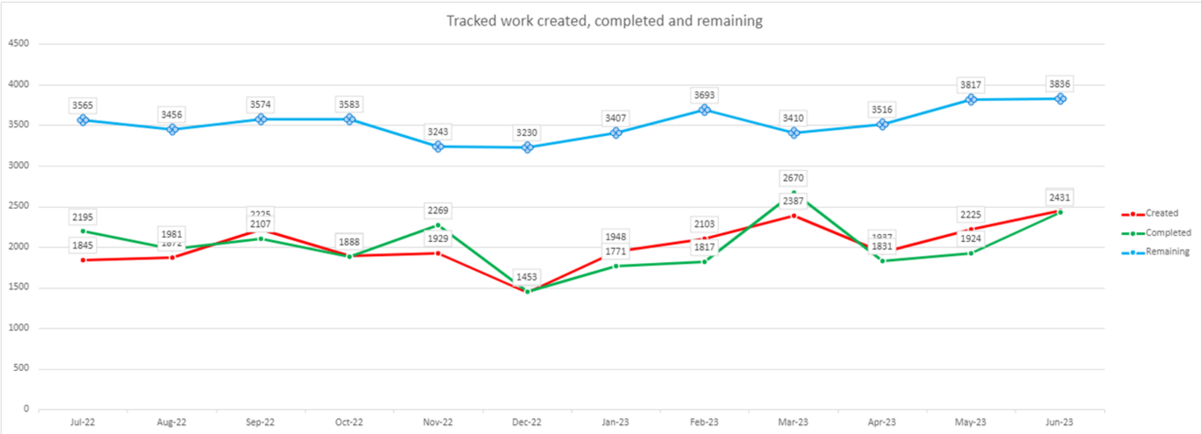


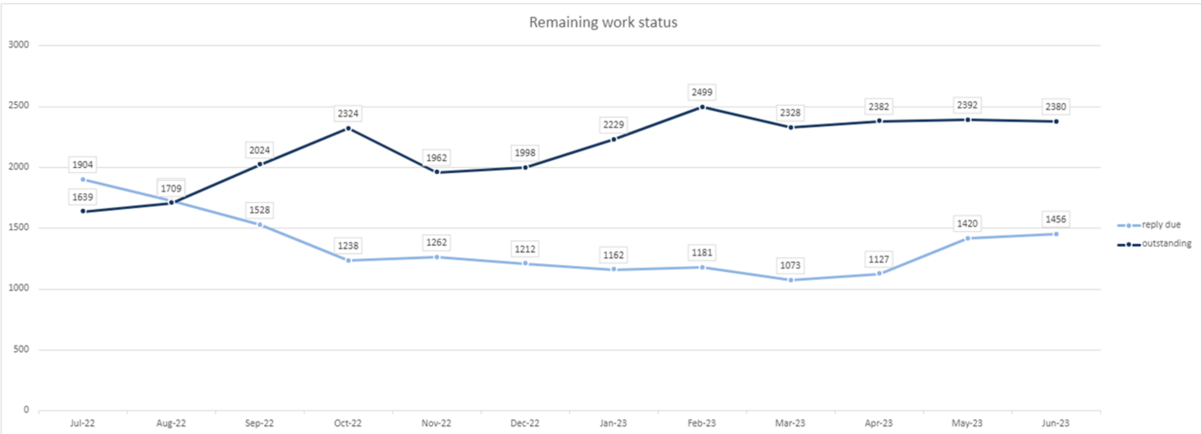
Appendix 2

Administration Performance

1st July 2022 – 30th June 2023

Month	Created	Completed	completion rate	Remaining	reply due	outstanding
Jun-23	2450	2431	99.22%	3836	1456	2380

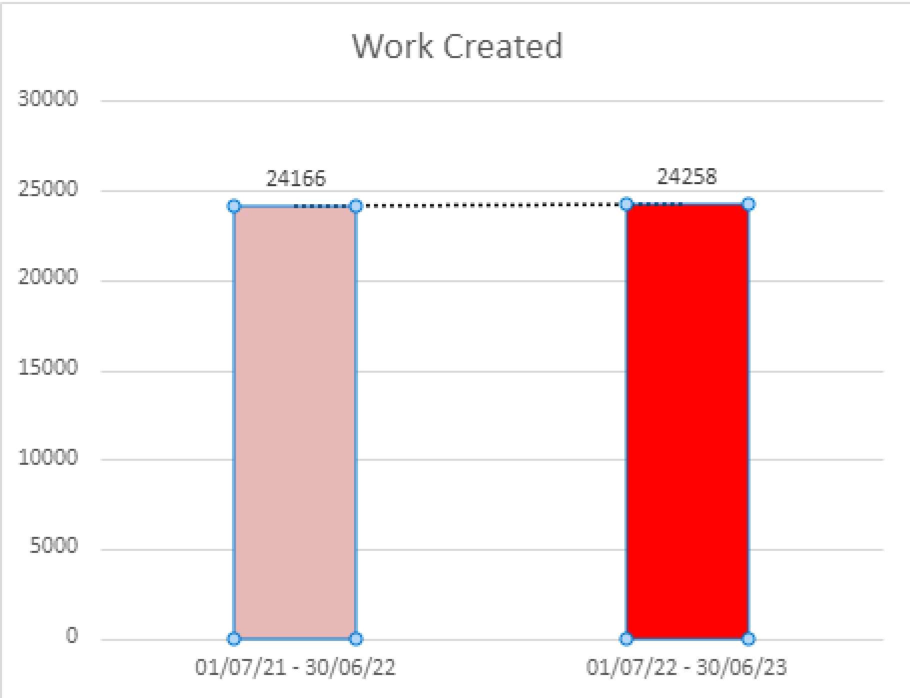


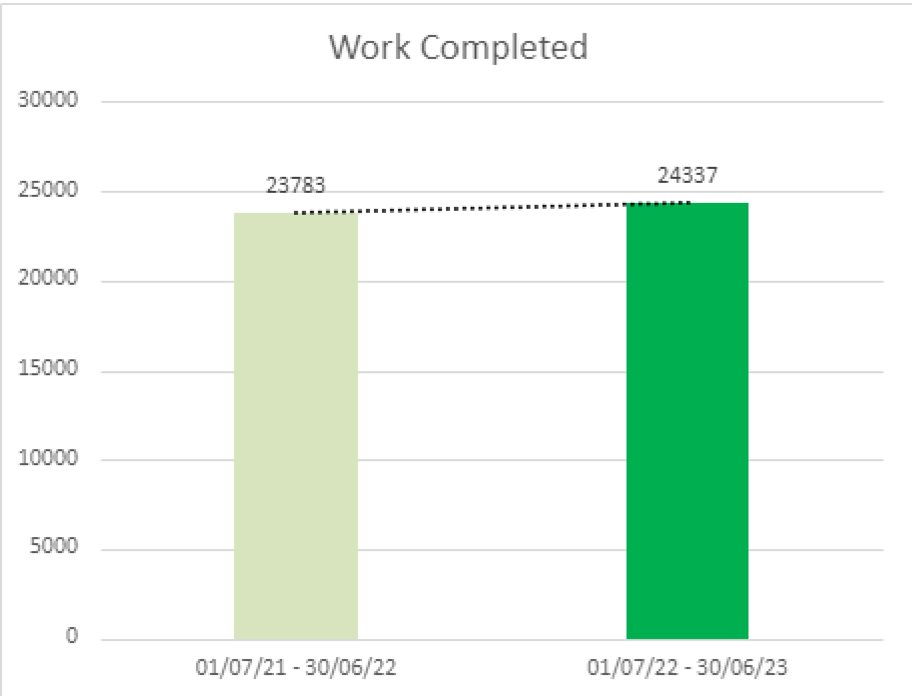


Appendix 3

Work received 12 month rolling period 1st July 2022 – 30th June 2023 (against same period for previous financial year)

from	to	Work Created	Work Completed	Average Monthly Work Remaining
01/07/2021	30/06/2022	24166	23783	3865
01/07/2022	30/06/2023	24258	24337	3528





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.

2.2 To consider any Government consultations and whether the Fund should enter a formal response.

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.

4.2 Following the Chancellor's Mansion House speech on 10th July Government launched a number of pensions related consultations. Of specific relevance to the LGPS is a consultation launched by DLUHC entitled "LGPS: Next Steps on Investment". The full details of the consultation have been appended to this paper (appendix C). Committee are asked to consider whether they wish officers to provide a response on behalf of the Fund.

4.3 Grant Thornton have largely completed their external audit of the Pension Fund's accounts for the 2022-2023 financial year. It is expected that their formal report will got to Audit Committee on 28th September.

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 any significant changes in any review of the Communication Strategy.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

None

8 Appendices

Appendix A – Committee Business Plan September 2023
Appendix B – Meeting Plan September 2023
Appendix C – Government Consultation on LGPS investment

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 adopted at June 2023 Committee meeting
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**		Final draft on the agenda for this meeting.
Fund Governance	Review of risk register	Medium	**Autumn 2023**		
Fund Governance	Review Communication Strategy	Medium	**Spring 2024**		
Fund Governance	Review Investment Strategy Statement	Medium	**Summer 2024**	Refreshed ISS due by March 2025	

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2023 - 2024

Date	Proposed Items of Business	Lead Officer
15th December 2023	**FORMAL MEETING**	
	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 2023 - 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 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 2024.	**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 2024.	**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. Pension Fund Annual Report 2023/2024 To consider the annual report for the year to 31 March 2024.	**AS**

GOV.UK

Department for Levelling Up,
Housing & Communities

Open consultation

Local Government Pension Scheme (England and Wales): Next steps on investments

Published 11 July 2023

Applies to England and Wales

Contents

This publication is available at https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-next-steps-on-investments/local-government-pension-scheme-england-and-wales-next-steps-on-investments

Scope of the consultation

Topic of this consultation:

This consultation seeks views on proposals relating to the investments of the Local Government Pension Scheme (LGPS). It covers the areas of asset pooling, levelling up, opportunities in private equity, investment consultancy services and the definition of investments.

Scope of this consultation:

DLUHC is consulting on proposals for new requirements on LGPS administering authorities.

Geographical scope:

This consultation applies to England and Wales.

Impact assessment:

The proposed interventions affect the investment of assets by local government pension scheme administering authorities. These authorities are all public sector organisations, so no impact assessment is required.

Basic Information

Body/bodies responsible for the consultation:

Department for Levelling Up, Housing and Communities (DLUHC)

Duration:

This consultation will last for 12 weeks from 11 July 2023 to 2 October 2023.

Enquiries:

For any enquiries about the consultation please contact:
LGPensions@levellingup.gov.uk

How to respond:

Please respond by completing an online survey (https://consult.levellingup.gov.uk/local-government-finance/local-government-pension-scheme-england-and-wales/).

Alternatively, please email your response to the consultation to LGPensions@levellingup.gov.uk.

Alternatively, please send postal responses to:

> LGF Pensions Team
> Department for Levelling Up, Housing and Communities
> 2nd Floor
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

When you reply, it would be very useful if you could make it clear which questions you are responding to. Additionally, please confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name
- your position (if applicable)
- the name of organisation (if applicable)
- an email address

Chapter 1: Introduction

1. The Local Government Pension Scheme England and Wales (LGPS) is one of the world's largest funded pension schemes and a key player in global markets, investing around £364 billion (excluding Environment Agency funds) worldwide. Its scale enables it to have a significant impact through its investments and gives it the potential to lead the market in innovation and transparency. While long term stable returns in order to pay pensions for its members are the primary purpose of the investments, the government believes that there is scope to deliver substantial benefits to the UK as a whole at the same time. Good management of the LGPS is important for the financial stability of local councils, and ultimately is in the interests of local taxpayers.

2. The government also recognises that pension funds are under substantial pressure on a number of fronts. There is growing scrutiny of institutional investors on environmental issues and in the light of geo-political risks such as Russia's aggressive and illegal invasion of Ukraine. In addition, recent volatility in gilt and bond markets has underlined the need for the highest standards in managing financial risk. The LGPS as a public sector scheme is rightly subject to particularly high expectations and must keep pace with the best in managing these demands.

3. This consultation seeks views on proposals in 5 areas:

- First, the government sets out proposals to accelerate and expand pooling, with administering authorities confirming how they are investing their funds and why.

While pooling has delivered substantial benefits so far, we believe that the pace of transition should accelerate to deliver further benefits which include improved net returns, more effective governance, increased savings and access to more asset classes. We propose a deadline for asset transition by March 2025, noting we will consider action if progress is not seen, including making use of existing powers to direct funds. Going forward, we want to see a transition towards fewer pools to maximise benefits of scale.

- Second, the government proposes to require funds to have a plan to invest up to 5% of assets to support levelling up in the UK, as announced in the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom). This consultation sets out in more detail how the Government proposes to implement this requirement and seeks views on its plans.
- Third, the government is proposing an ambition to increase investment into high growth companies via unlisted equity, including venture capital and growth equity. The government believes there are real opportunities in this area for institutional investors with a long-term outlook, such as the LGPS.
- Fourth, the government is seeking views about proposed amendments to the LGPS's regulations to implement requirements on pension funds that use investment consultants. These amendments are needed to implement the requirements of an order made by the Competition and Markets Authority (CMA) in respect of the LGPS.
- Finally, the government is proposing to make a technical change to the definition of investments within LGPS regulations.

4. The following chapters set out the government's proposals in more detail and provide the rationale for its proposals. Chapter 2 addresses the proposals regarding LGPS pooling, Chapter 3 outlines the plans for implementing the LUWP commitment, and Chapter 4 sets out a proposal to encourage the LGPS to contribute growth equity to the development of the UK. Chapter 5 explains the government's proposals in relation to the use of external investment consultants by LGPS funds and Chapter 6 sets out its proposal to update the definition of investments. Finally, Chapter 7 sets out our initial assessment of potential equalities impacts and invites views.

5. To assist those wishing to respond to the consultation, Annex A lists the proposals and Annex B lists the consultation questions.

Chapter 2: Asset pooling in the LGPS

6. The reform of investment management in the Local Government Pension Scheme (LGPS) for England and Wales began in 2015 with the publication of criteria and guidance on pooling of LGPS assets, following extensive consultation with the sector. The aims were to deliver the benefits of scale, improved governance and decision making, reduced costs and excellent value for money, and capacity and capability to invest in infrastructure to help drive growth. LGPS administering authorities responded by coming together in groups of their own choosing to form 8 asset pools.

7. Those 8 pools are now operational, in most cases for over 4 years. Their scale makes them significant players at European and global level. Set up and running costs of around £400 million to 2022 have been fully covered by savings. Net savings of over £380 million have already been delivered, with annual savings of £180 million, and total net savings are forecast to be over £1 billion by 2025 (based on data provided by pools and administering authorities). Significant expertise and capacity have been developed in private markets and infrastructure investment, giving funds access to the higher returns in these markets. In particular, UK and global infrastructure investment has grown from below £1 billion to around £27 billion (based on data collected by the pools).

8. While pooling has delivered substantial benefits so far, progress has varied across the scheme. Accelerating consolidation of assets in the LGPS is crucial for ensuring the scheme is delivering value for money in the interests of scheme members, employers and local taxpayers. Stronger pools can also ensure the LGPS punches its weight on responsible investment, management of climate risks, investment in levelling up, and investment in unlisted equities in support of UK growth. To meet these challenging ambitions, the LGPS pools and their partner funds will need to strengthen their existing partnerships and work together to deliver outstanding net performance, risk management and transparency. This will enable the LGPS to provide long term finance for pensions for millions of low paid workers, and deliver for the UK through investment in the UK, while retaining local control and accountability. Government proposals, set out below, cover increased scale, governance and decision making, as well as transparency and accountability.

Delivering increased scale

Background

9. Across the scheme as at March 2022 £145 billion or 39% of assets have been transferred to the pools with the percentage varying by pool from under 30% (LGPS Central) to over 80% (LPP). A further £114 billion, or 31%, is under pool management and £34bn or 9% is covered by plans to transition into the pools. We make a distinction throughout this document between pooled assets and assets which are under pool management. Pooled assets are owned by the pool in their capacity as asset manager while assets under pool management are assets where the pool has some management or oversight arrangement without ownership.

10. The current scale of the individual pools (based on AUM pooled and assets under pool management) is in the range £16 billion to £60 billion. This covers a variety of arrangements including passively managed assets held by external managers under insurance contracts, and the pool's oversight and monitoring of these may be limited. However, excluding assets under pool management, the pools range in size from £2 billion to £30 billion. The pools therefore remain significantly below the scale which they could achieve with all assets transferred from their partner funds, rather than remaining under pool management.

11. A further substantial increase in effective scale is a key priority to enable delivery of the benefits of pooling. Increased scale would allow the pools to deliver further savings and efficiencies, including through negotiating lower fees from external investment managers and service providers, and developing internal capacity for investment management. Increased scale would also enable the pools to invest in larger projects which would help the LGPS to take advantage of attractive opportunities in alternative assets.

12. The government therefore wishes to see the existing pools build scale as quickly as possible by accelerating the pace of transition of liquid assets from the funds into the pools, building on and expanding on successes so far. The approach to date has been to encourage funds through guidance to transition their assets into the pools, and substantial progress has been made over the last 4 to 7 years. However, progress is not consistent across the scheme and some pools have secured a much higher proportion of assets of their partner funds than others. We consider that the time is right for action to accelerate the delivery of savings and other benefits of pooling, and our proposals are set out in paragraphs 17 to 21.

Driving greater scale through fewer pools

13. In due course all assets including less liquid assets should be fully transferred to the pools. We recognise that this may need to take place over a longer period to minimise the costs including the costs of breaking existing arrangements. This would include passively managed insurance contracts which may be under some form of pool management. There may be some exceptions such as some types of local property investments. Once this was complete, 5 of the 8 pools would be around £50 billion or higher at current values and the remaining 3 pools would occupy the £25 billion - £40 billion range.

14. Completing the transition of assets would be a major step forward. However, we do not believe that this alone will deliver the full benefits of pooling in the long term. Our view is that the benefits of scale are present in the £50-75 billion range and may improve as far as £100 billion. As such, we should in future look towards a smaller number of pools in the region of or in excess of £50 billion in directly invested assets through merger. The benefits of scale were a key finding of 2021 research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) based on interviews with large international comparators. Respondents confirmed that scale had improved bargaining power with asset managers, enabled access to a wider set of opportunities such as private markets, and had allowed them to build internal capacity.

15. As well as making better use of expertise in managing external managers, there is potential to grow in-house investment management within the pools to reduce or replace the use of external private sector investment managers. This should offer substantial reductions in cost. A small number of larger funds have existing in house capacity and expertise in some areas of investment, and we would like to see this expertise fully shared within their pools. In due course there

should be scope for all pools to access in house capacity and expertise in specific areas of investment within other pools.

16. In the short to medium term, we believe there are benefits which could be secured through joint working without incurring the costs of merger. Some joint vehicles such as the London Fund (London CIV and LPP) and GLIL (LPP and Northern) already exist. We would like to see the pools move towards greater collaboration where this makes sense, and to consider specialisation, building on existing strengths in particular areas of investment, in order to deliver further benefits of scale and limit unnecessary duplication. Areas where specialisation or collaboration may be particularly attractive include infrastructure and other alternative investments including private equity, private debt and venture capital, as well as investments in levelling up projects and social investments.

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

A timetable for transition

17. Current statutory guidance relating to regulations on the management and investment of LGPS assets currently requires each fund to set out the proportion of its assets which it intends to pool in its Investment Strategy Statement (ISS). Funds are also required to provide in their ISS a summary of the assets which they do not intend to pool, with a rationale including value for money, and to review this at least every 3 years, including consideration of continuing value for money. This should be greatly assisted by the development of the LGPS Code of Transparency (https://lgpsboard.org/index.php/the-code) by the Scheme Advisory Board. This has enabled funds to access transparent cost data from 150 asset managers as of November 2022. However, current guidance sets no timetable for change and provides funds with limited assistance in considering rationale and value for money.

18. The government now seeks views on the setting a deadline for funds to transition all listed assets, as a minimum, to their pool within a reasonable timeframe. We consider a reasonable timeframe for liquid assets to be by 31 March 2025, which is the end of the current local fund valuation period. Transition of all assets should be considered in this timeframe, especially as pooling of illiquid investments may offer the greatest opportunities for reducing savings combined with higher returns.

19. If this is taken forward, funds would need to work with their pool to ensure that they have fully considered all the opportunities available through the pool for their assets. A detailed rationale for each asset remaining outside the pool including value for money considerations would need to be provided in the ISS in line with existing guidance if the asset is not intended to be pooled by 2025.

20. The government seeks views on setting out the transition timetable in statutory guidance on ISS, and requiring funds to review and revise their ISS in line with this expectation. Where funds have concluded that the asset should not be transitioned, the government will expect a rationale to explain why this is the case. We also propose to provide fuller guidance on the existing requirements for ISS in relation to pooling, including guidance on rationale, value for money and review for assets which it is not intended to pool.

21. For further proposals on annual reporting of progress against the plan set out in the ISS see paragraph 41.

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Governance and decision making

Background

22. Administering authorities are responsible for setting the investment strategy of their funds, having taken proper advice. This includes setting the asset allocation to achieve a diversified portfolio of investments which overall is suitable to meet liabilities, as well as describing the approach to pooling and responsible investment, in line with statutory guidance.

23. Once the investment strategy has been chosen, the [expectation set (https://www.gov.uk/government/publications/local-government-pension-scheme-investment-reform-criteria-and-guidance)] when the funds were invited to form pools in 2016 was that as a minimum, the selection of external fund managers and the implementation of the investment strategy would take place at the pool level, in order to streamline decision making, reduce the number of external managers and deliver reduced fees.

24. In practice, funds have adopted a range of approaches. A small number of funds have transferred most of their assets to the pool and delegated strategy decisions below a very broad asset allocation as well as all implementation decisions to their pool, including for assets remaining outside the pool. Some funds have delegated manager selection and other implementation decisions to the pool for their pooled assets only, as well as agreeing broad mandates for some pool vehicles. The pool partnerships which have a higher degree of delegation, closer alignment of strategy and larger proportion of assets pooled have the conditions in place to deliver significantly higher savings compared to pools less advanced in their pooling journey.

25. Some funds have transferred some assets to the pool but only where the pool provides their preferred external manager or mix of assets within a pool vehicle. In these circumstances pools may respond by creating different products for each

partner fund or for small groups of funds, leading to a high number of pool sub-funds or vehicles, which limits the savings which can be achieved.

26. A very small number of funds have joined a pool but pooled no or very few assets. They may have benefited from a wider reduction in fees in the market, in part driven by pooling, but have chosen not to take up the other potential opportunities to date.

27. More effective and consistent governance and decision making is therefore the second key priority for the future of LGPS pooling. Research (https://www.brunelpensionpartnership.org/wp-content/uploads/2021/09/LGPS-in-the-UK-Learnings-from-International-Peers.pdf) (PDF, 5.7 MB) suggests that asset pools internationally are more effective with modern governance structures which enable delegation with accountability and allow decisions to be taken quickly on behalf of partner funds. This will include in particular effective delegation of strategy implementation to the pools by administering authorities.

28. It is the government 's view that the experience of the last 4 years has demonstrated that funds participating in a strong partnership with their pool and with other partner funds, in which they delegate effectively to their pool and align their strategies where possible, are likely to see the most gains, as these approaches allow the pool to deliver the benefits of scale. Others have moved more slowly but in order to maximise the benefits the full participation of all is essential. We want to see all funds moving in this direction in order to deliver the benefits of pooling for all.

Improving governance

29. Setting the investment strategy and asset allocation is a central responsibility for administering authorities, which gives them the most significant degree of influence on returns. It is generally accepted that the strategy accounts for most of the difference in net returns between portfolios, with implementation decisions such as manager selection having a relatively small impact. We do not propose any change to the responsibility of funds for setting investment strategies.

30. We therefore propose revised guidance on pooling to confirm and strengthen the existing guidance on delegation of manager selection and strategy implementation. It would also provide revised guidance on governance, including member representation, transition of assets and new investments outside the pool. We also propose to include guidance on investments in levelling up. This is discussed in Chapter 3.

31. Government recognises that each model has its own benefits. In order to move forward more quickly with the benefits of pooling, we regard the following aspects as being key to progress.

- Pools should operate as a single entity which acts on behalf of and in the sole interests of the partner funds. For this reason, we do not see inter-pool competition as a desirable progression. This does not preclude the potential for inter-pool collaboration, which is encouraged by government.

- Pools should be actively advising funds regarding investment decisions, including investment strategies.
- Pools should be equipped to implement an investment strategy as instructed by their partner fund. An investment strategy should be interpreted to mean a broad instruction regarding asset classes and level of risk. It should not include an excessive number of classes, or choice of specific assets.
- Pools should expect funds to invest via their existing sub-funds where possible. This avoids an unfavourable scenario whereby an excessive number of similar sub-funds undermine the purposes and benefits of pooling.
- Pool governance structures should be equipped to take quick decisions as opportunities present themselves, within the delegated remit of the fund.

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

32. Pensions expertise is an important criterion for decision making, and there are some factors which may make it harder to acquire that expertise under current structures. Firstly, pensions committees generally have high levels of turnover. Second, members of such committees are not required to complete training and may have no specific expertise in pensions. The outcome of these factors is that expertise may be lower than an equivalent panel of trustees for a private sector scheme, with higher reliance on advisors. Some targeted requirements, specifically on training, would help administering authorities to manage these issues.

33. We propose that each administering authority sets a training policy for committee members. We propose that the administering authority should report regularly on the training undertaken by committee members and whether this is in line with their training policy.

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Transparency and accountability

Background

34. Current reporting relevant to the assets of the LGPS comprises the following:

- **Official statistics** - The annual LGPS statistics collected on the SF3 form by the Department and published in September contain only the overall asset value for the scheme and each fund, with no data on asset classes or other information.
- **Annual reports.** Annual reports are required by [CIPFA guidance](https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-) (https://www.cipfa.org/policy-and-guidance/publications/p/preparing-the-annual-report-

guidance-for-local-government-pension-scheme-funds-2019-edition) to include the value and percentage of pooled and non-pooled assets, the costs and performance of pooled and non- pooled assets, the progress of transition during the reporting year and the plans for transition of non-pooled assets. Annual reports are required to be published by 1 December for the preceding financial year. Funds are also required by guidance on ISS to report annually to the SAB on the progress of asset transition to the pool against implementation plans (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/627030/Guidance_on_preparing_and_maintaining_an_investment_strategy_statement.pdf) (PDF, 150 KB). Pool annual reports provide some additional information but vary considerably in level of detail.

- **Scheme Advisory Board (SAB) annual report.** The SAB produces a report which summarises data from published fund annual reports on governance, funding, membership, financial position, investments and stewardship. It does not currently include data on the progress of asset transition or other data or commentary on pooling. With respect to investments, the Scheme Annual Report reports the proportion of the scheme which is invested in pooled investment vehicles, public markets, bonds, direct property, derivatives, cash and other asset classes. This is based on data in the Net Asset Statement in the annual accounts of administering authorities. Authorities do not report their asset breakdown in a consistent way, and a degree of judgement is exercised by the SAB in interpreting their reports. The commentary on investment performance is based on data provided by PIRC which covers around two thirds of funds. The Annual Report is published in the spring following the end of the financial year to which it relates.

35. In addition, the government recently consulted (https://www.gov.uk/government/consultations/local-government-pension-scheme-england-and-wales-governance-and-reporting-of-climate-change-risks) on new requirements for funds to report on climate-related risks to their assets. We will publish the government’s response in due course.

36. The current reporting regime provides a substantial quantity of data but does not provide transparency on progress of pooling by fund, by pool or across the scheme. It also does not provide an overall view of asset allocation across the scheme.

37. It is the long-standing view of government, whatever the subject, that transparency should be welcomed. The government seeks views on increasing transparency of asset allocation, pooling, return and savings.

Annual Reports and LGPS statistics

38. We therefore propose to require a single standard set of data on investments across annual reports and LGPS statistics. This would consist of:

- data on the broad asset classes into which LGPS investments fall in a consistent way, for example equities, bonds, private equity, private debt, property. We would work with the SAB to define the asset classes to be chosen and seek the agreement of the Central-Local Information Partnership (Finance) in the normal way for the necessary changes to the data collected from funds for LGPS official statistics. In designing this table, we will take account of requirements for defined contribution schemes and the reporting requirements which apply to private defined benefit schemes via the scheme return (https://www.thepensionsregulator.gov.uk/en/trustees/submit-reports-payments-and-requests-to-us/scheme-return/db-and-mixed-benefit-scheme-return) (an annual return required by The Pensions Regulator).

- for each asset class, data on the assets which are pooled, under pool management and not pooled and that the definitions are clarified. This will include the allocation to infrastructure and levelling up.
- net savings achieved as a result of investing via the pool.

39. We also propose to define the categories as set out in paragraph 9. Pooled assets would mean that the assets are directly owned and managed by the pool. Assets under pool management would cover assets which are managed or overseen but not owned by the pool. Neither category would include any assets which are held by collective investment vehicles other than those managed by the 8 LGPS pools.

40. We propose that the requirements to report on asset allocation and pooling data would be set out in revised guidance on pooling and in revised guidance on annual reports which is under consideration by the SAB.

41. We also propose to introduce a requirement to include commentary in the annual report on the progress of asset transfer against implementation plans and the approach to pooling set out in the ISS, in order to ensure funds are transparent and accountable on the progress of asset transition.

42. We also view it as desirable that each fund report the returns achieved by assets invested in each asset class against an appropriate benchmark, in a way that is consistent across funds, and easily comparable between pooled and non-pooled assets. We welcome views on how such a regime may work in practice.

43. We believe that these measures would ensure that data and commentary on the progress of pooling and on asset allocation is available earlier, is consistent across the scheme and between LGPS statistics and annual reports. We recognise there may be increased costs arising from a change to the asset classes reported, but these can be met from the fund, and costs should be reduced by having a single standard set of data. We consider some additional costs can be justified to ensure better public accountability.

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Scheme Annual Report

44. The SAB produces a Scheme Annual Report which aggregates information from fund annual reports. The purpose of the Annual Report is to provide a single source of information for members, employers and other stakeholders. Continual improvement of this report is a key priority of the SAB and is supported by the government. We intend the proposals in this consultation to assist the SAB in this goal.

45. We believe that the single standard set of data discussed above will make it easier to provide a clear overview of the scheme's asset allocation and of the progress of pooling. We have agreed with the SAB that they will incorporate this change into the Scheme Annual Report in future years by including a table which divides assets by category (equity, bonds, property etc) as well as by pooled status (pooled, not-pooled or under pool management).

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Directions by the Secretary of State

46. Under Regulation 8 the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the "2016 regulations" (https://www.legislation.gov.uk/uksi/2016/946/regulation/8/made)) the Secretary of State has power, after consultation, to make directions to a fund where that fund is in breach of statutory guidance. Directions can cover the fund's investment strategy statement, its assets, the running of the fund's investment function, or any other instruction in relation to its investment function.

47. No such directions have been issued by the Secretary of State under Regulation 8.

48. Government will expect administering authorities to act in accordance with statutory guidance once issued. Where funds do not comply with guidance, government will consider whether a direction is appropriate. Examples of activities which could result in this include: withdrawing pool membership, failing to transition assets in line with the timetable or failing to provide adequate justification for non-pooled assets.

49. The Secretary of State also has power under section 3(2)(a) and Schedule 3 of the Public Service Pensions Act 2013 to make regulations on the administration, management and winding-up of LGPS pension funds, subject to consultation and the consent of HM Treasury.

Summary of proposals

50. The proposals are:

- To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled
- To revise pooling guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.
- To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy
- To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate.
- For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.
- To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

51. Should this be taken forward, we intend to monitor progress over the current valuation period (to 31 March 2025), based on fund annual reports, LGPS statistics, the Scheme Annual Report and other evidence. This monitoring will include progress on transition, governance and reporting and how effective these are in delivering improvements in efficiency, cost and performance.

52. Whilst reserving our ultimate position, the government's strong preference is to see progress continue on a voluntary basis within a strengthened framework. This will maintain local management and accountability in the LGPS, while delivering significant savings and better risk management, and avoiding waste and duplication. But we will consider action to ensure progress if necessary, including making use of existing powers to direct funds.

Chapter 3: LGPS investments and levelling up

Background

53. In the Levelling Up White Paper (LUWP) (https://www.gov.uk/government/publications/levelling-up-the-united-kingdom) the government set out its mission to tackle the uneven distribution of opportunity in the United Kingdom (UK). The aim is to level up the UK by spreading opportunity more equally across the country and bring left behind communities up to the level

of more prosperous areas. To do so will mean that the whole country succeeds by growing the economy and realising the potential of places and people across the UK.

54. One of the key ambitions in the levelling up programme is to boost productivity, grow the economy, and raise living standards across the UK. One way in which this mission can be achieved is by ensuring that some of the funds managed by institutional investors flow into projects that help deliver levelling up while also offering attractive returns.

55. The Local Government Pension Scheme (LGPS) with assets of £364 billion, projected to increase to £500 billion by 2030, is a major institutional investor. The government wishes to encourage the LGPS to continue to meet its core fiduciary duty of funding pensions for members while also supporting levelling up by investing in infrastructure, housing, regeneration, and small and medium enterprise (SME) finance across the whole UK, not only in the local area of an authority. Overall, £27 billion of LGPS funds had already been invested in infrastructure in the UK and overseas by March 2022.

56. The government has set an ambition in the LUWP for LGPS funds to invest up to 5% of their assets under management (AUM) in projects which support local areas. To implement this ambition, the Government is asking LGPS funds to work with LGPS asset pools to publish plans for increasing their local investment.

Defining investment in levelling up

57. In developing their plans, LGPS funds will need to consider what types of investments will contribute to levelling up. This section therefore sets out a proposed approach to assessing whether an investment supports levelling up, drawing on the LUWP and its discussion of different forms of capital and levelling up missions. The definition is intended to help LGPS funds and pools in considering how they could invest a share of their AUM in a way that promotes growth, supports levelling up, and meets their fiduciary duty to ensure members' pensions.

58. The ambition of the levelling up agenda is to reduce geographical disparities. While some areas of the UK already benefit from all the conditions for growth, the government is keen to improve productivity, boost economic growth, encourage innovation, create good jobs, and enhance educational attainment in those parts of the UK that have so far had an unequal share of the country's economic success. In pursuing this ambition, the government believes that a boost to productivity, pay, jobs, and living standards can be achieved through targeted interventions that extend opportunities more equally across the UK.

59. Current causes of the UK's spatial disparities include changes in the global economy and their uneven impact on the country's regions, but the key drivers lie in the 6 forms of capital identified in the LUWP (human, intangible, financial, physical, social and institutional). While each capital is important in its own right, it

is their interaction that creates a virtuous cycle that encourages economic growth and the associated societal benefits.

60. To address the imbalances in how the 6 capitals are distributed across the UK, the government has identified 12 medium-term levelling up missions (living standards, research and development, transport, digital connectivity, education, skills, health, well-being, pride in place, housing, crime and local leadership). Institutional investors such as pension funds can contribute to the levelling up missions while also benefitting from such investments. Global investors, including pension funds from Canada and Australia, are already active investors in such projects, but UK institutional investors are under-represented.

61. The government believes that the LGPS should secure the benefits of such investment and can play a key role in building a pipeline of investable UK opportunities without costly deal by deal auctions. With assets of around £364 billion the LGPS has large investable assets, investment expertise in the pools, and local networks. It is well placed to identify investment opportunities and ensure these meet the risk/return profiles demanded by LGPS funds.

62. To help LGPS funds make their plans, the government proposes that an investment would meet the levelling up requirement if

- it makes a measurable contribution to one of the levelling up missions set out in the LUWP; and
- it supports any local area within the United Kingdom.

63. We consider the following existing LGPS investments as examples of investments which would fall within the proposed definition:

- Nottinghamshire Pension Fund invested £1.5 million (https://www.impactinvest.org.uk/case-study/direct-investment-nottinghamshire-community-energy/) in Nottinghamshire Community Energy in 2016 to help construct and manage a solar farm to produce clean energy. The profits help support projects in Nottinghamshire to address climate change mitigation, wildlife conservation, and reducing fuel poverty while delivering a good return on investment.
- Durham County Council Pension fund has committed £18 million (https://www.foresightgroup.eu/private-equity?tab=6) to enable the launch of a new private equity investment fund that supports SMEs across the North East. The fund's purpose is to support economic growth and create high-quality local jobs in the region, while targeting an appropriate rate of return for its investors.
- Greater Manchester Pension Fund has a £50 million (https://www.insidermedia.com/news/north-east/foresight-launches-new-fund-for-smes) Invest 4 Growth portfolio which makes investments that provide a commercial return and have beneficial economic, social, or environmental impacts.The fund also uses its £401 million Impact Portfolio to invest regionally in supported living accommodation, renewable energy, and loans to SMEs.
- South Yorkshire Pension invests around £80 million (https://bdaily.co.uk/articles/2022/12/06/80m-investment-from-south-yorkshire-pensions-

authority-boosts-local-economy) in local development projects and aims to generate commercial return whilst delivering a positive local impact.

64. Funds should ensure that any levelling up investment plan they produce is consistent with their existing overall investment strategy statement and funding strategy statement. We intend to develop guidance working with the Scheme Advisory Board on levelling up investments which meet the requirement announced in the Levelling Up White Paper.

Question 7: Do you agree with the proposed definition of levelling up investments?

Fiduciary duty and investing in levelling up

65. This new requirement would not alter the established fiduciary duty of LGPS funds to make investment decisions in order to pay pensions. Investments that support levelling up may form part of a well-diversified portfolio with a range of risk/return characteristics. As current investment activity across the LGPS underscores, such investments may create attractive risk adjusted returns for pension funds and help deliver economic growth and societal benefits.

66. Under existing environment, social, and governance (ESG) criteria, set out in Guidance on Preparing and Maintaining an Investment Strategy Statement (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement), funds may also take non-financial considerations into account when making investments, provided that they have good reasons to think the scheme members share the concern for social impact, and there is no risk of significant financial detriment to the fund.

Enabling investment to support levelling up

67. Under these proposals, administering authorities would be expected to evaluate possible levelling up investments and assess their suitability for their fund's investment strategy. There is scope for projects of different scales, risk/return profiles, and geographical concentrations to be considered.

68. Private markets are a principal way through which investments that support levelling up can be made. These markets are particularly important in infrastructure, clean energy and regeneration investing and they are therefore likely to play a role in delivering funds' levelling up investments. This route to investment, however, presents challenges, especially for smaller LGPS funds. The minimum investment may be quite high, and at higher cost than public market investments. Specialist expertise is needed to assess risk and return profiles and source and negotiate opportunities.

69. The LGPS asset pools can offer a route to investing in levelling up through private markets. They can put together an investment of sufficient size with the

participation of their partner funds. Those which are wholly owned companies can also provide investment at lower cost as they are established on a not for profit basis and have developed the expertise and capacity to invest in private markets through intermediaries and in some cases are able to invest directly or to co-invest, which reduces costs.

70. There may also be concerns about local investments. Perceived or potential conflicts of interests may arise between the fund and the administering authority in its wider role as the local authority, if funds invest in inappropriately high-risk projects in the area in which they are located. The LGPS asset pools can assist by ensuring that decisions to invest in a local area can be taken at pool level to avoid any perceived or potential conflict of interest and take advantage of the pool's expertise.

71. Some LGPS asset pools have already created investment vehicles to enable funds to invest in levelling up projects more easily:

- GLIL was established in 2015 by the Greater Manchester Pension Fund and the London Pensions Fund Authority with £500 million in capital commitments. It was expanded in 2016 with the admission of 3 further LGPS funds. GLIL invests in core infrastructure assets predominantly in the UK and focuses on investment opportunities that are backed by physical assets, offer a reliable cash flow, and are isolated from business cycles. It currently has £3.6 billion of committed capital and has deployed £2.1 billion across 13 assets that include offshore windfarms, electric train fleets, and solar farms.
- The London Fund is a collaboration between the Local Pensions Partnership Investments (LPPI) and the London Collective Investment Vehicle (LCIV). The Fund's aim is to invest in the capital, with a focus on developing housing and infrastructure. In making investment decisions, the London Fund is seeking positive contributions to social and environmental issues too. For the fund's partners the London Fund also represents an opportunity to access a greater range of investment opportunities than if they acted alone.
- Brunel Pension Partnership has designed and implemented a portfolio for one of its partner funds, Cornwall Pension Fund, to facilitate local investment in affordable housing and renewable energy in Cornwall. Cornwall Pension Fund made an initial investment of £115 million despite being one of the smaller LGPS funds.

72. The government wishes to see specialist expertise in local investments within pools and their private sector partners continue to evolve, to ensure that funds and the UK as a whole can benefit from investment in levelling up. The scale of the LGPS and a new requirement for the LGPS to set a plan to invest in levelling up should provide an important spur to this development.

73. The government looks to the pools to develop further such solutions in collaboration with their partner funds. This approach will maximise the opportunities to capitalise on administering authorities' local knowledge and asset pools' scale and private market access. Pools may choose to leverage their local networks to work with local partners to develop opportunities and avoid the deal by

deal auctions which can add cost to infrastructure investment. In due course they may also develop the capacity and knowledge to invest in smaller scale local projects which may be too small for private sector intermediaries, and help tackle the capital gap for smaller projects.

74. However, some pools do not currently have internal asset management capacity, or the range of investment vehicles required to meet the needs of their partner funds. To increase the range of options available to funds to deliver investment in levelling up, it may be helpful for funds to invest through their own pool in investment vehicles provided by other pools. The government therefore proposes to set out in guidance that LGPS funds may invest through their pool in another pool's investment vehicle.

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Implementing the requirement to publish plans for increasing local investment

75. The government proposes to amend regulations to require funds to publish a plan on how they will invest up to 5% of their assets under management (AUM) in projects that support levelling up across the UK. The plan may form part of the investment strategy statement. It should take account of the fund's investment and funding strategy statements and be reviewed at least every 3 years in line with the local valuation cycle.

76. It is proposed that the plan should include:

- The fund's current level of investment in levelling up investments
- A plan to increase levelling up investments to deliver an allocation of up to 5% of AUM including the timeline to delivery
- The fund's approach to working with their pool to reach their chosen allocation.

77. Many funds will already have some investments which contribute to levelling up, and in some cases this may exceed 5%. Some funds may wish to increase their investment above 5%. It will be for funds to decide the appropriate level of investment and types of investment.

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

78. The government also proposes to require funds to report annually on their progress against their plan in their annual report. This requirement is proposed to provide transparency and accountability on the progress and investments made by funds. The section of the annual report on levelling up would be expected to include:

- The percentage of AUM invested in levelling up projects compared to the fund's plan for that year, the percentage in the previous year, and the ambition set by the fund
- The amount and type of levelling up investments that have been made through the fund's LGPS pool, and outside the pool.
- A narrative account explaining the changes in AUM allocated and the progress against the fund's plan, and the rationale for investing through the pool or outside the pool.

79. The government intends to include guidance on the new requirement and on reporting progress in revised guidance on investment strategy statements and on pooling.

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Divestment

80. Many administering authorities are under pressure to divest assets from certain countries or geographical regions, even though the UK government has no sanctions in place against those countries or regions. The government strongly believes that local authority pension funds do not, and should not, have their own foreign policies. The government intends to implement the manifesto commitment to prevent public bodies pursuing boycotts, divestments and sanctions campaigns (BDS) against foreign countries or territories, unless in line with the UK's official foreign policy, through the Foreign Affairs (Economic Activity of Public Bodies) Bill, introduced in June .

Chapter 4: Investment opportunities in private equity

Background

81. The government is launching a package of measures to reform the pensions landscape as part of the government's capital markets strategy, making more capital available to support UK companies and seeking to boost the retirement incomes of UK pension savers. These measures sit alongside legislative and regulatory changes that strengthen the UK's position as a destination for listings, and cement the UK's standing as a global trading hub, attracting world leading companies including tech firms to incorporate, list and grow here. This initiative seeks to support the high-growth, innovative technology companies that often struggle to obtain the scale-up capital they need to reach their potential. British Business Bank (BBB) research suggests that the UK's venture capital financing gap relative to the US is over £5 billion per annum, despite UK funds making similar returns to their US counterparts.

82. The LGPS is largely well funded and has a very long-term time horizon, unlike most private sector defined benefit funds, which are typically closed and much more mature. Investing a higher percentage of LGPS capital into high-growth companies via private equity (particularly venture capital and growth equity), could generate improved returns to pay pensions. This includes but is not limited to innovative UK companies operating in fintech, life sciences, biotech, and green technology sectors.

83. The Scheme Annual Report for 2021-22 indicates the LGPS has a strong investment allocation into private equity of 4.3%, recognising the exact figure will vary across funds and will cover late-stage private equity in addition to venture capital and growth equity. Private reports indicate this is the highest performing asset class across the LGPS.

Ambition of 10% investment allocation in private equity

84. The government wishes to see LGPS funds and pools doubling their current allocation into private equity, with a total ambition of 10% investment allocation, as part of a diversified but ambitious portfolio. This ambition will help drive business investment throughout the country, in a way that allows everyone in the UK to benefit from the growth of our economy, by boosting LGPS investment returns, incentivising companies to grow and list in the UK, and grasping productive opportunities of the future.

85. Each fund will be different and will need to make its own investment decisions based on potential risk and reward appetite. As with any other asset class, it is important for administering authorities to exercise judgement on their exposure to private equity, as with any other asset class, and any investment in these asset classes should be part of a diverse and balanced portfolio.

86. We propose that LGPS funds should complete this consideration of private equity opportunities, including growth equity and venture capital, as part of the regular review of their investment strategy statement, and that the new requirement would be set out in revised guidance on investment strategy statements.

87. As with investments in levelling up, we expect that funds will work with their pool in considering such investments to ensure that they make use of the scale, capacity and expertise of the pool and take advantage of the full range of opportunities in size and type. We welcome views on further opportunities for government to remove any barriers to investment in UK growth equity and venture capital by the LGPS.

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

British Business Bank

88. The British Business Bank (BBB) is a government-owned economic development bank that makes finance markets for smaller businesses work more effectively, allowing those businesses to prosper, grow and build UK economic activity.

89. One of the BBB's strategic objectives is to back UK innovation by improving the way that equity finance markets work to support the UK's most promising businesses. The BBB has a range of programmes to deliver this objective, including British Patient Capital (https://www.britishpatientcapital.co.uk/) (the BBB's commercial subsidiary with resources of £2.5 billion, which has delivered an internal rate of return of 32.9% since inception and Enterprise Capital Funds programme, which supports earlier stage businesses.

90. In delivering these programmes, the BBB has become the largest domestic investor in UK venture capital with deep expertise to support due diligence and the ability to invest at scale. This could be of benefit to the LGPS in finding attractive opportunities in this space. We support the LGPS, in particular the pools, to explore opportunities to collaborate and capitalise on the Bank's expertise and capabilities in venture capital and growth equity, and will bring forward any changes to secondary legislation which currently inhibit this.

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Background

91. In 2017 the Financial Conduct Authority (FCA) published its final Asset Management Market Study Report (https://www.fca.org.uk/publication/correspondence/provision-view-uil-mir-investment-consultancy-services.pdf) (PDF, 317 KB). At the same time, the FCA made a reference to the Competition and Markets Authority (CMA) for a market investigation into the supply and acquisition of investment consultancy services and fiduciary management services to and by institutional investors and employers in the UK.

92. The CMA focussed its investigation on pension funds as the core clients for investment consultancy and fiduciary management services, and published its final report (https://assets.publishing.service.gov.uk/media/5c0fee5740f0b60c8d6019a6/ICMI_Final_Re

port.pdf) (PDF, 3.1 MB) in December 2018.This found that for both investment consultancy and fiduciary management services there was a low level of engagement by trustees, a lack of clear and comparable information to assess value for money, and an incumbency advantage for investment consultants in steering clients to their own fiduciary management services.

93. Based on its findings, the CMA made The Investment Consultancy and Fiduciary Management Market Investigation Order 2019 (the Order) (https://assets.publishing.service.gov.uk/media/5cfdfa86e5274a090f9eef8e/Order_investment_consultants.pdf) (PDF, 230 KB) in June 2019 to tackle the adverse effects on competition identified. The Order applies to all registrable pension schemes including the LGPS and came into force on 10 December 2019.

94. The Order was intended as an interim measure to make changes quickly while statutory authorities take steps to implement the remedies in the relevant legislation. DWP has implemented the Order's requirements for private pension scheme trustees through The Occupational Pension Schemes (Governance and Registration) (Amendment) Regulations 2022 (https://www.legislation.gov.uk/uksi/2022/825/note/made).

95. However, LGPS administering authorities fall within the exemption in the Order at Article 3.6 that exempts any pension scheme trustees that are contracting authorities for the purposes of the Public Contracts Regulations 2015. These regulations cover local authorities including administering authorities, which means that administering authorities are exempt from the requirement of the Order to put fiduciary management services out to competitive tender.

96. Further, LGPS pool companies owned by LGPS funds are exempt from the Order under Article 1.7(b) which excludes in house or wholly owned investment consultancy providers and fiduciary management service providers. The exclusion under Article 1.7 of the Order applies to the Order as a whole (see para 15 of the Explanatory Note to the Order). This also puts LGPS pool companies outside the scope of the Order regarding any investment consultancy services they provide.

97. As a result, the only requirement in the Order which requires implementation in the LGPS is the requirement to set strategic objectives for investment consultancy they receive outside the LGPS pool companies. The Order prohibits funds from receiving any investment consultancy services unless they have set strategic objectives for their investment consultancy provider (Art 12). These strategic objectives should also closely relate to the fund's investment strategy and be reviewed at least every 3 years or whenever the investment strategy changes significantly. Further, there is an expectation of regular performance reporting by the investment consultancy provider that measures performance against these strategic objectives (see paragraph 91 of the Explanatory Note to the Order).

Implementing the CMA Order for the LGPS

98. As the responsible authority for the Local Government Pension Scheme, the Department for Levelling Up Housing and Communities (DLUHC) proposes to

amend LGPS regulations and statutory guidance to implement the Order's requirements for the provision of investment consultancy services for the LGPS.

99. Setting strategic objectives for investment consultants is in line with wider ambitions to improve governance and transparency in the LGPS and should encourage administering authorities to better monitor performance and improve the quality and value for money of such services over time.

100. We therefore propose that:

- Where the administering authority uses investment consultancy services in relation to its Investment Strategy Statement or for other matters, it must set strategic objectives for the investment consultancy provider, unless the provider is exempt (such as the LGPS pools);
- Administering authorities must not enter investment consultancy services contracts or continue to receive such services from any provider unless the authority has set strategic objectives for that provider
- Administering authorities must review strategic objectives at least every 3 years or every time the ISS changes substantially
- Strategic objectives must have regard to guidance on setting objectives for providers of investment consultancy services issued by the Pension Regulator in November 2019.

101. Investment consultancy services would include services where the provider advises the administering authority in relation to one or more of the following:

- investments that may be made or retained by or on behalf of the administering authority
- any matters in respect of which the administering authority is required by law to seek advice in relation to the preparation or revision of the investment strategy statement
- strategic asset allocation
- manager selection

102. In line with the definition of investment consultancy services in Article 2.1 of the Order, advice would mean advice on the merits of the administering authority taking or not taking a specific course of action and includes any recommendation or guidance to that effect. It is not intended that the term would cover the high-level commentary provided by actuaries in or in respect of triennial valuation reports and with regard to the link between investment approach and the administering authority's funding objectives.

103. The government proposes to implement these requirements by amending [The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 2016 Regulations) (https://www.legislation.gov.uk/uksi/2016/946/contents/made)](https://www.legislation.gov.uk/uksi/2016/946/contents/made) and [associated guidance (https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement)](https://www.gov.uk/government/publications/local-government-pension-scheme-guidance-on-preparing-and-maintaining-an-investment-strategy-statement).

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

104. In making the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (S.I. 2016/946 (https://www.legislation.gov.uk/uksi/2016/946/contents/made)) (the 2016 Regulations), the Government intended to ensure that the definition of investments which were or could be made by LGPS administering authorities included passive insurance contracts, private equity and derivatives.

105. After laying the 2016 Regulations, the Joint Committee on Statutory Instruments (JCSI) identified an issue relating to the drafting of regulation 3(1)(b) and regulation (4) of the 2016 Regulations. Regulation 3(1)(b) was intended to include contributions in an unquoted securities investment partnership within the definition of investment but reads as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment

106. Regulation 3(4) defines unquoted securities investment partnerships as a partnership for investing in securities which are normally not quoted on a recognised stock exchange when the partnership buys them.

107. The Department undertook to amend regulation 3(1)(b) of the 2016 Regulations to align it with regulation 3(4) at the earliest available opportunity. We therefore propose to add the word ‘partnership’ to regulation 3(1)b as follows:

> Reg 3(1)(b) a contribution to a limited partnership in an unquoted securities investment partnership

108. The proposed amendment to regulation 3(1)b would ensure consistency with the language used in regulation 4, where unquoted securities investment partnerships are defined. The proposed amendment should also eliminate any ambiguity in regard to regulation 3(1)b.

Question 14: Do you agree with the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

109. The Department's policies, guidance and procedures aim to ensure that the equalities impact of any decisions, new policies or policy changes upon groups with protected characteristics is properly considered, and that in formulating them the Department has had due regard to its obligations under the Public Sector Equality Duty at s.149(1) of the Equality Act 2010.

110. We have made an initial assessment and we believe our proposals on reforms to pooling, investment in levelling up, investment in venture capital, requirements on the use of investment consultants and changes to the definition of investment in chapters 2 to 6 do not affect any particular groups with protected characteristics adversely, as there will be no change to member contributions or benefits as a result. There may be an indirect benefit to protected groups who live in deprived areas which benefit from levelling up investments.

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

Annex A: List of consultation proposals

Pooling

To revise ISS guidance to include requirements to transfer listed assets to the pool by 31 March 2025, and to set out in the ISS:

- assets which are pooled, under pool management and not pooled, and
- to provide a rationale, value for money and date for review for assets which are under pool management or not pooled

To revise pooling guidance so as to set out fully how funds and pools should interact and promote a model of pooling which includes the characteristics described above including on delegation of manager selection, strategy implementation, advice, governance, transition of assets, new investments outside the pool and reporting.

To implement a requirement in guidance for administering authorities to have a training policy for pensions committee members and to report against the policy

To revise guidance on annual reports to require greater clarity on progress of pooling including a summary asset allocation (including investment in infrastructure and levelling up), a comparison between actual and strategic asset allocation, and a report of the net savings from pooling. We also seek views on whether there should be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how this requirement should operate

For the Scheme Advisory Board to expand their Scheme Annual Report to provide a report on the progress on pooling and on asset allocation across the LGPS.

To make changes to LGPS official statistics to provide greater transparency on asset allocation and the proportion of assets which have been pooled.

Investment in levelling up

To amend regulations to require funds to set a plan to invest up to 5% of assets in levelling up the UK, and to report annually on progress against the plan.

Investment in private equity

To revise ISS guidance to require funds to consider such investments to meet the government's ambition of a 10% allocation to private equity in the LGPS.

Investment consultancy services

To amend regulations to set requirements funds with respect to investment consultants in line with the CMA order.

Definition of investment

To amend investment regulations to correct an inconsistency in the definition of investment.

Annex B List of consultation questions

Chapter 2: Asset pooling in the LGPS

Question 1: Do you consider that there are alternative approaches, opportunities or barriers within LGPS administering authorities' or investment pools' structures that should be considered to support the delivery of excellent value for money and outstanding net performance?

Question 2: Do you agree with the proposal to set a deadline in guidance requiring administering authorities to transition listed assets to their LGPS pool by March 2025?

Question 3: Should government revise guidance so as to set out fully how funds and pools should interact, and promote a model of pooling which includes the characteristics described above?

Question 4: Should guidance include a requirement for administering authorities to have a training policy for pensions committee members and to report against the policy?

Question 5: Do you agree with the proposals regarding reporting? Should there be an additional requirement for funds to report net returns for each asset class against a consistent benchmark, and if so how should this requirement operate?

Question 6: Do you agree with the proposals for the Scheme Annual Report?

Chapter 3: LGPS investments and levelling up

Question 7: Do you agree with the proposed definition of levelling up investments?

Question 8: Do you agree that funds should be able to invest through their own pool in another pool's investment vehicle?

Question 9: Do you agree with the proposed requirements for the levelling up plan to be published by funds?

Question 10: Do you agree with the proposed reporting requirements on levelling up investments?

Chapter 4: Investment opportunities in private equity

Question 11: Do you agree that funds should have an ambition to invest 10% of their funds into private equity as part of a diversified but ambitious investment portfolio? Are there barriers to investment in growth equity and venture capital for the LGPS which could be removed?

Question 12: Do you agree that LGPS should be supported to collaborate with the British Business Bank and to capitalise on the Bank's expertise?

Chapter 5: Improving the provision of investment consultancy services to the LGPS

Question 13: Do you agree with the proposed implementation of the Order through amendments to the 2016 Regulations and guidance?

Chapter 6: Updating the LGPS definition of investments

Question 14: Do you have any comments on the proposed amendment to the definition of investments?

Chapter 7: Public sector equality duty

Question 15: Do you consider that there are any particular groups with protected characteristics who would either benefit or be disadvantaged by any of the proposals? If so please provide relevant data or evidence.

About this consultation

This consultation document and consultation process have been planned to adhere to the [consultation principles (https://www.gov.uk/government/publications/consultation-principles-guidance)] issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Environmental Information Regulations 2004 and UK data protection legislation. In certain circumstances this may therefore include personal data when required by law.

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the information access regimes and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Department for Levelling Up, Housing and Communities will at all times process your personal data in accordance with UK data protection legislation and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included below.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the complaints procedure (https://www.gov.uk/government/organisations/department-for-levelling-up-housing-and-communities/about/complaints-procedure).

Personal data

The following is to explain your rights and give you the information you are entitled to under UK data protection legislation.

Note that this section only refers to personal data (your name, contact details and any other information that relates to you or another identified or identifiable individual personally) not the content otherwise of your response to the consultation.

1. The identity of the data controller and contact details of our Data Protection Officer

The Department for Levelling Up, Housing and Communities (DLUHC) is the data controller. The Data Protection Officer can be contacted at dataprotection@levellingup.gov.uk or by writing to the following address:

> Data Protection Officer
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

2. Why we are collecting your personal data

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

We will collect your IP address if you complete a consultation online. We may use this to ensure that each person only completes a survey once. We will not use this data for any other purpose.

Sensitive types of personal data

Please do not share special category (https://ico.org.uk/for-organisations/guide-to-data-protection/guide-to-the-general-data-protection-regulation-gdpr/lawful-basis-for-processing/special-category-data/#scd1) personal data or criminal offence data if we have not asked for this unless absolutely necessary for the purposes of your consultation response. By 'special category personal data', we mean information about a living individual's:

- race
- ethnic origin
- political opinions
- religious or philosophical beliefs
- trade union membership
- genetics
- biometrics
- health (including disability-related information)
- sex life; or
- sexual orientation.

By 'criminal offence data', we mean information relating to a living individual's criminal convictions or offences or related security measures.

3. Our legal basis for processing your personal data

The collection of your personal data is lawful under article 6(1)(e) of the UK General Data Protection Regulation as it is necessary for the performance by DLUHC of a task in the public interest/in the exercise of official authority vested in the data controller. Section 8(d) of the Data Protection Act 2018 states that this will include processing of personal data that is necessary for the exercise of a function of the Crown, a Minister of the Crown or a government department i.e. in this case a consultation.

Where necessary for the purposes of this consultation, our lawful basis for the processing of any special category personal data or ‘criminal offence’ data (terms explained under ‘Sensitive Types of Data’) which you submit in response to this consultation is as follows. The relevant lawful basis for the processing of special category personal data is Article 9(2)(g) UK GDPR (‘substantial public interest’), and Schedule 1 paragraph 6 of the Data Protection Act 2018 (‘statutory etc and government purposes’). The relevant lawful basis in relation to personal data relating to criminal convictions and offences data is likewise provided by Schedule 1 paragraph 6 of the Data Protection Act 2018.

4. With whom we will be sharing your personal data

DLUHC may appoint a ‘data processor’, acting on behalf of the Department and under our instruction, to help analyse the responses to this consultation. Where we do we will ensure that the processing of your personal data remains in strict accordance with the requirements of the data protection legislation.

5. For how long we will keep your personal data, or criteria used to determine the retention period.

Your personal data will be held for 2 years from the closure of the consultation, unless we identify that its continued retention is unnecessary before that point.

6. Your rights, e.g. access, rectification, restriction, objection

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

a. to see what data we have about you

b. to ask us to stop using your data, but keep it on record

c. to ask to have your data corrected if it is incorrect or incomplete

d. to object to our use of your personal data in certain circumstances

e. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at https://ico.org.uk/ (https://ico.org.uk/), or telephone 0303 123 1113.

Please contact us at the following address if you wish to exercise the rights listed above, except the right to lodge a complaint with the ICO: dataprotection@levellingup.gov.uk or

> Knowledge and Information Access Team
> Department for Levelling Up, Housing and Communities
> Fry Building
> 2 Marsham Street
> London
> SW1P 4DF

7. Your personal data will not be sent overseas.

8. Your personal data will not be used for any automated decision making.

9. Your personal data will be stored in a secure government IT system.

We use a third-party system, Citizen Space, to collect consultation responses. In the first instance your personal data will be stored on their secure UK-based server. Your personal data will be transferred to our secure government IT system as soon as possible, and it will be stored there for 2 years before it is deleted.

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Somerset Council
Pension Fund Committee

Finance and Membership Statistics 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 This report updates the committee on the position of the Pension Fund's provisional end of quarter 1 financial position at 30 June 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. Committee will recall this was due to be provided to the June meeting but was not available at that time do to delays in completing the accounts.

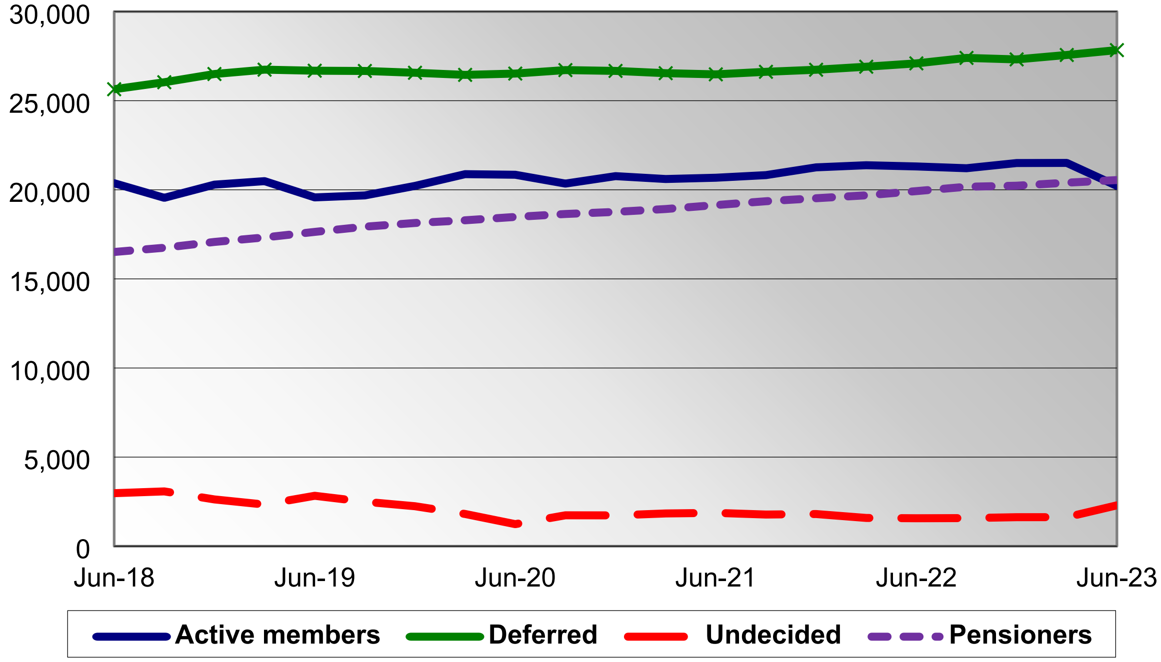
3.2 We would usually provide the quarter 1 outturn for the 2023-2024 year to 30th June 2023 at this meeting. Due to a number of issues related to the implementation of the new MSD 265 financial system officers have not been able to provide a meaningful report at this time.

4. Membership Statistics

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

	31 March	30 June	Change
Active members	21,508	20,218	**-1,290**
Deferred	27,565	27,838	**+273**
Undecided	1,630	2,293	**+663**
Pensioners	20,399	20,546	**+147**
Total	**71,102**	**70,895**	**-207**

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



5. Background Papers

None

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

Pension Fund Financial Projection

2022 - 2023

	2021-2022 Full Year	2022-2023 Full Year			2022-2023 Full Year		
	Actual (a) £m	**Budget (b)** £m	**Actual (c)** £m	**Variance (d)** £m	**Original Projection (e)** £m	**Projected Outturn (f)** £m	**Variance (g)** £m
Contributions and other income							
Contributions	117.959	122.000	122.706	0.706	122.000	122.000	0.000
Recoveries from employers	2.728	2.100	2.486	0.386	2.100	2.100	0.000
Transfer values received	11.494	9.000	9.175	0.175	9.000	9.000	0.000
	132.181	**133.100**	**134.367**	**1.267**	**133.100**	**133.100**	**0.000**
Less benefits and other payments							
Recurring pensions	-87.162	-90.000	-90.903	-0.903	-90.000	-90.000	0.000
Lump sum on retirement	-13.189	-15.000	-13.473	1.527	-15.000	-15.000	0.000
Lump sum on death	-1.994	-2.500	-2.073	0.427	-2.500	-2.500	0.000
Transfer values paid	-9.115	-10.000	-11.761	-1.761	-10.000	-10.000	0.000
Contribution refunds	-0.320	-0.600	-0.373	0.227	-0.600	-0.600	0.000
Employer exit credit	0.000	0.000	-0.355	-0.355	0.000	-0.400	-0.400
	-111.780	**-118.100**	**-118.938**	**-0.838**	**-118.100**	**-118.500**	**-0.400**
Contributions after payments	**20.401**	**15.000**	**15.429**	**0.429**	**15.000**	**14.600**	**-0.400**
Management Expenses							
Administrative expenses	-1.363	-1.550	-1.443	0.107	-1.550	-1.550	0.000
Investment management expenses	-8.511	-8.000	-9.768	-1.768	-8.000	-8.000	0.000
Oversight and governance expenses	-0.583	-0.675	-0.653	0.022	-0.675	-0.675	0.000
	-10.457	**-10.225**	**-11.864**	**-1.639**	**-10.225**	**-10.225**	**0.000**
Investment Income							
Investment income	15.601	9.750	10.914	1.164	9.750	7.000	-2.750
Net Increase / Decrease (-) in fund	**25.545**	**14.525**	**14.479**	**-0.046**	**14.525**	**11.375**	**-3.150**

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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 Reduction in the likelihood score of PF Inv 2 to reflect the 2022 valuation results.

3.2 Some cleaning of outdated things such as reference to Somerset County Council.

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.

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 measures 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. Pension Fund Committee	Failure of Pension Fund Committee to manage the fund effectively, particulalry as a result of insufficient knowledge and skills	Policies and procedures adopted by Pension Fund Committee, specifically the committee training policy	3	4	12 Amber	Undertake a review of Committee Knowledge and Skills. Follow up on Findings with revised training plan	2	4	8 Green		on-going with quarterly review		Current score is influenced by the collective experience and consistency of the Pension Fund Committee, which has had a number of changes over the last 4 years.
1. PF - Gov 2 2. Pension Fund Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with DLUHC 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. Pension Fund 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	2	5	10 Amber	The triennial 2022 valuation includes provision for restoring the fund to full funding over 16 years. The current risk score partly reflects that the fund was 95% 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 - 2025	Likelyhood score reduced to reflect the better funding level reported as part of the 2022 valuation.	This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible

1. 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 - Inv3 2. Pension Fund 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.
1. PF - Inv4 2. Pension Fund 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 meeting to 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.

Somerset Council Pension Fund Risk Register - September 2023

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		
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.

Somerset Council Pension Fund Risk Register - September 2023

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 - Admin5 2. SC 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. SC 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. SC 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
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Executive Portfolio Holder:	Not applicable
Division and Local Member:	Not applicable

1. Summary

1.1 The pension fund is required to maintain a significant number of policies and statements in accordance with the LGPS regulations. 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 (appendix 1) and if content formally adopt it.

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 1 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 The draft as presented is the same as the one considered by Committee at their June meeting before it went to consultation with the employers.

3.8 It is a requirement of the regulations that we consult the employers on amendments to the Funding Strategy Statement. The employers were sent the draft on 5th July with any feedback requested by 25th August. A small number of responses were received confirming they were happy with the draft. We received one detailed response which has been shared with Committee separately which raised some reservations.

4. Consultations undertaken

4.1 As noted above The Pension Fund Board and employers have been consulted on the draft of the Funding Strategy Statement.

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.

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.

The administering authority

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.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. 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.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. 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.

Forming/disbanding a funding pool

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

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

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

Risk-sharing

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

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.

Funding at start of contract

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

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

Contribution rate

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

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

Security

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

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

Risk-sharing

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

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

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

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

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

New academies

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

Funding at start

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

<u>McCloud/Sargeant judgments</u>

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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Somerset Council
Pension Fund Committee

Annual Report

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 is intended to give members an overview of the fund's accounts, the information within the accounts, the investment performance for the 2022-2023 financial year and related matters covered in the Fund's Annual Report.

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

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

2. Issues for consideration

2.1 The committee is asked to formally approve the Fund's annual report subject to the addition of the external auditor's opinions.

2.2 In the event of the external auditor requiring changes to the accounts prior to the provision of their opinions it is requested that the Chair be given the ability to approve these amendments on behalf of the Committee.

3. Accounts analysis

3.1 Contributions

Overall contributions from employers and employees increased by 4.02% to £122.7m. Contributions from employees grew by 8.3%, this is noticeably different from the 0.61% increase in active members and to some extent reflects higher wage growth. Employer contributions increased by 2.9%. The employer normal contributions increased by 8.5% over the previous year, similar to employee contributions as you would expect. Deficit funding decreased by 9.0%. Augmentation payments from employers decreased by 49%, following a 42% increase last year.

3.2 Recurring Pensions

Payments of pension to members increased by 4.3% to £90.9m. Pensioner numbers where higher during the year by 3.6% so the average pension value increased marginally by 0.4% to £4,535. Pensions in payment increased by 3.1% for inflation effective from 1st April 2022.

3.3 Net Additions from dealings with members

The cash flow from contributions over payments has fallen from an inflow of £20.4m to an inflow of £15.4m. This is largely due to a significant swing in the balance between transfers in and transfers out.

3.4 Administrative expenses

Administrative expense (Peninsula Pensions cost) decreased by 5.9% to £1.4m. The administration cost per member increased by 3.5% to £20.52.

3.5 Investment Expenses

Investment expense increased by 14.8% compared to the 2021-2022 figure to £9.8m. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 12.9% to 0.35p. A proportion of this will be due to more transparent disclosure.

3.6 Oversight and governance expenses

Oversight and Governance costs increased by 12.0% during the year to £0.7m. This was largely due to the extra actuarial costs associated with a valuation year.

3.7 Total Expenses

Total expenses for the fund increased by 13.5% to £11.9m. This represents a 10.9% increase in the total cost per member to £168.69 and total expenses per pound of assets fell 10.5% to 0.42p.

3.8 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 30.0% to £10.9m. This reduction was to be expected as we transferred direct holdings in coupon paying bonds for non-distributing units in Brunel pooled funds during the prior year. We expect the amount of investment income to stabilise at approximately this level now the transition of assets to Brunel is largely complete. The yield on average net investment assets fell from 0.6% to 0.4%.

3.9 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet fell by 37% to £3.1bn. The liability net of assets decreased by 88%.

3.10 Membership statistics

Total membership increased by 2.2%. Active members increased by 0.6% during the year and the number of deferred members increased 2.5%. The number of pensioners increased by 3.6% during the year. The ratio of active members for each pensioner fell to 1.05.

4. Investment Performance

4.1 Investment performance for the financial year was -1.8%. Performance for the year was above the fund's scheme specific benchmark of -4.7%. Asset allocation added 1.8% during the year, approximately half of this was due to overweight in equities and the other half the underweight to UK government Gilts and index-linked Gilts. The remaining 1.5% of difference was due to the outperformance of the fund managers collectively. There was significant outperformance in the GHA equity fund which represents the bulk of this.

4.2 Looking at longer periods the three-year return at 10.5% p.a. is healthy and considerably above the actuary's discount rate for the period. The fund outperformed its benchmark over the 3 years by 1.2% p.a..

4.3 The fund's 5-year return was 6.0% p.a., and the10 year return was 7.6% p.a..

5. Pooling savings

5.1 The annual report contains full disclosure of the costs and savings related to pooling.

5.2 For the current year fee savings amounted to £2.0m plus internal savings of £150,000 but the overall impact is reduced by Brunel fees of £1.0m. The saving for the year was £1.1m. With anticipated increases in fee savings as more private equity money moves to Brunel we should make noticeable savings of at least this level going forward.

6. Collection of contributions

6.1 Details of the effectiveness of collection of contributions from employers is disclosed in the annual report.

6.2 During the 2022/2023 financial year we collected 93.03% of contributions by value by or before due date and 98.71% by value within 10 days of due date.

7. Consultations undertaken

None

8. Financial Implications

8.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods. The next assessment is due in late 2025 using data from March 2025.

9. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2022/23.

Item 12 - Appendix A

Somerset County Council Pension Fund

Annual Report & Accounts 2022/23

County Hall, Taunton, Somerset TA1 4DY

www.somerset.gov.uk

SOMERSET
County Council

Contents

Chair's report

This annual report sets out the activities of the pension fund for the year ending 31 March 2023. It is produced to provide information for the following four groups.

- **Those responsible for managing the fund (our elected members).**
- **Those currently receiving benefits from the fund (the pensioners).**
- **Those who will receive benefits from the fund in the future (the deferred pensioners).**
- **Those who contribute to the fund (the active scheme members and employers).**

The Government has continued to work on putting in place new regulations to cover the issues noted last year relating to the McCloud court case.

The Government continues to promise consultations on a range of issues including refreshing the guidance on pooling, climate disclosures for the annual report and how the LGPS will contribute to levelling up.

Our transition to pooling was largely completed in spring 2021 with Brunel managing over 90% of our investment assets since then. The remaining un-pooled assets are mostly pre-pooling private equity investments, and these will take some years to mature and return capital to us.

Investment returns for the year, at -1.8%, were disappointing. Returns were very poor for the first quarter of the year as the market continued to digest the impact of the Russian invasion of Ukraine and the associated higher inflation. Returns then improved with each quarter with the quarter ending March 2023 producing good positive returns.

Overall, the Fund outperformed its own customised benchmark by 2.9%, with fund managers overall outperforming their own benchmarks and the fund gaining by underweighting UK Government bonds relative to our strategic long term target.

During the year, contributions paid into the scheme were greater than the pensions paid out. The net result is that before expenses and investment returns the fund grew by £15.4m. We expect this figure to continue to be positive for the current financial year.

During the year we received the results of the 2022 actuarial valuation. The last formal valuation was 2019, indicating that the funding level was 86%. The 2022 valuation indicates an improvement in the funding level to 95%. The new valuation set the employer contribution rates for April 2023 to March 2026 and details can be found later in this report.

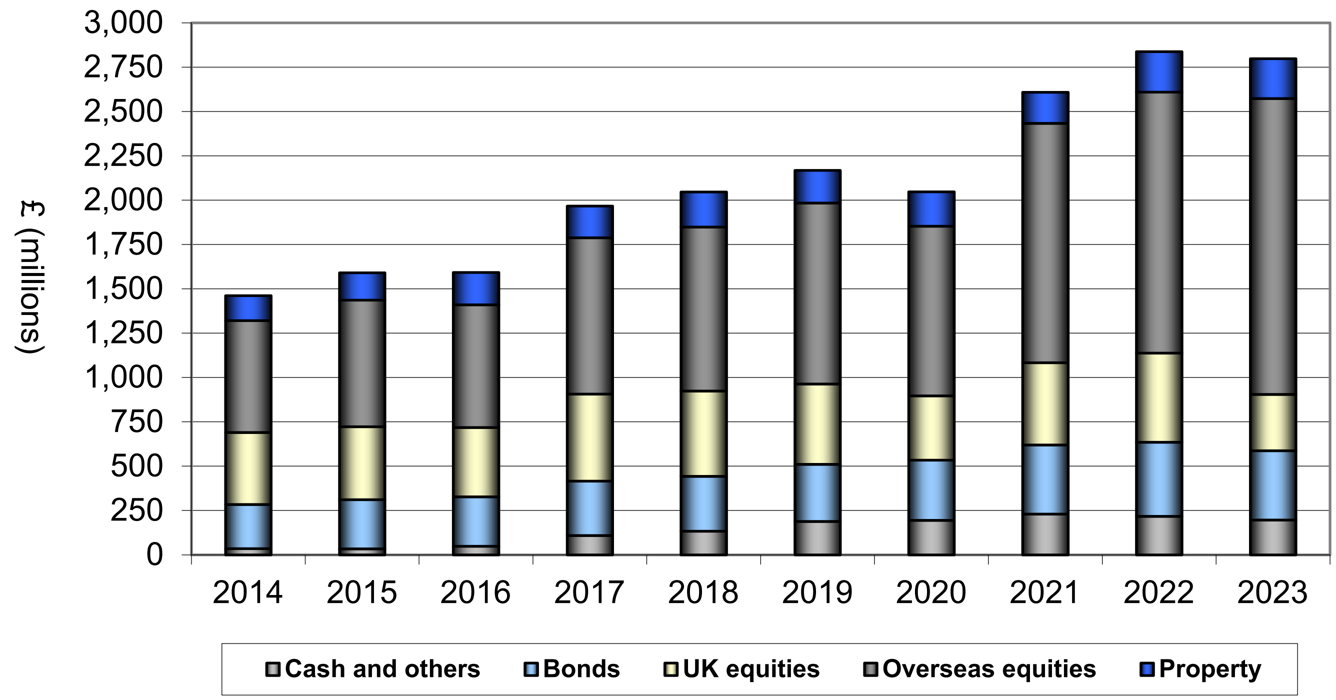
I would like to thank my fellow committee and board members for their commitment and support over the last year. I would particularly like to mention Sarah Payne, Sarah stepped down from Committee at the end of March as the UNISON appointed members representative and has served since 2004, her experience will be much missed. Finally, I would like to thank the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees.

Simon Coles
Chair of the pensions committee

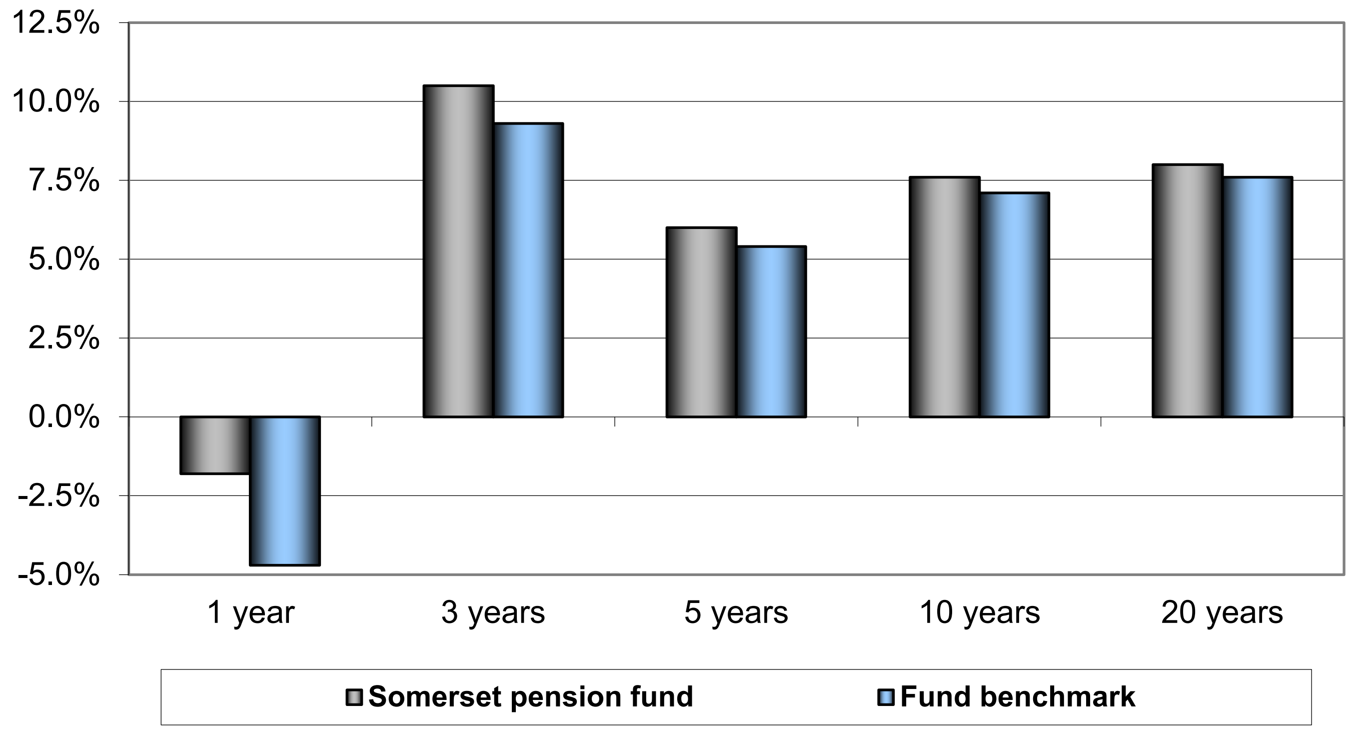
Summary of the scheme

Statistical overview

Fund investment assets



Annualised fund investment performance



Source: Somerset CC

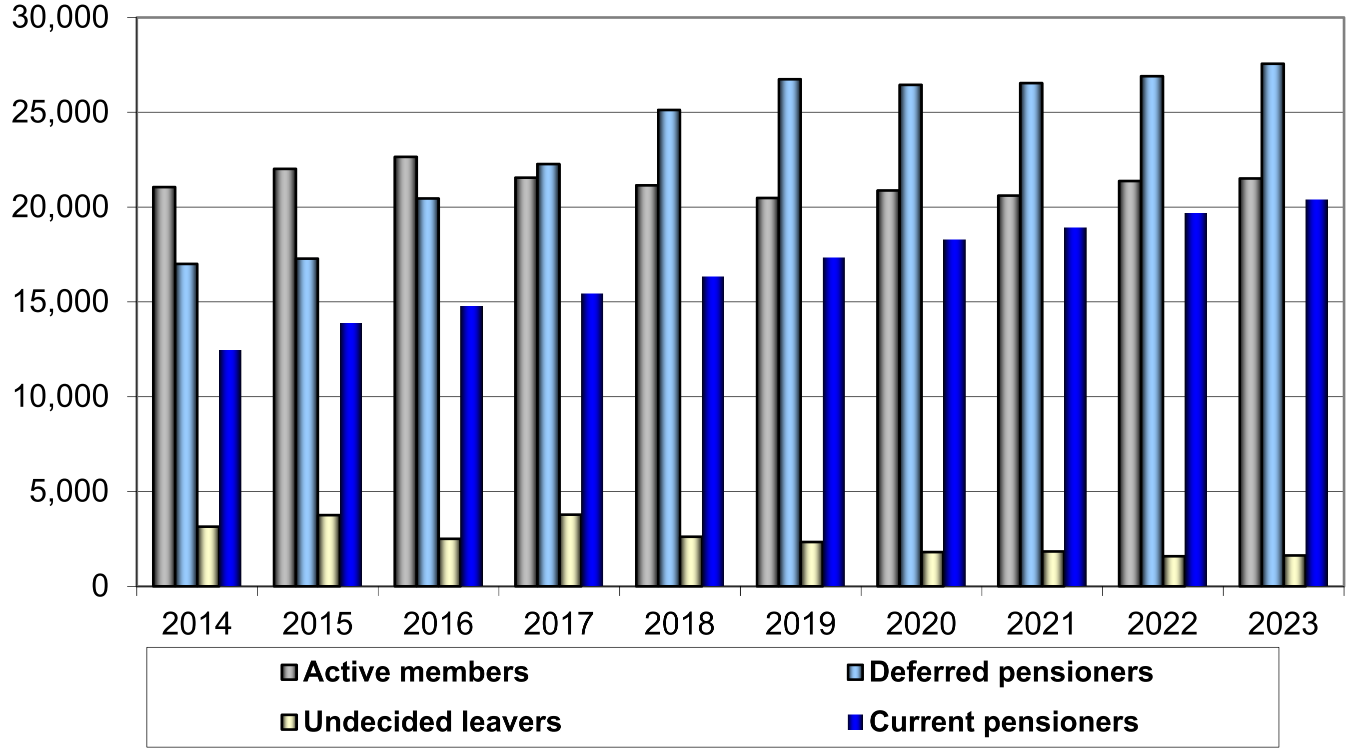
Analysis of investment assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	317.222	102.535	1,566.065	1,985.822
Fixed Interest	100.035	0.000	290.714	390.749
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	226.966	0.000	98.530	325.496
Cash	95.765	0.000	0.000	95.765
Other				0.000
Total	**739.988**	**102.535**	**1,955.309**	**2,797.832**

Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	0.000	0.000	0.324	0.324
Fixed Interest	0.000	0.000	0.000	0.000
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	7.923	0.000	0.000	7.923
Cash	2.667	0.000	0.000	2.667
Other	0.000	0.000	0.000	0.000
Total	**10.590**	**0.000**	**0.324**	**10.914**

Fund membership statistics



Employer statistics

	Active	Ceased	Total
Scheduled body	142	20	162
Resolution body	31	2	33
Admitted body	36	37	73
Total	**209**	**59**	**268**

Financial Statistics – five-year trends

	2018/2019 £ millions	2019/2020 £ millions	2020/2021 £ millions	2021/2022 £ millions	2022/2023 £ millions
Income from contributions	114.351	122.636	122.968	132.181	134.367
Spending on benefits	-102.191	-111.516	-114.496	-111.780	-118.938
Contributions less benefits	**12.160**	**11.120**	**8.472**	**20.401**	**15.429**
Management Expenses	**-7.956**	**-8.175**	**-9.134**	**-10.457**	**-11.864**
Investment income	45.712	33.203	19.031	15.601	10.914
Change in value of investments	70.521	-159.714	544.893	200.479	-54.176
Net return on investments	**116.233**	**-126.511**	**563.924**	**216.080**	**-43.262**
Change in net assets	**120.437**	**-123.566**	**563.262**	**226.024**	**-39.697**

Value for money statistics

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Administration expenses (£m)	1.170	1.285	1.270	1.363	1.443
Investment management expenses (£m)	6.178	6.228	7.183	8.511	9.768
Oversight and governance expenses (£m)	0.608	0.662	0.681	0.583	0.653
Total expenses	**7.956**	**8.175**	**9.134**	**10.457**	**11.864**
Administration expenses per member	17.71	19.13	18.77	19.83	20.52
Total expenses per member	120.46	121.73	134.99	152.14	168.69
Investment expenses (p) per £ of assets	0.29	0.30	0.31	0.31	0.35
Total expenses (p) per £ of assets	0.38	0.39	0.39	0.38	0.42

Member numbers are the average of the opening and closing membership for the year.

Asset numbers are the average of the opening and closing investments assets for the year.

Other Statistics

	2018/2019	2019/2020	2020/2021	2021/2022	2022/2023
Income yield on average assets	2.23%	1.60%	0.82%	0.57%	0.39%
Average pension in payment (£)	4,518	4,586	4,531	4,515	4,535

Pensions committee

Somerset County Council, the administering authority for the pension fund, has delegated its responsibility to manage the fund to the pensions committee under the county council's constitution.

The pensions committee meets regularly to consider all aspects of the administration of the fund. In line with legal regulations, they get advice from professional advisors, the fund's managers and officers, as necessary. The pensions committee makes decisions about the fund's overall policy and investment strategy, taking account of the professional advice it has received.

The following committee was in place during the 2022-23 financial year.

Simon Coles (Chair)

Simon is one of the four county council representatives on the committee and is the councillor for Taunton East. Simon joined the committee in May 2017. Simon became the Chair of the Committee in May 2022.

John Cook-Woodman

John is one of the four county council representatives on the committee and is the councillor for Highbridge and Burnham South. John joined the committee in May 2022.

Habib Farbahi

Habib is one of the four county council representatives on the committee and is the councillor for Comeytrowe and Trull. Habib joined the committee in May 2022.

Peter Seib

Peter is one of the four county council representatives on the committee and is the councillor for Brympton. Peter joined the committee in May 2022.

Ross Henley (district councils' representative)

Ross represents the four district councils that are members of the fund. Ross is a district councillor and member of the Executive Committee of Somerset West and Taunton Council with responsibility for planning policy and transportation. Ross joined the committee in May 2019.

Paul Butler (police representative)

Paul represents the Police and Crime Commissioner for Avon and Somerset on the committee. Paul is the Chief Finance Officer for the Police and Crime Commissioner for Avon and Somerset. Paul joined the committee in September 2020.

Sarah Williams (represents other employers)

Sarah represents all of the employers except those specifically covered by another committee member. Sarah is the Business Manager for Frome Town Council.

Sarah has been a member of the pensions committee since May 2022.

Sarah Payne (employees' and members' representative)

Sarah is the employees' and members' representative on the pensions committee. Until 2011 she was employed by the county council as their Extended Schools Services Manager within the Children and Young Person's Directorate and during her career she worked in a variety of roles and directorates, giving her a wide range of experience of local-government services. She is now a pensioner member of the fund. Sarah is also a retired member of the trade union UNISON who support her position as employees' and members' representative on the committee. Sarah joined the pensions committee as the members' representative in 2004.

As well as the committee members, an independent advisor and officers attend all committee meetings.

Independent advisor – Caroline Burton

After graduating from Oxford University, Caroline joined Guardian Royal Exchange plc in 1973 as a trainee investment analyst. She moved from analysis to portfolio management and became manager of international investments in 1978. In 1987 she became Managing Director of the newly incorporated Guardian Asset Management. She joined the board of Guardian Royal Exchange plc as the Executive Director for Investment in 1990, a post she held until the company was taken over by AXA in 1999. Caroline currently advises a number of pension schemes.

Caroline has been the independent advisor to the pensions committee since 2002.

Officer – Jason Vaughan

The lead officer of the Fund, as covered by the Fund's scheme of delegation has specific responsibilities although much of the day to day work is delegated. The lead officers for the Fund is Jason Vaughan (Director of Finance). Jason has been the lead officer since March 2020.

The work the committee has done this year

During the financial year 2022-2023, the committee formally met four times. At each of these meetings (quarterly) the committee received a report on the investment performance of the fund for the previous quarter and any related information, an update on the committee business plan and workplan, an update on the fund's risk register and an update on the budget and membership statistics of the fund. They also receive an update on the status of all outstanding matters relating to the performance of the administration provided by Peninsula Pensions. Every September, the committee receive a report on the investment returns for the previous financial year and approves the annual report.

In addition to the above, at each of its meetings the committee has discussed the future investment arrangements of the LGPS and the Government's guidance that we Pool our investments with other LGPS Funds. The pool that the Somerset Fund has chosen to join is called the Brunel Pension Partnership's (BPP). The Somerset Fund is part of BPP along with 9 other like-minded LGPS Funds, loosely based in the South West of England. More detail on BPP and its progress towards pooling can be found later in this annual report.

Following on from a decision by the secretary of state the 4 district councils and the county council in Somerset will be amalgamated to form a single unitary council from 1st April 2023. The Committee received an update on the implications of this change for the pension fund at each meeting.

Committee training

As part of the fund's training policy, the committee members are committed to developing their skills and knowledge in relation to the pension fund. We have encouraged our members to attend appropriate outside training events and conferences. With this being the first year following Council elections committee contained a significant number of new members so the emphasis for the year was induction training and assessing the levels of knowledge to inform future training.

The table below shows how many formal meetings, informal meetings and training events committee members attended this year.

	Committee meetings	Induction training	Brunel Engagement Event	Conference days
Number of meetings	4		1	
Committee members				
Simon Coles (Chair)	4	NA	0	2
John Cook-Woodman	4	1	0	0
Habib Farbahi	4	1	0	0
Peter Sieb	3	1	0	0
Ross Henley	0	NA	0	0
Paul Butler	3	NA	0	0
Sarah Woodman	2	1	0	0
Sarah Payne	4	NA	1	0
Independent advisor				
Caroline Burton	3			

Risk management

The committee takes the management of risks within the fund seriously. To this end the fund has developed a risk register which is considered and updated as necessary at each of the quarterly Pensions Committee meetings. A copy of the current risk register, which shows the fund's key risks and the actions to mitigate those risks, can be found with all of the other committee papers on the Somerset Council website, there is a link on the last page of this annual report. As at 31 March 2023 the key risks on the risk register were:

- Failure of Pensions Committee to manage the fund effectively, particularly as a result of insufficient knowledge and skills.
- Risk of Regulatory change:
    - Implementation of change risks
    - Consequences of change risks
- The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.
- The pension fund has insufficient available assets to meet its long-term liabilities.
- Under performance of pensions investments due to ESG factors, including climate change.
- Failure of Brunel to deliver either fee savings or investment performance.
- Insolvency of the fund's Global Custodian.
- Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.
- Legal challenge to fund, particularly in respect of the payment of pension benefits.
- Fraud, corruption, or error either within investment assets or benefits administration.
- The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.
- Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.
- Resilience of IT including a breach of cyber security.
- Civil contingency event.

In addition to the risk register, how the fund manages and aims to mitigate the funding risk and investment risk are dealt with in more detail in the Funding Strategy Statement and the Investment Strategy Statement respectively. Copies of each of these statements can be found later in this annual report. These are supported by monthly monitoring of investment exposures, risk and performance by officers and quarterly reporting to committee. The management of investment exposures, risk and performance includes the risks associated with holding financial instruments and further details regarding these exposures and the management of these risks in the financial statements, which can be found later in this annual report.

The management of third party risk such as late payment of contributions, or error and emissions by investment managers or custodian is managed through a robust set of internal controls and reconciliations.

Financial management

The pensions committee undertakes management of the financial affairs of the fund through a number of regular items at Pensions Committee meetings.

To manage the investments the Committee receive a specific paper on the returns achieved by each fund manager quarterly and the return of the fund as a whole along with relevant benchmark information. Annually the committee receive more detailed reports on the performance of the whole fund.

To manage the other financial aspects of the fund the committee agree a financial projection for the forthcoming financial year and then receive quarterly outturn reports and updated projections for the full year. A copy of the of the most recent investment returns report and the current financial projection report can be found with all of the other committee papers on the Somerset Council website, there is a link on the last page of this annual report.

Exercise of shareholder rights at company meetings

The fund is committed to the responsible use of its rights as a shareholder in companies. In particular we are committed to voting at company meetings wherever this is practically possible.

For those funds managed by external fund managers, they are responsible for deciding how the fund votes. Each of the external fund managers have written guidelines on how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Typically these policies will, to varying degrees, adhere to the principles and best practice guidelines of the various legislation, city codes of conduct and policies of trade bodies such as the Association of British Insurers.

For those funds managed by Brunel, they are responsible for deciding how the fund votes. Brunel has a number of policies governing how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Full details of Brunel's policies and how they have voted on the Fund's behalf are available on their website.

Pension board

Under the Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 Each LGPS fund was required to set up a Pension Board to assist the administering authority (the Pensions Committee) in the running of the fund.

Under the legislation the Board must have equal representatives of Employers and Members.

The following board was in place during the 2022-23 financial year.

Employer representatives

Anne Hills (Chair)

Anne is an employer representative on the Board and is a Councillor on Frome Town Council. Anne joined the Board in December 2021.

Rachel Ellins

Rachel is an employer representative on the Board and is the Strategic Manager HR Admin. And Payroll Services for Somerset County Councillor. Rachel joined the Board in December 2021.

Liz Leyshon

Liz is an employer representative on the Board and is a Somerset County Councillor. Liz joined the Board in September 2022.

Andy Sully

Andy is an employer representative on the Board and is a Somerset County Councillor. Andy joined the Board in May 2022 and stood down in September 2022.

Member representatives

Nigel Behan

Nigel is a nominated union representative from UNITE. He is a transport project support officer for Somerset County Council. Nigel joined the Board in September 2017.

Roderick Bryant

Roderick is a deferred member of the fund. Roderick joined the Board in February 2022.

Anthony White

Antony is a deferred member of the fund. Antony joined the Board in February 2022.

The work the board has done this year

During the financial year 2021-2022 the board met three times. The Board mostly concentrated on scrutinising the regular work and reports of the Committee.

Board training

As part of the fund's training policy, the board members are committed to developing their skills and knowledge in relation to the pension fund. We have encouraged our members to attend appropriate outside training events and conferences.

The table below shows how many formal meetings, informal meetings and training events board members attended this year.

	Board meetings	Induction training	Brunel Engagement Event	Conference days
Number of meetings	4		1	
Committee members				
Anne Hills (Chair)	4	NA	1	2
Nigel Behan	4	NA	0	0
Roderick Bryant	4	NA	1	4
Rachel Ellins	3	NA	0	0
Mark Healey	0 of 1	NA	0	0
Liz Leyshon	0 of 2	1	0	0
Andy Sully	1 of 1	1	0	0
Antony White	3	NA	0	0

Pension fund administration

In accordance with the Pension Fund’s scheme of delegation, a copy of which can be found later in this annual report, the Pensions Committee delegate most of the day to day work of the scheme to officers of Somerset County Council or to Peninsular Pensions, a shared service with Devon County Council. This section details this work.

Investment administration and accounting

The administration of the investments, which includes the monitoring of, and reconciling with, the fund’s custodian and external fund managers, is undertaken by the investments team of Somerset County Council.

The accounting for the investments of the fund is also done by the investments team.

The team also report on all investment matters to the Pensions Committee and Pension Board.

Accounting for contributions and benefits

The monitoring and accounting of contributions received from employers is done by the corporate accounting team of Somerset County Council. The corporate accounting team also account for the benefits payments and undertake some other accounting tasks for the fund.

During 2021/2022 financial year (prior year comparative in brackets) there were 202 (146) instances of late payment of contributions by employers, making up 9.25% (6.81%) of payments due. The corresponding figures for more than 10 days beyond due date were 81 (23) instances and 3.71% (1.07%) of payments due.

Instances of failure to pay by the due date were spread over 58 (43) employers.

Based on average monthly contributions from employers it is estimated that by value 93.03% (94.74%) of contributions were received on or before due date and 98.71% (99.56%) within 10 days of due date.

Under the Regulations the Administering Authority is entitled, but not required, to charge interest on late payments at 1 per-cent above base rate. During the 2022/23 financial year no interest was levied on any employer for late payment. The use of this sanction is constantly reviewed.

Membership administration

Membership administration involves all the tasks necessary to maintain the records of each of the members of the fund, be they active members (those currently paying in contributions), deferred (have paid into the fund in the past but are not currently contributing or drawing a pension) or pensioners.

Peninsula Pensions was formed in 2013 as a shared pension administration service, with Devon County Council acting as lead authority, for the provision of the Local Government Pension Scheme (LGPS) administration for the Devon County Council and Somerset County Council administering authorities.

Peninsula Pensions also administers the Police Pension Schemes for Avon and Somerset Police and the Firefighters Pension Schemes for Gloucestershire Fire and Rescue Services.

Key functions provided by the service include:

- guidance and information as to how pension legislation affects employers and their employees;
- guidance and information to individual members in respect of pension issues that will fundamentally affect their living standards, involve complex regulations and will often be in emotional circumstances e.g. death of a partner;
- calculation of individual pension benefits;
- payment of pensions; and
- adherence to HRMC and other regulatory bodies requirements including completion of all statutory returns

Value for money

Peninsula Pensions is committed to delivering a high quality, effective and efficient pensions administration service. We aim to ensure that all of our customers' needs and requirements are met, while delivering value for money for all of our members and employers.

Our vision

Our vision is to be a provider of efficient and cost-effective pensions administration, utilising technology to deliver service improvement, developing training modules to ensure that staff are trained and developed, similarly providing effective training and communication for members and employers alike.

We also aim to ensure that information is readily available to members and employers by developing the existing self-service and website functionality.

Our objectives

We aim to achieve our mission through experienced, well trained pensions administrators driven to deliver a reliable and professional service, whilst demonstrating excellent customer care.

We will develop training modules to enable continuous improvement and development of staff across the service at all levels.

We will make best use of technology to enable an efficient and cost-effective service, providing direct access online to as much information as possible through our Member and Employer self-service facilities via our online portal/website.

We will use technology to improve member and employer communications and learning, and will develop training modules to enable more flexible communication to a wider audience.

We also strive for Continuous improvement in service delivery and high levels of employer and member satisfaction.

Summary of activity

The team maintained a high level of performance throughout 2022/23 and has continued with the ways of working introduced as a result of the COVID19 pandemic, with new hybrid working arrangements put into place in October 2022.

The team is headed up by Rachel Lamb, Head of Peninsula Pensions, and is split across three specialist functions, as set out on the following pages:

Member services

This function is headed up by Natalie Taylor, Member Services – Strategic Lead, and covers all areas of member services for LGPS, Police and Fire schemes.

The member services teams provide a full pension administration service for scheme members, including:

- processing LGPS retirement calculations and estimates, including retirements of the grounds of ill-health, redundancy, efficiency, early and age retirements;
- processing LGPS benefit calculations in respect of deaths-in-service, deaths of pensioners and the deaths of deferred members;
- setting up new fund members;
- processing leaver notifications;
- calculation of cash equivalent transfer values (CETVs) for divorce proceedings, pension sharing and earmarking orders;
- processing the transfer-in of pension rights accrued with a previous employer or pension provider;
- processing the transfer-out of pension benefits to an external employer or pension provider;
- processing refunds of member contributions;
- administration of Additional Pension or Additional Voluntary Contributions; and
- processing notifications such as changes of address, hours and marital status.

Employer liaison and communication

This team is headed up by Shirley Cuthbert, Employer and Communications – Strategic Lead, and is responsible for all client management aspects of the fund's employers.

Some of the key areas covered by the team are:
- client management;
- employer engagement, training and support;
- monitoring and review of employer performance data;
- administering the process for admitted bodies and new employers;
- improving and developing communications with employers and members;
- increasing the use of self-service portals and the website;
- Responsibility for incoming and outcoming post and subsequent distribution (First Response Team);
- Responding to all enquiries from LGPS fund members via a variety of communication methods; and
- Responsibility for producing and monitoring the Pension Admin Budget.

Technical and compliance

This function is headed up by Alexander Thompson, Technical and Compliance – Strategic Lead, and is responsible for ensuring that Peninsula Pensions operates in full compliance with legislation and regulations, and that our internal processes are efficient, effective and secure.

Some of the key areas covered by the team are:
- pensioner payroll – responsibility for the complete monthly and annual payroll cycles across schemes, ensuring all pensioners are paid accurately, at the right time with the correct tax codes applied. Additional responsibilities cover annual P60s and pension increases; HMRC statutory reporting; and Real Time information (RTI) shared with HMRC;
- systems development – responsibility for managing the pension database and Member Self-Service area for Peninsula Pensions. This includes implementation and testing of new system developments; generating reports as required by employers, pension fund accounts, and actuaries; loading various electronic data interfaces from all employers; and production of bulk documentation for members ie annual benefit statements; and
- technical and training, which includes:
  - procedure notes and training;
  - training and accreditation programme for staff;
  - quality assurance scheme for accredited staff;
  - technical queries; and
  - administering the Annual Allowance exercise and other projects including McCloud Remedy.

Some of the key activities undertaken by the team during 2022/23 are set out below:

Data improvement/management plan

We are currently reviewing our plan to ensure actions are in place relating to ongoing data quality improvements and data readiness for the Pension Dashboard. As part of the plan to date, the following activities have been undertaken:

Employer Historic membership data review*
Peninsula Pensions have continued to work with scheme employers to complete a historic membership data review and sign off for all scheme membership data. Data was provided to scheme employers for review and sign off before employers moved to monthly data submissions. The benefits of this exercise will be seen via a reduction in the number of queries in respect of historic data with scheme employers, which will lead to efficiencies in the processing of scheme member benefit calculations. The completion of this exercise will also help to facilitate an easier implementation of the McCloud remedy and Pensions Dashboard (see below).

Member Tracing
Peninsula Pensions have engaged with an external company to assist with tracing members, particularly deferred members, that have changed address and unfortunately not informed the team.

The Pension Regulator annual data score return
The Pensions Regulator data score shows the percentage of members in the scheme that we hold full data for as outlined below. Separate scores are provided for common data and scheme-specific data.

For the year 22/23 Peninsula Pensions achieved the following for the Somerset LGPS:

- Common data score: 95.5 %
- Scheme-specific data score: 96.6%

Common data includes sex, date of birth, pensionable service dates and expected retirement. Scheme specific data includes the scheme type, structure and design, member status and events that have taken place during membership.

Note: These scores confirm a presence of data on specific data views only, the accuracy of which is verified under other methods, for example as above*/ data checker tools (part of triennial valuations/internal quality assurance).

Member Self-Service (MSS)

Peninsula Pensions has continued to promote the benefits of Member Self-Service (MSS) over the year, following the positive results experienced during the pandemic.

MSS allows members to view all of their pension information online, calculate estimates of their benefits, update personal information and to send and receive documentation to and from Peninsula Pensions. It has proved to be a much more effective, secure, and efficient method of communication than traditional postal services.

Peninsula Pensions have volunteered to become 'early adopters' with the new MSS updated 'Transformational Member Experience' online portal in 23/24.

As at 31st March 2023 over 82% of scheme members have access to MSS, with less than 18% electing to opt out of the service.

If you have not yet registered for MSS and are interested in finding out the benefits of doing so, please visit Peninsula Pensions' for more information and details on how to register.

Online refunds (Member Self Service)

A further development within the MSS facility is to allow members to generate their own refund of pension contributions online. This allow the member to sign relevant forms online and claim their refund accordingly, prior to Peninsula Pensions authorising the final payment. This is a more efficient processing of members benefits and saves time for both the member and the team within a secure environment.

Employer monthly interface tool

Peninsula Pensions successfully introduced a new employer monthly interface tool in February 2023, providing for further checks on data accuracy, efficiency, and automation of data between employers and Peninsula Pensions. This saves time for the team with the automation, and by receiving data on a monthly basis, increases the accuracy and timeliness of information received from employers as part of the Data management/improvement plan.

Immediate Payments - ALTAIR pensioner payroll module

This development was introduced in January 2023 and provides for a clear separation of duties between the team calculating members pension benefits, and the team making the subsequent payments. The development has negated the need for a third-party payment system, hence reducing risks with both input and financial coding, and increasing accuracy and timeliness of payments for members.

McCloud and Sargeant Judgements

In 2018 the Court of Appeal ruled that protections introduced for older members of the Judges' and Firefighters' Pension schemes, as part of public sector pension reforms in 2014 and 2015, unlawfully discriminated against younger members. The remedy to address this discrimination will be applied to all public sector pension schemes, including the LGPS. Anyone affected by the discrimination will be offered an appropriate remedy to ensure that they are placed in an equivalent position to protected members.

Peninsula Pensions have a Project Team in place and have been making preparations in advance of the implementation date with regards to ensuring understanding of requirements, data readiness and resource levels needed.

The Government has confirmed that members who qualify for this protection do not need to make a claim for the changes to apply to them. Peninsula Pensions will contact any members that will be affected by the remedy in due course. More information about judgment and the impact of the remedy can be found here:

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/1146603/LGPS_McCloud_factsheet.pdf

Pension Dashboard

The team have been engaging with software providers, and webinars to ensure both readiness of data and ISP (Integrated Service Provider) to comply with the implementation date. The team have been focusing on ensuring that member data along with deferred and amalgamation cases are in a better position in preparation for the introduction of the Pension Dashboard.

Key administration performance data

Administration performance

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

Peninsula Pensions' internal service standard target is currently being reviewed along with the Pension Administration Strategy.

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

Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for 2022/23 was 89%, an improvement on the 2021/22 year, despite increased demand, and difficulty with recruitment to team vacancies.

The lower-than-expected performance is in part due to delays in responses to member information requested from employers. The team has continued to work with employers to implement improvements in this area.

The tables below provide a detailed breakdown of administration performance relating to the Somerset Pension Fund only against the internal targets and Disclosure Regulations for the financial year ending 31st March 2023.

The table below provides an overall summary of performance.

	Cases completed	Performance (disclosure regs)
High priority procedures	7,580	94%
Medium priority procedures	10,399	87%
Low priority procedures	3,581	87%
Total	**21,560**	**89%**

The table below provides additional detail on high priority procedures.

	Cases completed	Performance (disclosure regs)
Changes	1,324	98%
Complaints (member)	81	100%
Complaints (employer)	2	100%
Deaths	645	78%
Deferred (over 55)	631	86%
Payroll	1,466	97%
Refunds	935	100%
Retirements (active)	904	91%
Retirements (deferred)	1,592	93%
Total	**7,580**	**94%**

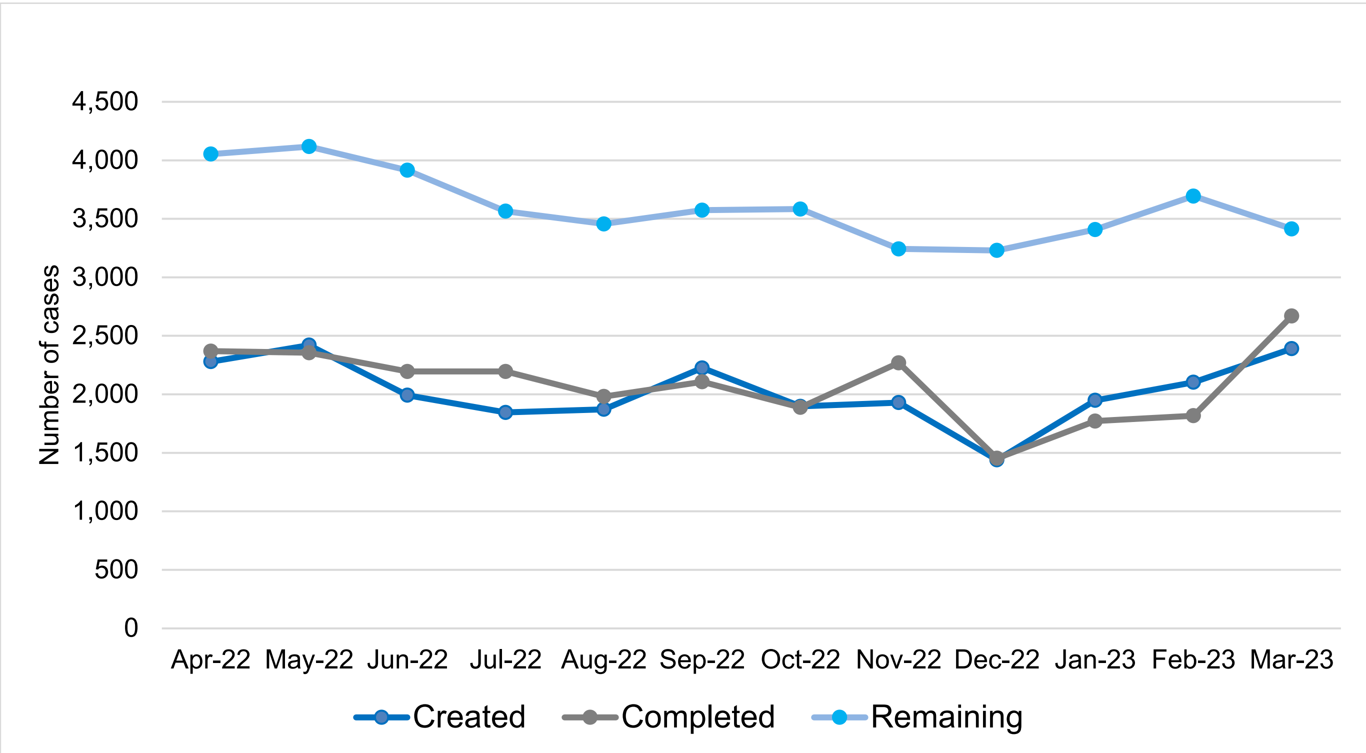
The table below provides additional detail on medium priority procedures.

	Cases completed	Performance (disclosure regs)
Amalgamation of records	1,633	62%
Deferred benefit calculations	2,602	64%
Divorce calculations	186	94%
Employer queries	664	66%
Estimates (bulk)	0	-
Estimates (employer)	42	100%
Estimates (member)	130	95%
General	1,722	99%
HMRC	67	100%
Member self-service	3,353	100%
Total	**10,399**	**87%**

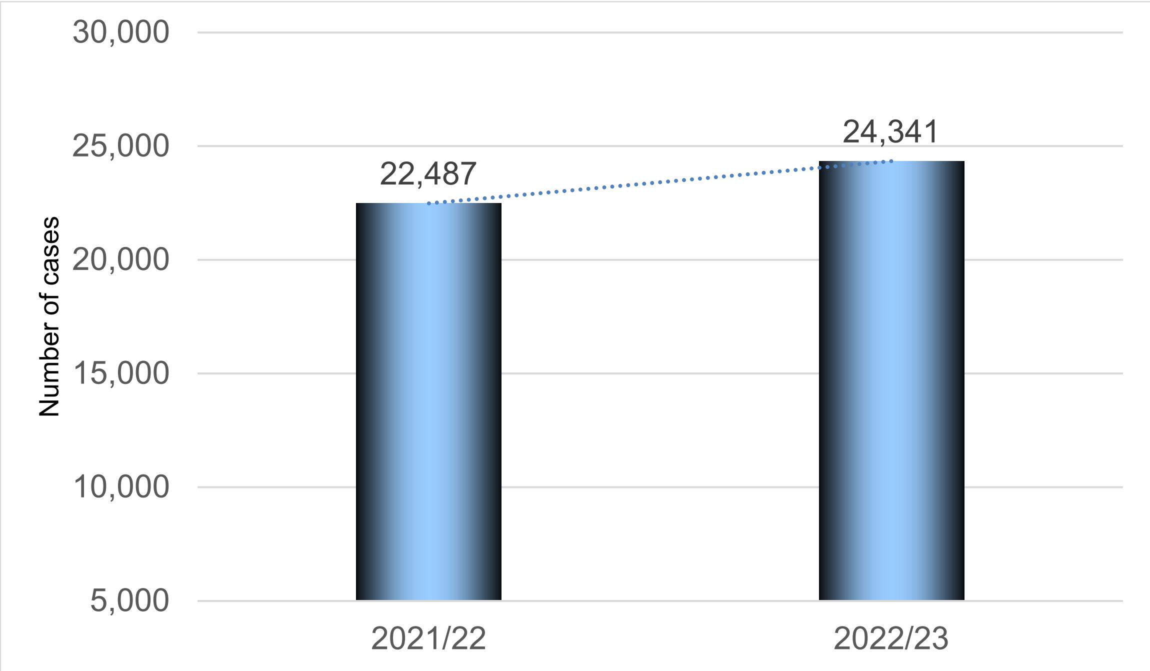
The table below provides additional detail on low priority procedures.

	Cases completed	Performance (disclosure 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	1,747	93%
New starters	1	100%
Pension transfers in	265	93%
Pension transfers out	285	84%
Total	**3,581**	**87%**

The graph below highlights the overall performance of Peninsula Pensions (Somerset Fund only) for the year ending 31st March 2023.



The graph below shows the work received (created) over the 22/23 year compared to the 21/22 year:



Financial Indicators

For the financial year 2022/23, the costs of providing a pension administration service equated to £19.00 per fund member (compared with £18.31 for 2021/22). The slight increase in costs is as a result of the team being close to fully resourced throughout the year.

Our pension payroll costs per pensioner for the same period equated to £5.38 per pensioner (compared with £5.81 for 2021/22).

Staffing indicators

As at 31st March 2022, Peninsula Pensions employed 71.50 full-time equivalent members of staff (including staff providing administration services to non-LGPS clients under external service level agreements). For the LGPS only, this equates to approximately 3,162 fund members for every full-time equivalent member of staff (compared with 3,383 for 2021/22).

Other Information

A further analysis of new pensioners for the Somerset Pension Fund during 2022/23 is set out in the table below:

Pensioner category	**Number of new pensioners**
Ill-health retirement	39
Early retirement	780
Normal retirement	235
Total	**1,054**

National Fraud Initiative

Peninsula Pensions also participates in the National Fraud Initiative (NFI) which is a biennial data matching exercise conducted by the Cabinet Office. It contributes to the security and transparency of public sector finances by assisting in the prevention and detection of fraud.

Pension data was submitted through the web portal in 2022 and data match reports included the following:

- Active pensioners with Department for Work and Pensions (DWP) deceased records, to identify cases where we might be continuing to pay someone who has died; and
- pensioners with payroll records for public sector bodies to identify cases where pensions need to be considered for abatement.

During the 2022 exercise, match reports were reviewed, and additional information sought as necessary. The NFI did not identify and evidence any additional ‘matched’ pensioners who had died, where the pension administrators had not already been informed of their death or notified through monthly mortality reports. There were therefore no overpayments / recoveries /suspected fraud cases identified that need to be reported on.

Compliments, complaints and internal dispute resolution procedure

The LGPS has a 2-stage dispute resolution procedure. For stage 1 appeals relating to a decision or action by the member's employer, the dispute is dealt with by the nominated person for that employer. All other disputes are dealt with by the Head of Peninsula Pensions. If the member is not happy with the decision made at Stage 1 then they can move to Stage 2 where the issue will be looked at afresh by the Director of Finance of Somerset County Council. If the member is not happy with the decision made by the Stage 2 panel they can take their case to the Pensions Ombudsman for a final decision.

The table below shows a summary of the number of compliments, complaints and formal complaints under the provision of the IDRP (Internal Dispute Resolution Procedure) received during 2022/23.

	Total
Compliments	74
Formal complaints (IDRP Stage 1)[1]	4
Formal complaints (IDRP Stage 2)[2]	1
Other complaints[3]	78

[1] Two of the IDRP Stage 1 complaints were against decisions made by the administering authority. One complaint was upheld. The other two IDRP Stage 1 complaints were against decisions made by scheme employers.

[2] Any complaint that cannot be resolved under Stage 1 of the IDRP may be escalated to Stage 2. The one Stage 2 complaint was against decisions made by a scheme employer in respect of ill health retirement. None of the IDRP Stage 2 complaints were against decisions made by the administering authority.

[3] All other complaints were successfully resolved in-house and did not escalate to a formal complaint under provision of the IDRP.

Pension payroll

Pensioner payroll services were provided by Peninsula Pensions.

Audit

All of the teams above are subject to regular internal audit review of processes and internal controls as well as review by external audit as part of their audit of the accounts of the fund.

The internal audit work for Somerset County Council and is provided by the South West Audit Partnership.

The internal audit work for Peninsula Pensions is provided by Devon Audit Partnership.

Two of the reports relating to Audits of Peninsula Pensions during the 2022/2023 financial year resulted in no recommendations – these reports related to 'Transfers out of pension benefits', and 'LGPS refunds 5-year rule'. This gave the team the top level of reassurance around internal processes on both of these areas.

External audit work on all areas of the Fund is undertaken by Grant Thornton.

In addition to the audit work undertaken on the directly controlled operations of the Fund by auditors, the Fund requests from its external fund managers and the global custodian reports undertaken by audit companies on the robustness of their internal control environments.

Audit findings are reported regularly to the Somerset County Council Pensions Committee and Pension Board.

Asset pooling

Background

Since 2015, we have been working with nine other Administering Authorities to implement the Government's requirement to pool the management and investment of our assets with other Local Government Pension Scheme (LGPS) Funds.

The 2015 LGPS Investment Reform Criteria and Guidance set out how the Government expected LGPS funds to establish asset pooling arrangements and the objectives from pooling including: benefits of scale, strong governance and decision making, reduced costs and excellent value for money, and an improved capacity and capability to invest in infrastructure.

We established the Brunel Pension Partnership in conjunction with nine other LGPS Funds to meet this Government guidance and the requirements of the LGPS (Management and Investment of Funds) Regulations 2016. We launched our pooling delivery operator, the Brunel Pension Partnership Ltd (Brunel Ltd) on 18 July 2017 as a new company wholly owned by the ten Administering Authorities, including Somerset County Council Pension Fund. We own a 1/10th shareholding in Brunel Ltd.

Brunel Ltd obtained authorisation from the Financial Conduct Authority (FCA) in March 2018 to act as an investment manager and an investment advisor. Brunel Ltd met the Government's requirement for the Pool to become operational from April 2018 and the transition of assets to start.

Brunel Ltd is responsible for implementing our detailed Strategic Asset Allocation and those of its other nine partner Funds by providing and implementing a suitable range of outcome focused investment "portfolios". In particular, it researches and selects the professional external investment managers responsible for making the day to day investment decisions on the portfolios. In some cases, a portfolio will have a single external manager who provides the fund structure for a portfolio. In other cases, Brunel Ltd will allocate to a number of different externally managed funds. For active equities, Brunel Ltd has sponsored the creation of an authorised contractual scheme (ACS), in conjunction with an external fund operator (Fundrock), as this structure in these markets offers significant cost and tax benefits. Brunel Ltd is the investment manager of the ACS.

Importantly, Somerset County Council, through the Pensions Committee, retains the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by Brunel Ltd. We are also able to, and actively do, suggest new portfolios to Brunel Ltd and engage with Brunel Ltd on the structure and nature of existing portfolios.

Governance and oversight

The Somerset County Council Pension Fund is both a shareholder and a client of Brunel Ltd and as a client, we have the right to expect certain standards and quality of service. A detailed service agreement has been agreed which sets out the duties and responsibilities of Brunel Ltd, and our rights as a client. It includes a duty of care of Brunel Ltd to act in its clients' interests.

The Pension Committee recognises that the governance of the partnership is of the utmost importance to ensure our assets are invested well and our needs and those of our beneficiaries are protected. We have ensured that governance controls exist at several levels within Brunel Ltd as follows:

- As shareholders in Brunel Ltd, we entered into a shareholder agreement with the company and the other shareholders. This gives us considerable control over Brunel Ltd – several matters, including significant changes to the operating model, are special reserved matters requiring the consent of all shareholders, with other reserved matters requiring agreement across a majority of shareholders. Each of the ten participating Pension Funds has a1/10th shareholding in Brunel Ltd.
- An Oversight Board comprising representatives from each of the Funds has a primary monitoring and oversight function. Meeting at least quarterly, it reviews and challenges papers from Brunel and interrogates its management. However, it cannot take decisions requiring shareholder approval, which are remitted back to each Fund individually. Sarah Payne (pensions committee member) represents the Fund on this Board. Two members representing Pension Fund members from the participating Funds also attend Oversight Board meetings.
- The Oversight Board is supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Funds, but also drawing on finance and legal officers from time to time. It has a leading role in reviewing the implementation of pooling by Brunel, and provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. Client Group is also supported by a number of sub-groups, to delve deeper into detail. Anton Sweet represents the Fund and is co-vice chair of the overall client group, he also sits on the strategy and governance, finance and investments sub-groups. We also attend other sub-groups such as the operations or responsible investment sub-groups when required. The Client Group is also responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.
- A separate level of governance is provided by the Board of Directors at Brunel Ltd, which are appointed by ourselves and the other shareholders. It comprises five highly experienced and independent non-executive directors, chaired by Denise LeGal and three executive directors. Further information can be found on Brunel's website: www.brunelpensionpartnership.org/people
- Finally, as an authorised firm, Brunel Ltd has to meet the extensive requirements of the Financial Conduct Authority, which cover areas such as training and competency, policy and process documents, and internal controls.

Brunel Ltd operational delivery

As reported last year the transition of assets to Brunel was largely completed with the movement of our fixed income assets in May and June 2021. After the completion of this transition Brunel Ltd. has managed in excess of 90% of the Somerset Fund’s investment assets.

Drawdowns on the £50m of commitment we made to the 2nd Brunel Ltd. private equity cycle and the £60m commitment to the 3rd cycle of private equity continue.

During 2022 Brunel Ltd. Has worked with FTSE Russell to create a set of world equity indices that are aligned with the Paris climate targets to keep global warming below 2% above pre-industrial levels. This provides the opportunity for us to invest passively in equities in a way which is aligned with the Fund’s climate targets. The Somerset Fund transitioned our passive equities to be managed against these new indices in May 2022.

The Fund still has certain commitments to long term illiquid investment funds in private equity which will take longer to transition across to the new portfolios to be set up by Brunel Ltd. We will continue to manage these in partnership with Brunel Ltd until such time as they are liquidated, and capital is returned. It is anticipated that the in-house team will continue to manage the Fund’s cash outside of Brunel Ltd for the foreseeable future.

During 2022-23 Brunel is undertook a review of its Climate policy, with the new policy being published in February 2023.

Delivery against original business case

One of the key objectives for Brunel Ltd is to deliver the fee savings included in the original business case agreed across the ten partner Funds.

The Pensions Committee approved our participation in the Brunel Pension Partnership in July 2017, based on the detailed original business case and supported by appropriate legal and financial assurance. Overall, undiscounted potential fee savings across the pool were estimated at £550 million over the 20 year period (to 2036), of which the Somerset Fund's savings were projected to be around £27 million. We recognised that the project would incur initial setup costs, with the business case showing that the Somerset County Council Pension Fund would break even on a cumulative basis during 2024. For the overall pool, the breakeven date is 2023.

The expected costs and savings for the Somerset County Council Pension Fund through to 2036, as per the original approved business case submitted to Government, are as follows:

	2016/ 2017 £ m	2017/ 2018 £ m	2018/ 2019 £ m	2019/ 2020 £ m	2020/ 2021 £ m	2021/ 2022 £ m	2022/ 2023 £ m	2023/ 2024 £ m	2024/ 2025 £ m	2025 to 2036 £ m	Total £ m
Set up costs	0.117	1.028									**1.145**
Ongoing Brunel Costs			0.400	0.517	0.534	0.552	0.569	0.588	0.607	8.115	**11.882**
Clients Savings			-0.040	-0.042	-0.043	-0.044	-0.045	-0.047	-0.048	-0.635	**-0.944**
Transition costs			1.257	1.805	0.010						**3.072**
Fee savings			0.008	-0.750	-1.295	-1.454	-1.630	-1.816	-1.945	-33.253	**-42.135**
Net costs / (realised savings)	**0.117**	**1.028**	**1.625**	**1.530**	**-0.794**	**-0.946**	**-1.106**	**-1.275**	**-1.386**	**-25.773**	**-26.980**

Set up costs

Included in the original business case were set up costs for 2016/17 and 2017/18, recognising that Brunel Ltd would go operationally live from April 2018. No additional set up costs were incurred in 2022/23. The cumulative total of set up costs is shown below:

	Cumulative £ millions
Recruitment	0.018
Legal	0.133
Consulting, Advisory & Procurement	0.082
Other support Costs e.g.IT, accommodation	0.000
Share Purchase / Subscription Costs	0.840
Other Working Capital Provided e.g. loans	0.000
Staff Costs	0.000
TOTAL SET UP COSTS	**1.073**

Transition costs

The Somerset Fund's transition was effectively completed by the transition of listed fixed income assets in spring 2021. No transition costs were incurred in 2022/23 and we do not expect any further transition costs. Transition costs are summarised in the table below:

	2022/2023			
	Direct £ millions	Indirect £ millions	total £ millions	Cummulative to date £ millions
Transition Fee	0.000	0.000	0.000	0.290
Tax	0.000	0.000	0.000	0.887
Other Transition Costs	0.000	0.000	0.000	4.880
	0.000	**0.000**	**0.000**	**6.057**

Investment Fee savings

A summary of fee savings for the 2022/23 financial year are provided below.

Portfolio	Value in original business case (31 March 2016) £ millions	Value 31 March 2023 £ millions	Price variance £ millions	Quantity variance £ millions	Total Savings £ millions
Global passive equity	383.102	586.312	-0.010	-0.016	-0.026
Active UK equity	363.467	317.222	0.133	0.100	0.233
Global high alpha equity	274.912	796.008	0.656	-1.893	-1.237
Smaller companies equity	0.000	183.745	0.334	-1.181	-0.847
Emerging market equity	60.977	102.535	-0.113	-0.123	-0.236
Passive Gilts	42.801	43.760	0.064	-0.008	0.056
Passive Index-linked Gilts	65.277	56.275	0.084	0.006	0.090
Sterling corporate bonds	132.976	195.845	0.087	-0.068	0.019
Multi-asset credit**	37.566	94.869	-0.077	-0.057	-0.134
Property	181.893	225.450	0.581	-0.102	0.479
Private equity*			0.215		0.215
Total			**1.954**	**-3.342**	**-1.388**

*Private equity fees and savings are based on committed capital, not the actual value of investments.
**The 2016 comparator is high yield debt.

Expected verses actual costs and savings to date

A summary of the costs and savings to date compared to the original business case is provided in the following table.

	2021/22				2022/23			
	Budget		Actual		Budget		Actual	
	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions	In year £ millions	Cumulative to date £ millions
Set up costs	0.000	1.145	0.000	1.073	0.000	1.145	0.000	1.073
Ongoing Brunel Costs	0.552	2.003	0.881	3.417	0.569	2.572	1.016	4.433
Clients Savings	-0.044	-0.169	-0.084	-0.084	-0.045	-0.214	-0.150	-0.234
Transition costs	0.000	3.072	0.713	6.058	0.000	3.072	0.000	6.058
Fee savings	-1.454	-3.491	-1.485	-2.117	-1.630	-5.121	-1.954	-4.071
Net costs / (realised savings)	**-0.946**	**2.560**	**0.025**	**8.347**	**-1.106**	**1.454**	**-1.088**	**7.259**

The most significant variances from the original business case can be summarised as follows:

- Additional resources have been required by Brunel over and above those envisaged by the original business case, in order to deliver the service required by their clients. As a result, the ongoing overhead costs of the Brunel company are higher than originally estimated.
- Internal savings are higher than anticipated.
- In year fee savings are now greater than anticipated but cumulative are still lower than anticipated.

Ongoing monitoring of Brunel Ltd against business case

Now that Brunel Ltd is operational, ensuring that the financial performance of the pool is monitored and that Brunel Ltd is delivering on the key objectives of investment pooling is vital. This includes reporting of the costs associated with the appointment and management of Brunel Ltd (our pool company) including set up costs, investment management expenses and the oversight and monitoring of Brunel Ltd by the client funds. This is reinforced through CIPFA, the accounting standards body, which has published recommended guidance for disclosing these costs. We have reported using this guidance above.

The Pensions Committee takes its role as both Shareholder and Client of Brunel Ltd very seriously, as part of its fiduciary and legal obligations to act in the best interests of members. The performance of Brunel Ltd. is discussed at every Pensions Committee meeting.

Ensuring that Brunel Ltd deliver against the original business case, as a minimum, is of critical importance to the Pensions Committee. We have highlighted above how the Somerset County Council Pension Fund is represented through the governance of Brunel Ltd and how we work with our other partner Funds to achieve this. At all stages and levels there is monitoring and assurance processes around cost control. Regular financial reporting is provided through Client Group and the Oversight Board.

We are pleased that Brunel Ltd has signed up to the Cost Transparency Initiative, and the Pensions Committee are keen to ensure that this is implemented effectively, to improve disclosure and transparency.

The ongoing management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2023/24.

Further information regarding Brunel Ltd can be found on their website:

https://www.brunelpensionpartnership.org/

Fund managers

Under the regulations, we must consider:

- **the need to invest in a wide range of investment areas;**
- **the suitability of investments; and**
- **getting proper advice.**

The fund is divided into sub-funds for investment-management purposes.

In-house

<u>Cash Portfolio</u>

Aim
To outperform Sterling deposit rates

Benchmark
Bank of England Base Rate

Type of Investments
Cash deposits and Money Market Funds

Allocation of the fund
The target allocation is 1% of the whole fund.

Appointed
The in-house team have been running the Sterling cash fund since at least 1990

Neuberger Berman

Aim
To outperform global equity stock markets over the life of each private equity fund.

Benchmark
Cash returns. This is the normal benchmark for private equity investments.

Type of investments
Companies that are not listed on stock exchanges

Allocation of the fund
The target allocation to private equity 5% of the whole fund spread between Neuberger Berman and Brunel. The existing funds with Neuberger Berman will run off over a number of years and be reinvested with Brunel.

Appointed
March 2010

Brunel Pension Partnership

Passive global equity portfolio

Aim
To track the benchmark.

Benchmark
FTSE Developed World CTB Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'. This index has been developed to evolve over time so that the constituents collectively are aligned with the carbon emission targets including in the Paris Agreement.

Type of investments
Equities. A percentage of these investments are overseas.

Underlying fund manager
Brunel has employed LGIM to manage this portfolio on its behalf.

Allocation of the fund
The target allocation is 20% of the whole fund to passive global equity.

Appointed
July 2018

UK equity portfolio

Aim
To outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.

Benchmark
FTSE All-Share index excluding investment trusts.

Type of investments
UK equities

Underlying fund manager
Brunel has employed Baillie Gifford and Investec to manage this portfolio on its behalf.

Allocation of the fund
The target allocation is 10% of the whole fund to UK equity.

Appointed
November 2018

<u>Global high alpha equity portfolio</u>

Aim
To outperform the benchmark by an annualised return of 2% to 3% over continuous three to five-year periods after fees have been deducted.

Benchmark
MSCI world index.

Type of investments
Equities. A percentage of these investments are overseas.

Underlying fund managers
Brunel has employed Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London to manage this portfolio on its behalf.

Allocation of the fund
The target allocation is 25% of the whole fund.

Appointed
November 2019

<u>Global smaller companies equity portfolio</u>

Aim
To outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.

Benchmark
MSCI world small cap index.

Type of investments
Smaller company equities

Underlying fund manager
Brunel has employed American Century, Kempen and Montanaro to manage this portfolio on its behalf.

Allocation of the fund
The target allocation is 5% of the whole fund.

Appointed
September 2020

Emerging market equity portfolio

Aim
To outperform the benchmark by an annualised return of 2% to 3% over continuous three to five-year periods after fees have been deducted.

Benchmark
MSCI Emerging Markets index.

Type of investments
Emerging market equities

Underlying fund manager
Brunel has employed Genesis, Investec and Wellington to manage this portfolio on its behalf.

Allocation of the fund
The target allocation is 5% of the whole fund.

Appointed
October 2019

Passive Gilts

Aim
To track the benchmark.

Benchmark
FTSE Actuaries UK government over 15 year gilt total return index

Type of investments
UK Government Gilts

Underlying fund manager
Blackrock

Allocation of the fund
The target allocation is 4% of the whole fund.

Appointed
May 2021

<u>Passive index linked Gilts</u>

Aim
To track the benchmark.

Benchmark
FTSE Actuaries UK government index-linked over 5 year total return index

Type of investments
UK Government index linked Gilts

Underlying fund manager
Blackrock

Allocation of the fund
The target allocation is 4% of the whole fund.

Appointed
May 2021

<u>Sterling corporate bonds</u>

Aim
To outperform the benchmark by an annualised return of 1% over continuous three to five-year periods after fees have been deducted.

Benchmark
iBoxx Sterling non-gilt total return index

Type of investments
Corporate bonds

Underlying fund manager
Royal London Asset Management

Allocation of the fund
The target allocation is 8% of the whole fund.

Appointed
May 2021

<u>Multi-asset credit</u>

Aim
To outperform the benchmark by an annualised return of 4% to5% over continuous three to five-year periods after fees have been deducted.

Benchmark
GBP SONIA

Type of investments
Bonds

Underlying fund manager
CQS, Neuberger Berman and Oaktree

Allocation of the fund
The target allocation is 3% of the whole fund.

Appointed
May 2021

<u>Property portfolio</u>

Aim
To outperform the benchmark by an annualised return of 0.5% over continuous five to seven-year periods after fees have been deducted.

Benchmark
MSCI/AREF UK quarterly property fund index.

Type of investments
Property funds (such as unit trusts)

Allocation of the fund
The target allocation is 10% of the whole fund.

Appointed
October 2020

Private Equity

Aim
To outperform the benchmark by an annualised return of 3% over continuous seven to ten-year periods after fees have been deducted.

Benchmark
MSCI all countries world index.

Type of investments
Companies that are not listed on stock exchanges

Allocation of the fund
The target allocation to private equity 5% of the whole fund spread between Neuberger Berman and Brunel. All new investments will be made via Brunel.

Appointed
January 2021

As well as the funds mentioned previously the pension fund has a small interest in the South West Regional Venture Capital Fund, which is managed by Technology Venture Partners LLP. For a table showing the split of the assets by fund manager at the date of the net asset statement, see note 17 of the accounts.

Other experts

We need to work with a number of experts to provide functions that are needed under various regulations.

Custodian – JP Morgan

Custody services manage the records of the fund's cash and security investments and track and settle the investment transactions of the fund's appointed investment managers.

JP Morgan has been the fund’s custodian since August 2012.

Custodian – State Street

State Street provide custody for those assets which are managed by Brunel Pension Partnership

State Street has been the custodian for Brunel managed assets since July 2018.

Bank – NatWest

NatWest have been providing all of the standard banking requirements to the fund since these were split from Somerset County Council’s bank accounts in March 2010.

Auditors – Grant Thornton

The role of the auditor is to test the accounts and confirm that they give a true and fair view of the fund’s financial position.

Grant Thornton became the auditor of the Fund in 2012.

Actuary – Barnett Waddingham

The role of the actuary is to give the fund information about the fund’s liabilities and the best way to meet them. Every three years, the actuary carries out a formal valuation of the fund, which shows how the fund’s liabilities relate to its assets and recommends suitable rates of employers’ contributions to prevent any shortfall in future years.

Barnett Waddingham has been the fund’s actuary since April 2006.

Legal advisor – Osborne Clarke

The role of the legal advisor is to provide independent advice on legal matters affecting the fund.

Osborne Clarke was appointed as legal advisor to the fund in October 2006.

Shareholder engagement on socially responsible investment and corporate governance – The Local Authority Pension Fund Forum (LAPFF)

Our fund is committed to working with companies to improve their awareness of environmental and social issues. LAPFF is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 72 local authority pension funds from across the country with combined assets of over £200 billion. It aims to bring about improvements in the way companies are run, such as improvements in corporate governance, of the companies in which member funds invest. LAPFF is also concerned with promoting corporate social responsibility on environmental issues and issues relating to overseas employment standards. It does this by working with company boards to encourage them to improve standards.

The fund is also a member of the Pensions and Lifetime Savings Association (PLSA)

Contributions and benefits

The Local Government Pension Scheme (LGPS) has been approved under the Local Government Superannuation Act 1972 and has been updated on a number of occasions since. The most recent version of the scheme is a Career Average Revalued Earnings (CARE) scheme which was introduced from 1st April 2014.

As an administering authority, we must maintain a pension fund for all the County Council's relevant employees (other than teachers) and those of all local-government staff in our area.

The fund also includes civilian employees of the Avon and Somerset Police and the employees of further-education colleges and academy schools. Employees of certain other organisations (town councils, for example) have a right to be included. We have agreed to admit a number of other organisations, including several housing associations.

The fund is financed by contributions from employees and employers, together with interest and other income earned from investing funds not needed to meet pension payments in the short term.

Employees' contributions are fixed by government regulation. Employers' contributions are assessed by the fund's actuary every three years, but are reviewed every year to take account of early retirements.

Contributions

Employees – Tiered contribution rates depending on actual pay received, with nine contribution bands ranging from 5.5% to 12.5%.

Contribution rate	Salary range 2021-2022	Salary range 2022-2023	Salary range 2023-2024
5.50%	£0 to £14,600	£0 to £15,000	£0 to £16,500
5.80%	£14,601 to £22,900	£15,001 to £23,600	£16,501 to £25,900
6.50%	£22,901 to £37,200	£23,601 to £38,300	£25,901 to £42,100
6.80%	£37,201 to £47,100	£38,301 to £48,500	£42,101 to £53,300
8.50%	£47,101 to £65,900	£48,501 to £67,900	£53,301 to £74,700
9.90%	£65,901 to £93,400	£67,901 to £96,200	£74,701 to £105,900
10.50%	£93,401 to £110,000	£96,201 to £113,400	£105,901 to £124,800
11.40%	£110,001 to £165,000	£113,401 to £170,100	£124,801 to £187,200
12.50%	More than £165,001	More than £170,101	More than £187,201

Employers – Separate rates apply to the major employing authorities, to make sure the actuarial requirements are met and are expressed as a percentage of employees' pensionable pay, sometimes with an additional cash value payment.

	2022/2023		2023/2024		2024/2025		2025/2026	
	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m
Common fund rate	24.3%	0.000	22.1%	0.000	22.1%	0.000	22.1%	0.000
Somerset Council	18.1%	10.030	20.1%	5.560	20.1%	6.060	20.1%	6.610
Avon and Somerset Police	16.3%	2.420	18.6%	0.868	18.6%	0.901	18.6%	0.936
Further education colleges	16.3% to 19.9%	Variable	18.9% to 22.1%	Variable	18.9% to 22.1%	Variable	18.9% to 22.1%	Variable
Academies	23.7%	0.000	24.4%	0.000	24.4%	0.000	24.4%	0.000
Town councils	20.3%	Variable	22.3%	0.000	22.3%	0.000	22.3%	0.000
Admitted organisations	12.8% to 28.4%	Variable	0.0% to 25.6%	Variable	0.0% to 25.6%	Variable	0.0% to 25.6%	Variable

A full actuarial valuation of the fund was carried out as at 31 March 2022 and this showed a funding level of 95%. This was higher than the level at the 2019 valuation. Despite an increase in the funding level at the 2022 valuation there were increases in the contribution rates of most of the employers within the fund. Most employers have been asked to make payments towards the funding deficit as prescribed cash amounts rather than as a percentage of payroll. This approach has been taken to ensure the deficit reduction plan is not affected by changes in the size of the employee base as local government undergoes a period of considerable change.

A further valuation of the fund is due using data from 31 March 2025. This will set employers' contribution rates for the following three years and confirm the funding level.

The benefits structure of the fund is set by government legislation and the fund has no discretion over this.

Major benefits

- A pension calculated at 1/80th of final salary for each year of service for pre-April 2008 service;
- A pension calculated at 1/60th of final salary for each year of service for service between April 2008 and March 2014;
- A pension calculated on 1/49th of actual pay for each year of service from April 2014 to provide a pension based on CARE (Career Average) salary;
- The revaluation of earnings as part of the CARE calculation will be based on CPI;
- Normal retirement age for post April 2014 service synchronised with state retirement age, Normal retirement age for pre-April 2014 service is 65;
- Up to 25% of the pension can be exchanged for a tax-free lump sum, 3/80th of pre-April 2008 service will be paid as a lump sum;
- Lump-sum death benefits of three times pay for death in service;
- Lump-sum cover for death after retirement of a guarantee of 10 times' annual pension;
- An ill-health retirement package with three levels of benefits depending on the seriousness of the individual's illness;
- A nominated partner's pension and dependent children's pensions; and
- Pensions that are protected from inflation through the Pensions (Increase) Acts.

Other benefits

- Scheme members can 'top up' their pension benefits by paying additional contributions. This facility has become more popular – both through the in-house scheme 'added benefits' facility and the in-house additional voluntary contributions (AVCs) plan. Prudential are now the fund's AVC provider, although a few members continue with their existing arrangements with Equitable Life.

There is a so called 50/50 option where an employee can choose to pay half the contributions but will accrue half of the benefits.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. The increase applied from April 2023 was 10.1% and the increase applied from April 2022 was 3.1%.

For more details of the current benefits visit the LGPS members' website: www.LGPSmember.org

Principles and policies

The statements, policies and principles listed below are those that were in place at 31st March 2023.

Funding Strategy Statement

Introduction

This is the Funding Strategy Statement for the Somerset County Council Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Somerset County Council's strategy, in its capacity as administering authority, for the funding of the Somerset County Council Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

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

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

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

Key parties

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

The administering authority

The administering authority for the Fund is Somerset County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Ministry of Housing, Communities and Local Government (MHCLG).

<u>Fund Actuary</u>

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2019. The results of the 2019 valuation are set out in the table below:

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

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

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

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

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

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

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

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

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

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

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

Valuation assumptions and funding model

In completing the actuarial valuation it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. The RPI assumption adopted as at 31 March 2019 was 3.6% p.a.

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

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods.

At the 31 March 2019 actuarial valuation a deduction of 1.0% p.a. was therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2019 was 2.6% p.a.

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

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2019 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

<u>Future investment returns/discount rate</u>

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is adopted will depend on the funding target adopted for each Scheme employer.

For open employers, the discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the underlying investment strategy by considering average market yields in the six months straddling the valuation date. The discount rate so determined may be referred to as the “ongoing” discount rate. The discount rate adopted for the 31 March 2019 valuation was 4.9% p.a.

For closed employers, an adjustment may be made to the discount rate in relation to the remaining liabilities, once all active members are assumed to have retired if at that time (the projected “termination date”), the employer becomes an exiting employer under Regulation 64.

The Fund Actuary will incorporate such an adjustment after consultation with the administering authority.

The adjustment to the discount rate for closed employers may be set to a higher funding target at the projected termination date, so that there are sufficient assets to fund the remaining liabilities on a “minimum risk” rather than on an ongoing basis if the Fund does not believe that there is another Scheme employer to take on the responsibility of the liabilities after the employer has exited the Fund. The aim is to minimise the risk of deficits arising after the termination date.

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

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

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

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

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

Demographic assumptions

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

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

McCloud/Sargeant judgements

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

In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounted to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

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

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

Guaranteed Minimum Pension (GMP) indexation and equalisation

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

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

The 2019 valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, it is assumed that the Fund will be required to pay the entire inflationary increase.

Contribution reviews between actuarial valuations

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

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

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

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

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

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

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

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

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

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a surplus or deficit then the levels of required employer contributions will include an adjustment to either amortise the surplus or fund the deficit over a period of years.

The recovery periods adopted for the employers in the Fund for the 2019 valuation varied from 3 years to 19 years. This represents a reduction of five years from the maximum 24 year recovery period set at the 2016 valuation. The ultimate aim is to reach 100% funding, and a reduction of in the recovery period since the 2016 valuation demonstrates that the Fund is progressing towards that goal. Please note that recovery periods varied between individual employers. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount. The period that is adopted for any particular employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2019 valuation are summarised in the table below:

Pool	**Type of pooling**	**Notes**
Academies	Past and future service pooling	All academies in the pool pay the same total contribution rate and have the same funding level
Small Scheduled bodies	Past and future service pooling	All town and parish councils in the pool pay the same primary rate but pay a secondary rate bespoke to their position
NSL Ltd	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level
BAM FM	Past and future service pooling	All employers in the pool pay the same total contribution rate and have the same funding level

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

<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.

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

New employers joining the Fund

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

Admission bodies

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

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

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

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

<u>Contribution rate</u>

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.

<u>Security</u>

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

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

Risk-sharing

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

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

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

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

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

New academies

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

Funding at start

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

Contribution rate

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

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

Cessation valuations

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

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

Exit payment policy

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

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

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

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

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

Exit credit policy

Any surplus in the Fund in respect of the exiting employer may be paid from the Fund to the employer as an exit credit, subject to the agreement between the relevant parties and any legal documentation. Having regard to any relevant considerations, the administering authority will take the following approach to the payment of exit credits:

- Any employer who cannot demonstrate that they have been exposed to underfunding risk during their participation in the Fund will not be entitled to an exit credit payment. This will include the majority of “pass-through” arrangements. This is on the basis that these employers would not have not been asked to pay an exit payment had a deficit existed at the time of exit.
- The administering authority does not need to enquire into the precise risk sharing arrangement adopted by an employer but it must be satisfied that the risk sharing arrangement has been in place before it will pay out an exit credit. The level of risk that an employer has borne will be taken into account when determining the amount of any exit credit. It is the responsibility of the exiting employer to set out why the arrangements make payment of an exit credit appropriate.
- Any exit credit payable will be subject to a maximum of the actual employer contributions paid into the Fund.
- As detailed above, the Fund Actuary may adopt differing approaches depending on the employer the specific details surrounding the employer’s cessation scenario. The default approach to calculating the cessation position will be on a minimum-risk basis unless it can be shown that there is another employer in the Fund who will take on financial responsibility for the liabilities in the future. If the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.
- The administering authority will pay out any exit credits within six months of the cessation date where possible. A longer time may be agreed between the administering authority and the exiting employer where necessary. For example if the employer does not provide all the relevant information to the administering authority within one month of the cessation date the administering authority will not be able to guarantee payment within six months of the cessation date.
- Under the Regulations, the administering authority has the discretion to take into account any other relevant factors in the calculation of any exit credit payable and they will seek legal advice where appropriate.

Bulk transfers

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

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

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.
The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Pensions Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will reduce the funding level by approximately 1%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. For the 2019 funding valuation, the Fund commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

Maturity risk

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

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

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

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

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

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

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

McCloud/Sargeant judgements and cost cap

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

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

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

The first case (McCloud) relating to the Judicial Pension Scheme was ruled in favour of the claimants, while the second case (Sargeant) in relation to the Fire scheme was ruled against the claimants. Both rulings were appealed and as the two cases were closely linked, the Court of Appeal decided to combine the two cases. In December 2018, the Court of Appeal ruled that the transitional protection offered to some members as part of the reforms amounts to unlawful discrimination. On 27 June 2019 the Supreme Court denied the government's request for an appeal in the case, and on 15 July 2019 the Government released a statement to confirm that it expects to have to amend all public service schemes, including the LGPS. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits and at the same time announced the unpausing of the 2016 cost cap process which will take into account the remedy for the McCloud and Sargeant judgement. The consultation closed on 8 October 2020 and the final remedy will only be known after the consultation responses have been reviewed and a final set of remedial Regulations are published.

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

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

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

The consultation is currently ongoing: the consultation was closed to responses on 31 July 2019 and an outcome is now awaited. So far, two partial responses to the consultation have been issued:

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

This FSS has been updated in light of these responses and will be revisited again once the outcomes are known for the remaining items.
Detail of the outstanding policy proposals are outlined below:

Timing of future actuarial valuations

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

Changes to employers required to offer LGPS membership

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

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

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

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:
- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

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

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

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

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Appendix A

Somerset County Council Pension Fund Contribution Review Policy

Introduction

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

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

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

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

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

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

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

The review process

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

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

Timeline where initiation is made by the administering authority

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

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

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

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

Timeline where initiation is made by the Scheme employer

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

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

Responsibility of costs

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

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

Triggering a contribution review

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Assessing the appropriateness of a review

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

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

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

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

Appropriateness of a review due to change in liabilities

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

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

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

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

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

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

Method used for reviewing contribution rates

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

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

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

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

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

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

Appeals process

To Be Confirmed

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

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

Introduction

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

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

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

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

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

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

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

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

Approach for exiting employers

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

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

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

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

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

Choosing a DDA or DSA

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

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

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

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

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

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

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

Managing of costs

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

Appeals process

To be confirmed

Deferred Debt Agreements (DDAs)

Entering into a DDA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

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

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

Setting up a DDA

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

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

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

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

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

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

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

Monitoring a DDA

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

<u>Change in funding position</u>

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

<u>Change in employer covenant</u>

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

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

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

Timeliness of payments

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

Strength of guarantee or security

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

Notifiable events from the deferred employer

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

Terminating a DDA

Events that may terminate a DDA

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

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

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

Process of termination

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

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

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

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

Debt Spreading Agreements (DSAs)

Entering a DSA

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

Information required from the employer

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

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

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

Assessing the proposal

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

To reach a decision the administering authority will consider:

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

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

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

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

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

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

Setting up a DSA

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

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

Monitoring a DSA

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

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

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

<u>Change in employer covenant</u>

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

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

<u>Timeliness of payments</u>

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

<u>Strength of guarantee or security</u>

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.

<u>Notifiable events from the exiting employer</u>

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

Terminating a DSA

Events that may terminate a DSA

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

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

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

Process of termination

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Investment Strategy Statement

1. Introduction

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

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

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

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

The Investment Strategy Statement will set out in more detail:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

3. Risk measurement and management

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

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

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

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

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

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

At Fund level, these risks are managed through:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

4. Approach to asset pooling

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

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

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

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

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

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

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

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

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

5. Social, environmental and corporate governance policy

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

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

- The Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- Social, environmental and ethical concerns will not inhibit the delivery of the Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- The Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Fund's investment managers will vote in accordance with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.
- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.
- More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at: https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/

Climate Change

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

This will be achieved by the following strategy.

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

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

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

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

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

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

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

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

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

6. Stewardship Policy

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

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

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

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

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

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

Governance and Oversight

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

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

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

Identifying and Prioritising Engagement

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

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

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

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

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

Transparency and Collaboration

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

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

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

Conflicts of Interest

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

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

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

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

Data and Information

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

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

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

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

Voting

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

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

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

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

Votes should be cast applying the following principles:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Stock Lending and Share Recall

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

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

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

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

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

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

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

Fixed Interest

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

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

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

Private Markets

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

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

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

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

Stewardship actions across private markets include:

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

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

Reporting

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

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

7. Advice taken

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

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

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

8. Arrangements for reviewing this statement

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Governance Compliance Statement

Introduction

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

This statement is required to set out:

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

(b) if the authority does so:-

  1 the terms, structure and operational procedures of the delegation,

  2 the frequency of any committee or sub-committee meetings,

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

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

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

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

Delegation of management of Pension Fund

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

PENSION COMMITTEE OF THE SOMERSET COUNTY COUNCIL PENSION FUND

TERMS OF REFERENCE

1. Introduction

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

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

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

2. Definitions

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

3. Purpose and functions of the Committee

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

3.2 The Committee's principal duties are:

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

4. Membership of the Committee

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

(a) Seven employer representatives

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

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

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

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

(b) One scheme member representative:

(i) To be nominated by the Unions.

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

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

4.4 The committee will also be attended by:

- an officer; and
- a specialist independent adviser. In this respect the term independent means:
  (i) having no current employment, contractual, financial or other material interest in either Somerset County Council or any scheme employer in the Fund; and

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

The independent advisor will be a remunerated position.

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

(a) ensuring the Board delivers its purpose as set out in the Committee's terms of reference;
(b) the arrangements for meetings of the Committee;
(c) ensuring that Committee meetings are productive and effective and that opportunity is provided for the views of all Committee members to be expressed and considered; and
(d) seeking to achieve the consensus of all Committee members on the business presented to the Committee and ensure that decisions are properly put to a vote when that cannot be reached.

6. Conflicts of interest

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

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

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

7. Knowledge and understanding including training

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

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

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

8. Term of office and removal from office

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

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

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

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

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

9. Meetings

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

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

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

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

10. Quorum

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

11. Voting rights

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

12. Code of Conduct

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

13. Allowances and Expenses

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

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

14. Budget

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

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

15. Accountability and reporting

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

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

16. Data protection and Freedom of Information

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

Compliance with the guidance

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

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

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

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

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

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

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

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

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

Item 12 - Appendix A

Local Pensions Board

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

PENSION BOARD OF THE SOMERSET COUNTY COUNCIL PENSION FUND

TERMS OF REFERENCE

1. Introduction

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

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

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

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

2. Definitions

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

3. Purpose and functions of the Board

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

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

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

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

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

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

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

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

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

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

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

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

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

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

(i) review the Fund's risk register;

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

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

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

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

4. Membership of the Board

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

(a) Three employer representatives

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

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

(b) Three scheme member representatives

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

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

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

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

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

(f) the arrangements for meetings of the Board;

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

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

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

6. Conflicts of interest

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

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

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

7. Knowledge and understanding including training

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

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

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

8. Term of office and removal from office

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

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

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

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

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

(a) A poor attendance record;

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

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

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

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

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

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

9. Meetings

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

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

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

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

10. Quorum

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

11. Voting rights

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

12. Code of Conduct

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

13. Allowances and Expenses

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

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

14. Budget

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

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

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

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

15. Accountability and reporting

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

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

(a) a summary of the work undertaken;

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

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

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

(e) details of training received and planned; and

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

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

15.4 The Board shall report to the Scheme Advisory Board:

(a) any areas of persistent non-compliance;

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

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

16. Data protection and Freedom of Information

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

Arrangements for reviewing this policy

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Pensions Committee Scheme of Delegation

Introduction

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

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

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

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

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

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

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

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

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

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

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

<u>Ensure that all benefits due are paid correctly and in a timely manner.</u>

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.

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

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.

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

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.

<u>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.</u>

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.

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

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.

<u>Contract Standing Orders</u>

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

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

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

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Pensions Committee Training Policy

Introduction

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

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

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

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

CIPFA Knowledge and Skills Framework

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

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

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

Annual Training Commitment

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

<u>Level 1 - New Pensions Committee members 1st year of office</u>

New members should have 1-3 days training via:

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

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

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

- Attending the annual employers communications meeting.

<u>Level 2 – Members 2nd and 3rd year of office</u>

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

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

<u>Level 3 - Member serving longer than 3 years</u>

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

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

Suitable Events

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

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

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

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Pension Board Training Policy

Introduction

The 2004 Pensions Act requires that trustees of occupational pension schemes should be trained and have knowledge and understanding of the law relating to pensions and role of trustees, the principles of scheme funding and investment, and the management and administration of pension scheme benefits.

As a result a member of the pension board of a public service pension scheme must be conversant with:

- the rules of the scheme, and
- any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme.

A member of a pension board must have knowledge and understanding of:

- the law relating to pensions, and
- any other matters which are prescribed in regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.

These legal responsibilities begin from the date that Pension Board members take up their role on the Board and as such they should immediately start to familiarise themselves with the relevant documents and the law relating to pensions.

In accordance with the Act, the knowledge and understanding requirement applies to every individual member of a Local Pension Board rather than to the members of a Local Pension Board as a collective group.

Key Documents

In accordance with the LGPS statutory guidance on the creation and operation of Pension Boards the following is a suggested list of the documents that Pension Board members should make themselves familiar:

- Member booklets, announcements and other key member and employer communications, which describe the Fund's policies and procedures (including any separate AVC guides) including documents available on the Fund's website;
- Any relevant policies of the Administering Authority and/or Pension Committee, for example policies on:
    - conflicts of interests
    - record-keeping
    - data protection and freedom of information
    - internal dispute resolution procedure.
- The Administering Authority's governance compliance statement;
- The Administering Authority's funding strategy statement;
- The Administering Authority's pension administration statement;
- The Administering Authority's discretionary policy statement;
- The Administering Authority's communications policy statement;
- The Administering Authority's statement of investment principles;
- The Administering Authority's internal controls risk register;
- The Fund's actuarial valuation report and rates and adjustment certificate;
- The Fund's annual report and accounts;
- Any accounting requirements relevant to the Fund;
- Any third party contracts and service level agreements;
- Any internal control report produced by third party service providers and investment managers;
- The Fund's standard form of admission agreement and bond and related policies and guidance.

This list should be viewed as a suggestion and not a definitive list off all the relevant documents.

Wider Background Knowledge

In addition to the list of key documents the statutory guidance provides examples of the knowledge that is relevant to the role of Pension Board members. Again the list is not intended to be exhaustive. The examples are as follows:

Background and Understanding of the Legislative Framework of the LGPS

- Differences between public service pension schemes like the LGPS and private sector trust-based schemes;
- Role of the IPSPC and its recommendations;
- Key provisions of the 2013 Act;
- The structure of the LGPS and the main bodies involved including the Responsible Authority, the Administering Authority, the Scheme Advisory Board, the Local Pension Board and the LGPS employers;
- An overview of local authority law and how Administering Authorities are constituted and operate; and
- LGPS rules overview (including the Regulations, the Transitional Regulations and the Investment Regulations).

General pensions legislation applicable to the LGPS

An overview of wider legislation relevant to the LGPS including:
- Automatic Enrolment (Pensions Act 2008);
- Contracting out (Pension Schemes Act 1993);
- Data protection (Data Protection Act 1998);
- Employment legislation including anti-discrimination, equal treatment, family related leave and redundancy rights;
- Freedom of Information (Freedom of Information Act 2000);
- Pensions sharing on divorce (Welfare Reform and Pensions Act 1999);
- Tax (Finance Act 2004); and
- IORP Directive.

Role and responsibilities of the Local Pension Board

- Role of the Local Pension Board;
- Conduct and conflicts;
- Reporting of breaches;
- Knowledge and understanding; and
- Data protection.

Role and responsibilities of the Administering Authority

- Membership and eligibility;
- Benefits and the payment of benefits;
- Decisions and discretions;
- Disclosure of information;
- Record keeping;
- Internal controls;
- Internal dispute resolution;
- Reporting of breaches; and
- Statements, reports and accounts.

Funding and Investment

- Requirement for triennial and other valuations;
- Rates and adjustments certificate;
- Funding strategy statement;
- Bulk transfers;
- Permitted investments;
- Restrictions on investments;
- Statement of investment principles;
- CIPFA guidance;
- Appointment of investment managers; and
- Role of the custodian.

Role and responsibilities of Scheme Employers

- Explanation of different types of employers;
- Additional requirements for admission bodies;
- Automatic Enrolment;
- Deduction and payment of contributions;
- Special contributions;
- Employer decisions and discretions;
- Redundancies and restructuring (including the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2006); and
- TUPE and outsourcing (including Fair Deal and the Best Value Authorities Staff Transfers (Pensions) Direction 2007).

Tax and Contracting Out

- Finance Act 2004
- Role of HMRC
- Registration
- Role of 'scheme administrator'
- Tax relief on contributions
- Taxation of benefits
- Annual and lifetime allowances
- Member protections
- National Insurance
- Contracting out (Pensions Scheme Act 1993)
- Impact of abolition of contracting out in 2016
- VAT and investments

Role of advisors and key persons

- Officers of the Administering Authority
- Fund actuary
- Auditor
- Lawyers
- Investment managers
- Custodians
- Administrators – in house v. third party
- Procurement of services
- Contracts with third parties

Key Bodies connected to the LGPS

An understanding of the roles and powers of:

- Courts
- Financial Services Authority
- HMRC
- Information Commissioner
- Pensions Advisory Service
- Pensions Ombudsman
- The Pensions Regulator (including powers in relation to Local Pension Boards)

Annual Training Commitment

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

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

New members should have 1-5 days training via:

- Receiving1/2 day in-house induction training on the LGPS and its benefits, the membership and role of the Committee and the current investment structure of the fund.
- Reading the Pension Committee Members Handbook containing key documents such as the Fund Members guide, the Fund Annual Report and Financial Statement and background reading and knowledge building.
- Attending at least one day of training on relevant topics.
- Attending the annual employers communications meeting.

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

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

Level 3 - Member serving longer than 3 years

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

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

Suitable Events

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

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

There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available.

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

Approved by the Pension Board
Somerset County Council Pension Fund
July 2015

Communication policy statement

Introduction

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

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

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

Scheme members

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

- Peninsula Pensions issues statutory notifications to new scheme members on a monthly basis, including information about how to access a full scheme guide and other documents.
- Peninsula Pensions will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.
- Peninsula Pensions will send newsletters to current scheme members and pensioners once a year.
- Peninsula Pensions will run presentations for scheme members as and when requested by employers.
- Information about the scheme, including a full scheme guide, is available on the Peninsula Pensions website www.peninsulapensions.org.uk .
- Member self-service is available via the Peninsula Pensions website for current and deferred scheme members, allowing members to view their record, update their address and run simple estimates.

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

Scheme employers

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

Communication provided will include:

- an annual meeting to give an update on the investment and administration of the fund, together with key developments affecting the LGPS (this will include details of the current actuarial position of the fund);
- a meeting twice a year for employers about administration;
- a quarterly e-zine covering updates and administrative matters;
- site visits to employers when requested;
- formal consultation on regulatory issues with employers;
- training seminars for employers; and
- employer forms and guides available on the Peninsula Pensions website.

Elected members

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

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

Miscellaneous

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

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

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

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

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

Arrangements for reviewing this policy

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

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Pension administration strategy

1. Introduction

Peninsula Pensions was formed in 2013 as a shared pension administration service, with Devon County Council acting as lead authority, for the provision of the Local Government Pension Scheme (LGPS) administration for the Devon County Council and Somerset County Council Administering Authorities.

The Devon County Council and Somerset County Council Administering Authorities, Investment and Pension Fund Committees and Pension Boards remain independent from each other with each Administering Authority retaining investment and governance responsibility for their respective pension fund.

Although not a statutory requirement, a Pension Administration Strategy (PAS) was introduced in April 2015, following approval by the Devon County Council and Somerset County Council Investment and Pension Fund Committees. Although there is a separate PAS in place for each Administering Authority, the content is identical in order to ensure that a fair and consistent approach is maintained for all stakeholders.

The legal context for this Strategy is Regulation 59 of The Local Government Pension Scheme Regulations 2013 which permits Administering Authorities the opportunity to prepare and review a Pensions Administration Strategy. The PAS also has regard to the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and The Pension Regulator Public Sector Code of Practice 14.

The PAS sets out the performance standards and expectations of the Administering Authority and employers, defining clear roles and responsibilities, and aims to ensure the delivery of a high-quality service for all stakeholders.

The revision to the PAS, effective from April 2020, reflects the growth in membership and demands of scheme members and employers, changes to LGPS regulations and advances in technology.

The PAS is linked to the following statutory documents of the Administering Authority which are located within the Somerset County Council Pension Fund Annual Report, which can be found on the Somerset County Council website:

- Governance Policy and Compliance Statement
- Communications Strategy
- Funding Strategy Statement
- Investment Strategy Statement

Under no circumstances does the PAS override any provision or requirement of the LGPS regulations nor is it intended to replace the more extensive commentary provided by the Employers' Guide and associated documentation for day-to-day operations, which can be found within the employer's area of the Peninsula Pensions website.

2. Key Administration Strategy focus

This strategy formulates the administrative arrangements between the Administering Authority and employers. It recognises that employers and the Administering Authority have a shared role in delivering an efficient and effective pension service to scheme members and that this can only be achieved by co-operation and working together.

The strategy document sets out in detail how we will achieve our key focus points stated below:

- setting out the quality and performance standards required of the Administering Authority and employers;
- promoting good working relationships and improving efficiency between the Administering Authority and employers for the benefit of scheme members;
- enhancing the flow of data by having clear channels of communication in place, so that each stakeholder is fully aware of its role and responsibilities within this process; and
- providing a framework to enable administration costs relating to significant employer underperformance to be met directly by the employer responsible, as opposed to sharing the costs across all employers in the Pension Fund*.

(* Regulation 70 of the 2013 LGPS Regulations permits the recovery of additional costs from an employer where unsatisfactory performance levels have incurred additional costs to the Administering Authority)

An annual report will be issued by Peninsula Pensions to illustrate the extent to which the performance standards established under this strategy have been achieved and such other matters arising from the strategy as appropriate.

3. Record keeping

Record-keeping is a fundamental part of managing a scheme such as the LGPS. Administering Authorities and employers have a legal obligation to collate and maintain accurate data records.

Peninsula Pensions must be able to demonstrate that records are accurate and up to date, within the parameters of data protection legislation, in order to govern and administer the pension scheme efficiently and effectively for scheme members.

Employers (and their delegated payroll providers) are responsible for providing the core data required by the Administering Authority. Employers need to ensure that legal obligations regarding the provision of timely and accurate information to the scheme are met.

The Administering Authority has a legal duty to provide scheme members with accurate and timely information regarding their benefits. The use of electronic processes aides all parties to do this in a timely and efficient manner. A strong working partnership between the Administering Authority and employers is key in delivering a successful administration service. This document describes how the Administering Authority provides support to employers in meeting their responsibilities.

Peninsula Pensions will notify employers in advance of any proposed changes in systems, processes, legislation and data requirements and will provide sufficient time, support and guidance for employers to implement any changes.

Full details covering the processes for employers, including the procedures for the escalation of outstanding requests for information, can be found within the employer's section of our website.

If employers have concerns about the data required, they should contact Peninsula Pensions without delay. This will allow Peninsula Pensions to work with employers to resolve any issues and enable both parties to meet their requirements for the benefit of scheme members.

Where an employer does not actively engage with Peninsula Pensions to resolve issues and/or consistently fails to meet its responsibilities under the LGPS Regulations, the Administering Authority (or stakeholders such as the Pension Board) has a statutory duty to report any breach to The Pensions Regulator. Similarly, stakeholders (such as the Pension Board) may report Peninsula Pensions to The Pensions Regulator if it is believed that a breach has occurred in respect of its duty as scheme administrator.

If deemed to be materially significant, The Pensions Regulator has the authority to take prompt and effective action to investigate and correct the breach and its causes, and, where appropriate, to notify any members whose benefits have been affected.

The Pensions' Regulator may impose a penalty under section 10 of the Pensions Act 1995. At the time of creating the PAS, the maximum amount of a penalty in relation to a breach is £5,000 in the case of an individual and up to £50,000 in any other case.

Penalties may be imposed on any party who has legal requirements or responsibilities relating to the management or administration of the scheme, and anyone else who could be subject to any of The Pensions' Regulator's statutory powers of investigation and enforcement, such as employers and professional advisers.

The Pensions' Regulator's compliance and enforcement policy for public service sector schemes can be accessed via the following link:

> https://www.thepensionsregulator.gov.uk/-/media/thepensionsregulator/files/import/pdf/compliance-policy-public-service-pension.ashx

More information about the work of The Pensions Regulator can be found via the following link:

> https://www.thepensionsregulator.gov.uk/en

4. Roles and Responsibilities

The key focus of the strategy set out in Section 2 will be achieved by:

- clearly defining the respective roles of employers and the Administering Authority
- setting clear and achievable standards of service levels for the functions carried out by employers and the Administering Authority
- setting out clear procedural guidance for the secure and effective exchange of information between employers and the Administering Authority
- monitoring service delivery, identifying poor performance and establishing a platform for the provision of support to improve performance where required
- continuous development of resources via the use of digital technology and staff training for both the Administering Authority and employers
- applying charges where an employer consistently fails to meet deadlines to ensure the resulting additional administrative strain is not a burden on all employers.

<u>The Employer's Roles and Responsibilities</u>

The key responsibilities for the employer are to:

- communicate the LGPS to eligible staff
- ensure the correct level of monthly pension contributions are collected and paid by the 7th of the following month, and no later than the 19th
- report information and data to the Peninsula Pensions as set out in this Strategy
- keep up to date with Peninsula Pension Communications
- provide a prompt response to information requests

<u>The Administering Authority's Roles and Responsibilities</u>

The key responsibilities for the Administering Authority are to:

- administer the LGPS in respect of all scheme members (Active, Deferred and Pensioner members) in accordance with this Strategy
- maintain and review the Pension Fund's Statements, Policies and Reports and all other matters relating to the Governance of the scheme
- communicate and engage with employers on LGPS matters
- provide support/training to employers
- maintain and develop an effective web presence for the benefit of members and employers

A guide to the roles and responsibilities of employers and the Administering Authority are set out in Appendix A. The guides include a summary of duties, defining the main functions, which will facilitate the delivery of an efficient, accurate and high-quality pension service to scheme members.

Failure to comply with any of the duties listed in Appendix A will be considered as a reportable breach. The ultimate aim is to work together to ensure that any issues of concern are addressed before an issue reaches a breach status. Any affected party will be given sufficient warning and the opportunity to address any outstanding issues before a breach is recorded.

Any breaches of duty will be recorded on our breaches register, which will be reviewed by the Pension Board on a quarterly basis. Individual breaches will be reported to The Pensions Regulator as required.

5. Performance Monitoring

The strategy recognises that there is a shared responsibility for ensuring compliance with the LGPS regulations and the PAS. Below we have set out the ways in which performance and compliance will be monitored;

- the Administering Authority and employers must aim to ensure that all functions and tasks are carried out to the agreed quality standards set out in this Strategy
- the Administering Authority will regularly monitor, measure and report on compliance with the agreed service standards outlined in this document
- the Administering Authority will undertake a formal review of performance against this Strategy on an annual basis and liaise with employers in relation to any concerns on performance
- the Administering Authority monitors its own performance against internal key performance indicators and the Disclosure Regulations 2013. Formal monitoring is carried out on a monthly basis, and is reported to the Pension Board on a quarterly basis
- the performance of employers against the standards set out in this document will be reported to the Pensions Committee and Pension Board, as appropriate, and will include data quality
- the Administering Authority will also regularly report to employers regarding individual performance, identifying any areas for improvement including outstanding data items

<u>Underperformance Fees</u>

The LGPS regulations provide Administering Authorities with the authority to recover any administration costs incurred as a result of the underperformance of an employer, from the employer responsible for the underperformance.

To date the Administering Authority has not recovered these additional costs and has taken the decision to work with employers to improve service delivery. However, we reserve the right to pass on these costs to the employer concerned, as opposed to sharing such costs across all employers.

From April 2020 Peninsula Pensions will monitor any additional costs incurred in the administration of the scheme as a direct result of underperformance, with a view to recovering these costs from the responsible employer.

Where areas of underperformance are identified, and an employer fails to make improvements and/or is unwilling to engage with Peninsula Pensions to resolve performance issues, Peninsula Pensions will:

- write to the employer, setting out area(s) of non-compliance with performance standards, offer support and, where applicable, request attendance at a training/coaching session.
- where the underperformance is in respect of an Admitted Body, the originating employer will be informed and will be expected to work with Peninsula Pensions to resolve the issue(s).

If no improvement is seen within one month or the employer is unwilling to attend a meeting to resolve the issue, Peninsula Pensions will issue a formal written notice, setting out:

- the area(s) of non-compliance that have been identified
- the steps taken to resolve those area(s)
- how the underperformance has contributed to the additional costs of administration and the amount of the additional cost incurred
- provide notice that the additional costs incurred by Peninsula Pensions as a direct result of the employer's poor performance will now be reclaimed

A breaches report will be presented to the Pension Board on a quarterly basis. This report will include the nature of the breach, the party responsible for the breach and details of any action taken to address the breach. The report will also include a recommendation for the Board to consider whether a breach is significant enough to warrant reporting to The Pensions Regulator.

In the event of a levy being issued to the Administering Authority by The Pensions Regulator, the levy will be passed on to the relevant employer where it can be demonstrated that the employer's action or inaction are responsible for the levy. Any disagreement regarding the amount of the levy will be decided by the Secretary of State who will have regard to:

- the provisions of the pension administration strategy that are relevant to the case, and
- the extent to which the Administering Authority and the employer have complied with those provisions in carrying out their functions under these regulations.

<u>Interest on late payments</u>

In accordance with LGPS regulations, interest will be charged on any outstanding amount overdue from an employer by more than one month. Interest will be calculated at 1% above the base rate on a day-to-day basis from the payment due date and will be compounded with three-monthly rests.

The employer will be reported to The Pensions Regulator where contributions are received late in accordance with The Pensions Regulator Code of Practice.

Feedback from Employers

Peninsula Pensions is also accountable for its performance and we welcome feedback from our employers regarding the performance against the standards in this administration strategy, as set out in Appendix A.

Comments should be sent to peninsulaemployers@devon.gov.uk or to the Employer and Communications Manager. Any feedback received will be incorporated into the quarterly reports provided to the Pension Board.

Employers are also entitled to raise any performance related issues direct to the Pension Board, via one of the Board's Employer Representatives.

6.Liaison and Communication

The delivery of a high quality, cost-effective administration service is not only the responsibility of the Administering Authority but it also depends on the Administering Authority working with a number of individuals in different organisations to ensure that members and other interested parties receive the appropriate level of service and that statutory requirements are met.

Peninsula Pensions has a dedicated Employer & Communications Team who will work with employers to ensure they are equipped to meet their responsibilities in line with the LGPS Regulations.

Every employer will have access to a dedicated Member Services Team who will assist employers with queries relating to individual members.

Each employer will designate a named individual(s) to act as a Pension Liaison Officer, who will serve as the primary contact regarding any aspect of administering the LGPS. The Pension Liaison Officer(s) will be provided with a username and password to access the employer section of the Peninsula Pensions website

Peninsula Pensions will employ a multi-channel approach in liaising and communicating with employers to ensure that all requirements are consistently met.

The various channels of communication are set out below:

1. The Peninsula Pensions website is the main communication tool for both employers and scheme members.
   - Employers – a dedicated and secure employer section where employers can access procedure guides, information on courses run by the Fund, access back copies of the Pensions Line, access Employer Self Service and Interface information. All employers are required to provide data through the Employer Self Service Portal and/or Interfaces.
   - Scheme members – access to up-to-date information about all aspects of the LGPS and the Member Self Service area where members can update personal details, review annual benefit statements, complete their own pensions estimates and access online tutorials.
   - Contact Details – Peninsula Pension staff roles and contact information are available on the website, together with contact details for the Pensions Committee and Pension Board.

2. Scheme members who have chosen to opt out of the Member Self Service will continue to receive statutory communication by post. They will still be able to access up-to-date information about all aspects of the LGPS via our website.

3. Periodic newsletters are issued to scheme members and all employing authorities and published on the Peninsula Pensions website.

4. Induction and pre-retirement workshops undertaken upon request to develop both employer and scheme member understanding (minimum of attendees 10 required per workshop).

5. Pension surgeries held for scheme members upon employer request to resolve any individual or collective issues that members may have.

6. Regular E-zine sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.

7. Employer seminars and training groups held at least annually to review scheme developments, and/or to resolve any training needs that employers may have.

8. Annual Consultative Meeting held to review investment and administrative performance during the preceding 12 months, and to consider future plans and challenges.

9. Employer representatives are responsible for ensuring that information supplied by Peninsula Pensions is communicated to scheme members within their organisation, such as scheme guides and factsheets.

For further information regarding our methods of communication, please see our Communications Policy which is located within the Statutory Statements section of our website

Note: Peninsula Pensions are not responsible for verifying the accuracy of any information provided by the employer for the purpose of calculating benefits under the provisions of the Local Government Pension Scheme and the Discretionary Payments Regulations. This responsibility rests with the employer.

Payroll providers: For employers who have delegated the responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form will need to be completed confirming the areas for which they are permitted to act on your behalf. If information received from the payroll provider results in incorrect information being issued or incorrect benefits being paid to scheme members, the responsibilities under the Local Government Pension Regulations lie with the employer.

7.Actuarial work

The Administering Authority will appoint an actuary, who will conduct a valuation of the pension fund, as appropriate. The actuary will determine the assets and liabilities in respect of each employer and will calculate the appropriate contribution rate to be applied for the subsequent three-year period.

The costs associated with the administration of the scheme are charged directly to the pension fund, and the actuary takes these costs into account in assessing the employers' contribution rates.

In the event that an employer elects to outsource a service, the actuary is required to produce a report in respect of those scheme members involved in the outsourcing. The outsourcing employer will be liable for any actuarial costs arising from the outsourcing of a service, including the production of the report.

Guidance regarding the outsourcing of a service is located within the employer's section of our website.

An employer may also commission the actuary to undertake additional work, the costs of which will be charged to the employer. Please note that these costs will also include an element of the cost of any administration work involved in liaising with the actuary.

Approved by the Pensions Committee
Somerset County Council Pension Fund
May 2022

Appendix A

Performance Standards

The delivery of an efficient and cost-effective administration is dependent upon a successful joint working partnership between Peninsula Pensions and key individuals within or representing the employer.

Performance standards are expressed as targets (i.e. the level of performance expected in normal circumstances). It is accepted that there may be occasions where it may not be possible to achieve the target indicated and a pragmatic approach will be adopted, subject to employers using their best endeavours to meet expected standards wherever possible.

Employer Responsibilities

1. Communication

Function/Role	Performance Target
Primary contacts - Nominate and keep under review named contacts including main contact and HR and payroll links.	Within 1 month of employer joining the Pension Fund or change to nominated representative
Stage 1 Appeals (IDRP) Officer - Appoint a person to consider appeals under Stage 1 of the Applications for the Adjudication of Disagreements Procedure (AADP) and provide full, up to date contact details to Peninsula Pensions.	Within 1 month of employer joining the Pension Fund or 1 month of a change in Appeals Officer
Independent Registered Medical Practitioner (IRMP) - Appoint an IRMP qualified in occupational health medicine, or arrange with a third party, and seek approval of the appointment from Peninsula Pensions, for the consideration of all ill-health retirement applications from active and deferred members.	Within 1 month of employer joining the Pension Fund or within 1 month of a change in IRMP(s)
Employer Discretions - Formulate and publish policies in relation to all areas where the employer may exercise a discretion within the LGPS (including providing a copy of the policy document to Peninsula Pensions).	Initial policy and subsequent revisions to be provided within 1 month of publishing
LGPS content in Contracts – Ensure that Fund-approved LGPS content is included in all contract / appointment / adjustment communications for LGPS-eligible positions including direction to Peninsula Pensions website.	Review LGPS content annually or within 1 month following receipt of information regarding adjustment to Fund approved wording
Communicate any information provided by Peninsula Pensions to scheme members/potential scheme members.	Within 1 month unless an alternate timeframe is set by Peninsula Pensions

Refer new / prospective scheme members to Peninsula Pensions' website.	Within 1 month of commencement of employment or change in contractual conditions
Outsourcing – Notify Peninsula Pensions of contracting out of services which will involve a TUPE transfer of LGPS eligible staff to another organisation to enable LGPS information to be provided to potential contractors.	Within 1 week-following Committee approval
Work with Peninsula Pensions to arrange for the admission of a contractor as a new employer.	A minimum of 2 months in advance of the date of contract
Notify Peninsula Pensions of changes / extension / cessation of arrangements with a contractor.	Within 5 working days of decision being made
Assist Peninsula Pensions in ensuring that the terms of the contractor's admission as an employer (Admission Agreement) are complied with.	Notify Peninsula Pensions immediately if the terms of the Admission Agreement have been breached
Respond to enquiries from Peninsula Pensions and representatives from the Administering Authority.	Within 2 weeks from receipt of the enquiry
Respond to enquiries from Peninsula Pensions and representatives from the Administering Authority in respect of Breaches of the Law.	Within 1 week of the request

2. Payments to the Fund

Function/Role	**Performance Target**
The Employer's Rate - Apply the employer contribution rate and deficit sum agreed with the Administering Authority on becoming an employer and adjust as instructed by the Administering Authority from a date determined by the Administering Authority.	Within 5 working days of receipt of information from the Administering Authority effective from a date determined by the Administering Authority following advice from the scheme actuary
The Employee's Rate - Calculate and review the correct employee contribution rate for all members at commencement and on 1st April each year. Also, to be reviewed at intervals during the year at the employer's discretion.	Within 5 working days of commencement, on 1st April each year and as per the employer's discretionary policy on adjusting the employee's contribution rate at intervals during the year

Assumed Pensionable Pay (APP) - Ensure the correct application of APP during periods of reduced/nil pay in accordance with the LGA's HR & Payroll Guides.	Review of eligibility for APP immediately upon a member moving to reduced/nil pay
Monthly Payment to the Pension Fund - Remit employee, employer and any additional contributions and submit the online contributions form to the Administering Authority.	By the 19th of the month after deduction from pay or date specified by the Administering Authority.
Payment of AVCs - Remit Additional Voluntary Contributions (AVCs) to the AVC provider(s).	By the 19th of the month following the deduction from pay
Make strain/shortfall payments to the Administering Authority in respect of early payment of benefits from flexible retirement, redundancy or business efficiency retirement or where a member retires early with employer's consent.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Remit recharge payments in respect of pension members – e.g. Discretionary Compensation/Enhancement.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Payments in respect of FRS102 and IAS19 work carried out on behalf of employers by the Administering Authority and the Actuary.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Payments in respect of all other work carried out on behalf of the employer by the Actuary and connected data quality assurance undertaken by the Administering Authority.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Prompt payment of invoices issued by the Administering Authority for specific services provided e.g. admission agreement work.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund
Make payment of additional costs to the Administering Authority associated with non-compliance with performance standards of the scheme employer.	Within 5 working days of receipt of invoice from Peninsula Pensions or the Pension Fund

3. Year-End Return

Function/Role	Performance Target
Completing the Year-End Return - Provide a fully reconciled and completed Year-End Return to Peninsula Pensions in the format stipulated in the instructions issued each February.	By 19th April following the year-end unless employers are notified of an alternative date by the Peninsula Pensions
To resolve all queries returned from the Year-End Return.	To respond fully to all queries from Peninsula Pensions within 3 weeks of receipt of the query. In circumstances where an employer submits a late year-end return, limiting the time that Peninsula Pensions has to complete its duties, the timescales may be reduced, as advised by the Peninsula Pensions

4. Scheme Members Information

Function/Role	Performance Target
To notify Peninsula Pensions of all new scheme members, changes in personal details, e.g. name, working hours via Interface or Employer Self Service.	1 month
On cessation of membership determine the reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate. **NB** Where an employee is suffering from a Terminal Illness and limited life expectancy, employers should contact Peninsula Pensions for guidance without delay.	For members in receipt of regular pay, where the employer can accurately project pay to the date of retirement, up to 1 month prior, or within 1 week following final pay period. Leavers under age 55 within 1 month following final payday
Apply a scheme members election to opt out of the LGPS to the member’s payroll record. Notify Peninsula Pensions in line with the process for leavers, as stated above.	Election applies from the 1st of the month for the next available payroll, except where an opt-out is made within 3 months of an employee joining the scheme. In such cases the opt-out is backdated to the joining date and all contributions refunded directly.
Where a member dies in service - determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Within 1 week of final pay period
Provide monthly CARE data within required format.	Within 2 weeks of pay run
Ensure members are notified of the option to pay Additional Pension Contributions following absences not covered by APP.	Within 2 weeks of the return to work, or as set out in the employer’s discretion policy
Apply/adjust/cease the deduction of Additional Pension Contributions following an APC application from a	In the month following receipt of election from scheme member

scheme member and forward information via Interface or ESS to Peninsula Pensions.	
Notify Peninsula Pensions of periods of unpaid absence not covered by Assumed Pensionable Pay (APP).	Within 1 month
Arrange for the deduction of AVCs from scheme member's pay following election.	Commence deduction of AVCs in month following the month of election, as advised by AVC Provider
Provide end-of-year data within required format.	By date specified by Peninsula Pensions in January each year
In line with General Data Protection Regulations (GDPR) an employer will protect information relating to a member contained in any item issued by Peninsula Pensions from improper disclosure. They will only use information supplied or made available by Peninsula Pensions for the LGPS.	Ongoing requirement

<u>Administering Authority Responsibilities</u>

1. Peninsula Pensions

To complete cases in-line with the Disclosure Regulations, with at least 90% of cases completed within the internal targets.

Peninsula Pensions Responsibility	Disclosure regulations / Legal Requirement	Internal Targets
To accurately record and update member records on pension administration systems.	Within 3 months of effective date of change	2 weeks
To produce **a statutory notification and** forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.	Within 2 months of joining the scheme or within 2 months of request being made	1 month
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	n/a	3 months
To produce annual benefit statements for all active members as at the preceding 31st March and notify electronically or by post to member's home address.	31st August	31st July
To produce annual benefit statements for all preserved members, as at the preceding 31st March, and notify electronically or by post to member's home address.	31st August	30th June
To provide information and quotations to scheme member	Within 2 months of request being made	Within 10 working days

about additional voluntary contribution (AVC) options.		
To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 2 months of request being made	Within 10 working days
To produce retirement estimates for employers, once in receipt of all the necessary information.	Within 2 months of request being made	Within 10 working days
To accurately record and update member records on pension administration systems for those members leaving the scheme, without entitlement to immediate payment of benefits. Provide them with the options available and deferred benefit entitlement.	Within 2 months of receiving notification that pensionable service has ended or within 2 months of a request	Within 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	Within 1 month following date benefit becomes payable (2 months if retiring before normal pension age)	10 working days from receiving all information from employer
Upon receipt of members completed retirement forms finalise pension records and authorise payment of lump sum and set up of payroll record.	n/a	Within 10 working days
Under the General Data Protection Regulations 2018 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	n/a	Ongoing requirement, online security within databases regularly reviewed
Each Administering Authority is responsible for exercising the discretionary powers given to it by the regulations. The Administering Authority is also responsible for publishing its policy to its members in respect of the key discretions as required by the regulations.		Peninsula Pensions will maintain links to these discretions on their website
Notification of Pension Fund Triennial Valuation results including contribution rates.		Assuming information provided by Actuaries provisional results December following valuation, with final results the following March

Director of Finance’s report

Investment activity

During the 2022-2023 financial year, the planned-asset allocation of the fund was altered with , although with the adoption of a new Investment Strategy Statement at the March 2022 Pensions Committee being implemented in the early part of the 2022-2023 financial year. We finished the process of moving our listed assets to our chosen LGPS pool, Brunel in May 2021. Brunel now manage in excess of 93% of the investment assets of the Fund.

Further details regarding the investment objectives of the fund can be found in the Investment Strategy Statement, a copy of which can be found earlier in this annual report.

The current planned asset allocation is shown in the table below:

31 March 2022 Target %	Asset class	31 March 2023 Target %
25	Passive global equity	20
20	UK equity	10
10	Active global developed equity	25
5	Active global small cap. equity	5
5	Emerging market equity	5
65	**Total listed equity**	**65**
4	UK government gilts	4
4	UK government index-linked bonds	4
8	Sterling corporate bonds	8
3	High yield Corporate bonds	3
19	**Total listed bonds**	**19**
10	Property	10
5	Private Equity	5
15	**Total alternatives**	**15**
1	**Cash**	**1**
100		**100**

Further details are contained in the section earlier in this report describing the fund managers. The actual holdings of the fund at the start and end of the year are detailed as part of the financial statements, which can be found later in this annual report.

Investment market background

Interest rates

During the year the Bank of England increase the official UK base rate at every meeting of the Monetary Policy Committee. This saw rates increase from 0.75% at the start of the Fund’s financial year to 4.25% at the end.

Investment returns

Returns for the year were negative for the whole fund over the whole year. Equities lost a small amount of value as the impacts of the Russian invasion of Ukraine, and particularly the inflation that this contributed to, impacted markets throughout the year. Inflation fears and increases in central bank interest rates led to considerable losses in the bond portfolios.

Key market indicators

	Start of year	End of year	Percentage change for the year
Bank of England Base rate	0.75%	4.25%	
Strength of sterling			
against US dollars	1.31	1.23	-6%
euro	1.19	1.14	-4%
yen	159.88	163.82	2%
Stock markets (quoted in local currency)			
FTSE 100 (UK)	7,516	7,632	2%
FTSE All Share (UK)	4,188	4,158	-1%
Dow Jones (USA)	34,678	33,274	-4%
S&P 500 (USA)	4,530	4,109	-9%
FTSE Eurofirst 300 ex UK (Europe)	2,162	2,214	2%
Nikkei 225 (Japan)	27,821	28,041	1%
MSCI Emerging Market	1,142	990	-13%

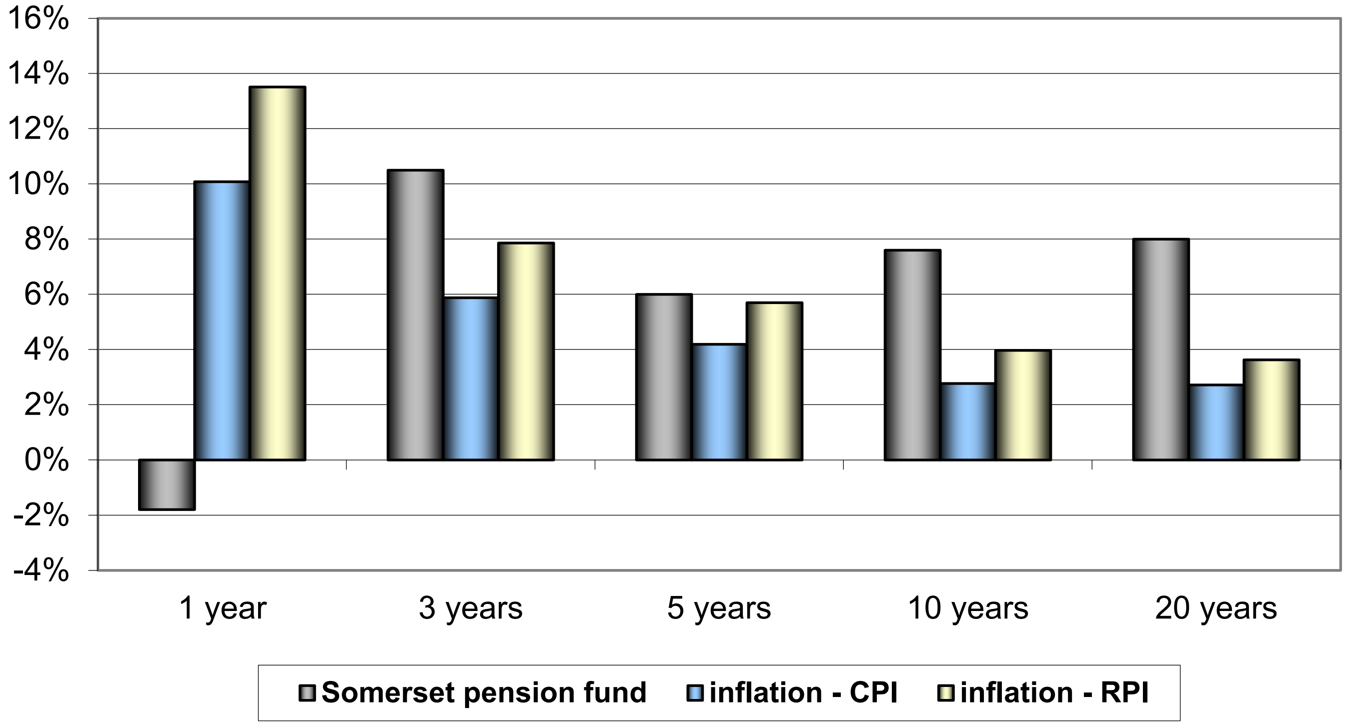
Source: Bank of England
Bloomberg

Investment performance

The success or failure of a pension fund depends largely on the performance of its investments. Benefits are worked out based on final salary for pre 2014 service and career average earnings for post 2014 service, and these benefits are 'index-linked' to protect their value over time. Taking the above into account, there is one simple but important comparison that can be made. This is to compare the growth in value of the fund with the rate of inflation.

For 2022/2023, the fund had a negative return and this return was noticeably short of surging inflation. Looking back over five-, 10- and 20-year periods, we can see from the chart below that the fund has grown more strongly than inflation over the longer term.

Annualised fund investment performance in relation to inflation



Source: Somerset CC
Bloomberg

Overall fund performance

The fund's total return was negative for the financial year at a return of -1.8%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers. The return on our scheme-specific benchmark was -4.7% and the fund outperformed against this by 2.9%. The performance of each of the fund managers and the whole fund is shown in the table below net of all fees and charges.

1 year fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Brunel	Passive global equity	0.3%	0.1%	0.2%
Brunel	Global high alpha equity	2.6%	-0.5%	3.1%
Brunel	UK equity	1.3%	3.9%	-2.6%
Brunel	Global small cap equity	-2.8%	-3.5%	0.7%
Brunel	Emerging market equity	-5.1%	-4.9%	-0.2%
Brunel	Pasive Gilts	-29.7%	-29.7%	0.0%
Brunel	Passive I-L Gilts	-30.4%	-30.4%	0.0%
Brunel	Sterling corporate bonds	-10.7%	-10.2%	-0.5%
Brunel	Multi asset credit	-3.5%	2.2%	-5.7%
Brunel	Property	-10.9%	-14.5%	3.6%
Neuberger Berman	Global private equity	24.9%	2.3%	22.6%
Brunel	Global private equity	3.9%	2.3%	1.6%
Technology Venture Partners	Venture capital	0.0%	2.3%	-2.3%
Somerset County Council	Cash	2.3%	2.3%	0.0%
Whole Fund		**-1.8%**	**-4.7%**	**2.9%**

Source: Somerset CC

3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Brunel	Passive global equity	17.1%	17.0%	0.1%
Brunel	Global high alpha equity	18.7%	17.1%	1.6%
Brunel	UK equity	11.9%	14.4%	-2.5%
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	6.9%	7.9%	-1.0%
Brunel	Pasive Gilts	Initial investment in May 2021		
Brunel	Passive I-L Gilts	Initial investment in May 2021		
Brunel	Sterling corporate bonds	Initial investment in July 2021		
Brunel	Multi asset credit	Initial investment in June 2021		
LaSalle / Brunel	Property	1.3%	2.6%	-1.3%
Neuberger Berman	Global private equity	24.7%	0.9%	23.8%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.9%	-0.9%
Somerset County Council	Cash	1.0%	0.9%	0.1%
Whole Fund		**10.5%**	**9.3%**	**1.2%**

Source: Somerset CC

5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Brunel	UK equity	Initial investment in November 2018		
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	Initial investment in October 2019		
Brunel	Pasive Gilts	Initial investment in May 2021		
Brunel	Passive I-L Gilts	Initial investment in May 2021		
Brunel	Sterling corporate bonds	Initial investment in July 2021		
Brunel	Multi asset credit	Initial investment in June 2021		
LaSalle / Brunel	Property	1.4%	2.5%	-1.1%
Neuberger Berman	Global private equity	20.6%	0.8%	19.8%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.8%	-0.8%
Somerset County Council	Cash	1.0%	0.8%	0.2%
Whole Fund		**6.0%**	**5.4%**	**0.6%**

Source: Somerset CC

10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Brunel	UK equity	Initial investment in November 2018		
Brunel	Global small cap equity	Initial investment in September 2020		
Brunel	Emerging market equity	Initial investment in October 2019		
Brunel	Pasive Gilts	Initial investment in May 2021		
Brunel	Passive I-L Gilts	Initial investment in May 2021		
Brunel	Sterling corporate bonds	Initial investment in July 2021		
Brunel	Multi asset credit	Initial investment in June 2021		
LaSalle / Brunel	Property	5.1%	6.4%	-1.3%
Neuberger Berman	Global private equity	17.4%	0.6%	16.8%
Brunel	Global private equity	Initial investment in January 2021		
Technology Venture Partners	Venture capital	0.0%	0.6%	-0.6%
Somerset County Council	Cash	0.8%	0.6%	0.2%
Whole Fund		**7.6%**	**7.1%**	**0.5%**

Source: Somerset CC

Investment cost transparency

Direct investment management fees and transaction costs are included in note 9 of the Statement of Accounts. However, there has been an increasing focus on investment management costs, and a recognition that there are significant further costs that in the past have been hidden. The cost transparency agenda aims to ensure full disclosure of all costs involved in investment, as unless costs are identified they cannot be effectively managed. The effective management of investment costs should improve investment returns. The move toward investment fee transparency and consistency is seen by the LGPS Scheme Advisory Board as an important factor in the LGPS being perceived as a value led and innovative scheme.

The following table summarises investment management costs for 2022/23. It has been compiled from templates completed by each of the Fund's investment managers. The "Direct" costs column reconciles to the costs disclosed in note 9 within the Statement of Accounts, while "Indirect" costs are those costs that do not meet the criteria for inclusion in the accounts but do represent significant underlying costs to the Fund's investments.

The table below has been produced on a best efforts basis. Not all fund managers provided information to the same standard, it is likely that the total is understated because of this. Also, not all fund managers produced data for the correct time period, fund officers have aggregated time periods or done pro-rata calculations as applicable.

	Brunel asset pool				Non-asset pool				Whole fund	
	Direct £ m	Indirect £ m	Total £ m	bps	Direct £ m	Indirect £ m	Total £ m	bps	Total £ m	bps
Management fees										
Ad valorum	7.250		7.250	28.5	0.377		0.377	18.0	**7.627**	**27.7**
Performance			0.000	0.0			0.000	0.0	**0.000**	**0.0**
Research			0.000	0.0			0.000	0.0	**0.000**	**0.0**
Other charges	0.314		0.314	1.2			0.000	0.0	**0.314**	**1.1**
Asset pool shared costs	1.016		1.016	4.0			0.000	0.0	**1.016**	**3.7**
Transaction costs										
Taxes and stamp duty		0.622	0.622	2.4			0.000	0.0	**0.622**	**2.3**
Broker commission		0.356	0.356	1.4			0.000	0.0	**0.356**	**1.3**
Transactional services		0.054	0.054	0.2			0.000	0.0	**0.054**	**0.2**
Other transaction costs		1.497	1.497	5.9			0.000	0.0	**1.497**	**5.4**
Implicit costs		3.731	3.731	14.7			0.000	0.0	**3.731**	**13.6**
Indirect transaction costs		1.413	1.413	5.6			0.000	0.0	**1.413**	**5.1**
Anti-dilution offset		-0.269	-0.269	-1.1			0.000	0.0	**-0.269**	**-1.0**
Custody	0.767		0.767	3.0	0.044		0.044	2.1	**0.811**	**2.9**
Other										
Stock lending			0.000	0.0			0.000	0.0	**0.000**	**0.0**
Other costs			0.000	0.0			0.000	0.0	**0.000**	**0.0**
Total	**9.347**	**7.404**	**16.751**	**65.9**	**0.421**	**0.000**	**0.421**	**20.2**	**17.172**	**62.4**

The different types of costs itemised in the above table are defined below:

- **Ad valorum** Fees are the management fees charged by the external fund managers based on the value of funds under their management. These may be invoiced or encashed from units held in pooled funds. Those shown as indirect relate to where fees are taken from underlying funds. All of these fees appear in note 9.
- **Performance fees** are fees based on the fund manager having achieved a level of performance that warrants additional fees. These will be based on the manager having achieved performance above a hurdle rate, either an absolute return or relative to a benchmark, and then being entitled to a share of the profit from the return achieved above the hurdle rate.
- **Other charges** comprise all payments made to parties providing services to the pooled fund other than the manager such as, but not limited to, the depositary, custodian, auditor, property related expenses, to the extent these are not included under transaction costs, and any other fees or levies deducted from the pooled fund.
- **Asset pool shared costs** comprise the charges levied by the Brunel Pension Partnership to meet the costs of running the company.
- **Taxes and stamp duty** comprise any taxes charged on asset transaction.
- **Broker commission** comprises payments for execution of trades. Levies, such as exchange fees, settlement fees and clearing fees are included within broker commissions.
- **Implicit costs** represent the loss of value implied by the difference between the actual transaction price and the mid-market value of the asset. The precise methodologies for calculating implicit costs are still being deliberated by regulators. The costs included in the table are based on the recommendation that firms may calculate implicit costs by reference to appropriate measures of market spread and portfolio turnover.
- **Entry/exit charges** may arise when a holding in a pooled fund is bought or sold. The amount reported will be the actual amount incurred for each transaction and will include any dilution levies made in addition to the price and any amounts representing the difference between the transaction price and the net asset value per unit calculated by reference to the mid-market portfolio valuation.
- **Indirect transaction costs** are transaction costs incurred within pooled funds when they buy and sell their underlying investments.
- **Custody** – the costs levied by the Fund’s custodian.
- **Other costs** represent any additional charges that do not fit in any other category above.

As well as being transparent around costs the LGPS is striving to be more transparent about the effect of fund manager fees on investment performance. The following table shows, for each type of asset managed the performance gross of fund manager fees (the ad valorum fees and performance fees as per the definition above) and net of these fees. All of this performance is net of the transaction costs referred to above.

Asset class	1 year Gross	1 year Net	1 year Benchmark	3 year Gross	3 year Net	3 year Benchmark	5 year Gross	5 year Net	5 year Benchmark
Brunel asset pool managed investments									
Passive global equity	0.3%	0.3%	0.1%	17.1%	17.1%	17.0%			
UK equity	1.5%	1.3%	3.9%	12.1%	11.9%	14.4%			
Global high alpha equity	2.9%	2.6%	-0.5%	19.0%	18.7%	17.1%			
Smaller companies equity	-2.5%	-2.8%	-3.5%						
Emerging market equity	-4.7%	-5.1%	-4.9%	7.3%	6.9%	7.9%			
Passive Gilts	-29.7%	-29.7%	-29.7%						
Passive index-linked Gilts	-30.4%	-30.4%	-30.4%						
Sterling corporate bonds	-10.6%	-10.7%	-10.2%						
Multi-asset credit	-3.2%	-3.5%	2.2%						
Property	-10.9%	-10.9%	-14.5%	1.3%	1.3%	2.6%	1.4%	1.4%	2.6%
Global private equity	3.9%	3.9%	2.3%						
Non-asset pool managed investments									
Global private equity	25.7%	24.9%	2.3%	25.5%	24.7%	0.9%	21.4%	20.6%	0.8%
Venture capital	1.5%	0.0%	2.3%	1.5%	0.0%	0.9%	1.5%	0.0%	0.8%
Cash	2.3%	2.3%	2.3%	1.0%	1.0%	0.9%	1.0%	1.0%	0.8%

Where the fund is invoiced for fees a full calculation has been done to remove the exact fees charged. Where the management fee has been deducted from a pooled fund the performance has been adjusted by adding back the percentage fee charged to the net performance.

Financial statements

Our responsibilities

As the administration authority of the fund, Somerset County Council must:

- appoint an officer to manage the fund's financial affairs – for us, that officer is the Director of Finance and Governance; and
- manage the fund's affairs to protect its assets and make sure resources are used economically, efficiently and effectively.

Responsibilities of the Director of Finance and Governance

The Director of Finance and Governance is responsible for preparing the pension fund's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the code'), must give a true and fair view on the financial position of the pension fund at the accounting date and its income and spending for the year ended 31 March 2023.

In preparing this statement of accounts, the Director of Finance and Governance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and cautious; and
- followed the code.

The Director of Finance and Governance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

Fund Account

2021/2022 £ millions	2021/2022 £ millions		2022/2023 £ millions	2022/2023 £ millions	Notes
		Contributions and other income			
24.077		Contributions from employees	26.079		5
93.882		Contributions from employers	96.627		5
2.728		Recoveries from member organisations	2.486		5
11.494		Transfer values received	9.175		6
132.181			**134.367**		
		Less benefits and other payments			
-87.162		Recurring pensions	-90.903		5
-13.189		Lump sum on retirement	-13.473		5
-1.994		Lump sum on death	-2.073		5
-9.115		Transfer values paid	-11.761		5
-0.320		Refund of contributions to leavers	-0.373		7
0.000		Employer exit payments	-0.355		
-111.780			**-118.938**		
	20.401	**Net additions from dealings with members**		**15.429**	
		Management Expenses			
-1.363		Administrative expenses	-1.443		8
-8.511		Investment management expenses	-9.768		9
-0.583		Oversight and governance expenses	-0.653		10
-10.457			**-11.864**		
	9.944	**Net additions including management expenses**		**3.565**	
		Investment income			
14.981		Investment income received	10.020		11
0.620		Investment income accrued	0.894		11
0.000		Less irrecoverable tax	0.000		
15.601			**10.914**		
		Change in market value of investments			
37.169		Realised profit or loss	295.738		14
163.310		Unrealised profit or loss	-349.914		14
200.479			**-54.176**		
	216.080	**Net return on investments**		**-43.262**	
	226.024	**Net increase/ (decrease) in the net assets available for benefits during the year**		**-39.697**	

Table continued on next page

Fund Account (continued)

2021/2022 £ millions	2021/2022 £ millions		2022/2023 £ millions	2022/2023 £ millions	Notes
		Change in actuarial present value of promised retirement benefits			
54.133		Vested benefits	1,772.442		15
5.743		Non-vested benefits	42.765		15
	59.876	**Net change in present value of promised benefits**		**1,815.207**	
	285.900	**Surplus/(deficit) on the pension fund for the year**		**1,775.510**	
	-2,313.564	Add net liabilities at beginning of year		-2,027.664	
	-2,027.664	**Net liabilities at end of year**		**-252.154**	

Net Asset Statement

On 31 March 2022 £ millions		On 31 March 2023 £ millions	Notes
	Investment assets and liabilities		
2,837.350	Investment assets	2,797.832	12
0.000	Investment liabilities	0.000	12
0.620	Other investment balances	0.894	16
	Current assets		
4.078	Contributions due from employers	7.144	
0.500	Cash at bank	0.831	
4.713	Other debtors	0.560	
	Current liabilities		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-2.165	Other creditors	-1.862	
2,845.096	**Net assets of the scheme available to fund benefits at end of year**	**2,805.399**	
	Actuarial present value of promised retirement benefits		
-4,794.764	Vested benefits	-3,022.322	15
-77.996	Non-vested benefits	-35.231	15
-2,027.664	**Net liabilities at end of year**	**-252.154**	

Notes to the Accounts

Note 1: Description of the fund

The Somerset County Council pension fund is a defined benefit pension plan for the employees of the County Council and other employers in Somerset. The fund is part of the Local Government Pension Scheme (LGPS). The LGPS is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended);
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended); and
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The fund receives contributions and investment income to meet pension benefits and other liabilities related to the majority of the County Council's employees. It does not cover teachers (whose pensions are managed through the Government's Department for Education). The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police (police officers have a separate scheme) and employees of other member bodies. A full list of employers who paid into the fund during the financial year is contained in note 5 of the accounts.

Contributions by employees are based on nine-tiered contribution bands dependent on the individual employee's pay, the nine contribution bands range from 5.5% to 12.5%. Nationally the Government estimate the average employee contribution is 6.3%.

All employers' contribution rates are decided by the fund's actuary every three years as part of this valuation of the fund. The rates for the 2022-2023 financial year were the third year covered by the valuation of the fund as at 31 March 2019. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 18.1% for each of the years from 2020 to 2023 plus a fixed sum of £9.33m for 2020/2021, £9.67m for 2021/2022 and £10.03m for 2022/2023. This compares with a rate of 15.5% and a lump sum of £12.81m for the 2019/2020 year set under the 2016 valuation. A common contribution rate will, in the long term, be enough to meet the liabilities of the fund assessed on a full-funding basis – this was 24.3% at the 2019 valuation (22.9% at the 2016 valuation). This common contribution rate can be split into amounts that meet new service and an amount needed to make up the deficit in the fund, the common rate of 24.3% is made up of a rate of 17.8% for new service and 6.5% for deficit funding. As part of the 2019 valuation all employers except academy schools have agreed to meet the deficit funding portion by paying a fixed monetary amount rather than a percentage of pensionable pay (as demonstrated by the example of Somerset County Council above). The aim of this is to remove the volatility caused by changing staff levels. At the valuation the actuary estimated that the fund's assets covered 86% of the fund's liabilities.

The pension and lump-sum payments that employees receive when they retire are linked to their final year's salary for pre-31 March 2014 service and to career average re-valued earnings (CARE) for service since 1st April 2014, along with how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.

Note 2: Basis of preparation

The statement of accounts summarises the fund's transactions for the 2022-2023 financial year and its financial position at 31 March 2023. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2022-2023 (the Code) which is based upon International Financial Reporting Standards (IFRS), as amended for the UK public sector.

The accounts have been prepared on a going concern basis.

Note 3: Accounting policies

The Fund account is prepared on a full accrual basis, with the exception of transfer values. As a result the following apply:

- investments and financial assets are included at fair value;

- the majority of listed investments are stated at the bid price or the last traded price, depending on the convention of the stock exchange on which they are quoted, at the date of the net assets statement;

- fixed interest securities are valued excluding accrued income;

- pooled investment vehicles are stated at bid price for funds with bid/offer spreads, or single price (typically net asset value) where there are no bid/offer spreads, as provided by the investment manager of the respective pooled investment vehicle;

- forward foreign exchange contracts are valued using the foreign exchange rate at the date of the net asset statement;

- The Neuberger Berman Crossroads 2010 fund, Neuberger Berman Crossroads XX fund, Neuberger Berman Crossroads XXI fund and Neuberger Berman Crossroads XXII fund are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2018). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation. Quarterly valuation statements for private equity investments are produced a significant length of time after the quarter end, and consequently the value we use for each unit of the private equity funds in the accounts is the audited value of the private equity funds at 31 December;

- contributions and benefits are accounted for in the period in which they fall due;

- interest on deposits and fixed interest securities are accrued if they are not received by the end of the financial year;

- interest on investments are accrued if they are not received by the end of the financial year;

- all dividends and interest on investments are accounted for on 'ex-dividend' dates;

- all settlements for buying and selling of investments are accrued on the day of trading;

- transfer values are accounted for when money is received or paid;

- the fund has significant investments overseas. The value of these investments in the net asset statement is converted into sterling at the exchange rates on 31 March. Income receipts, and purchases and sales of overseas investments, are normally converted into sterling at or about the date of each transaction and are accounted for using the actual exchange rate received. Where the transaction is not linked to a foreign exchange transaction to convert to sterling the exchange rate on the day of transaction is used to convert the transaction into sterling for accounting purposes; and

- Cash and cash equivalents on the Net Asset statement are restricted to ‘cash at bank’ and ‘bank overdraft’. All cash (overdraft) not in the pensions fund’s standard bank account with NatWest is treated as an Investment asset and is shown in note 12.

Note 4: Critical judgements in applying accounting policies

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions take account of historical experience, current trends and future expectations. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

- Actuarial present value of promised retirement benefits (note 15)
- Level 3 investments as described in the Fair Value Hierarchy (note 32)

Note 5: Contributions and benefits

2022/2023	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.931	15.644	1.290	**25.865**
- Additional	0.083	0.131	0.000	**0.214**
Total	9.014	15.775	1.290	**26.079**
Employers' contributions				
- Normal	25.470	42.708	3.659	**71.837**
- Augmentation	0.211	0.229	0.070	**0.510**
- Deficit funding	10.030	12.800	1.450	**24.280**
Total	35.711	55.737	5.179	**96.627**
Recurring pension and lump sum payments	-49.081	-45.430	-11.938	**-106.449**
Money recovered from member organisations	1.481	0.991	0.014	**2.486**
	-2.875	**27.073**	**-5.455**	**18.743**

2021/2022	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.126	14.274	1.419	**23.819**
- Additional	0.108	0.149	0.001	**0.258**
Total	8.234	14.423	1.420	**24.077**
Employers' contributions				
- Normal	23.295	38.860	4.041	**66.196**
- Augmentation	0.346	0.484	0.168	**0.998**
- Deficit funding	9.670	13.663	3.355	**26.688**
Total	33.311	53.007	7.564	**93.882**
Recurring pension and lump sum payments	-48.225	-43.452	-10.668	**-102.345**
Money recovered from member organisations	1.452	1.262	0.014	**2.728**
	-5.228	**25.240**	**-1.670**	**18.342**

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
County council			
Somerset	9.014	35.711	44.725
Police & Crime Commissioner			
Avon & Somerset	6.406	18.293	24.699
District councils			
Mendip	0.448	1.871	2.319
Sedgemoor	0.846	3.793	4.639
South Somerset	0.832	3.650	4.482
Somerset West & Taunton	1.366	5.736	7.102
Other bodies			
Exmoor National Park	0.146	0.549	0.695

Table continued on next page

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Parish and town councils			
Axbridge Town Council	0.002	0.007	0.009
Berrow Parish Council	0.001	0.004	0.005
Bishop Hull Parish Council	0.001	0.003	0.004
Bridgwater Town Council	0.023	0.082	0.105
Burnham & Highbridge Town Council	0.017	0.062	0.079
Castle Cary Town Council	0.003	0.010	0.013
Chard Town Council	0.020	0.069	0.089
Cheddar Parish Council	0.003	0.009	0.012
Coleford Parish Council	0.001	0.004	0.005
Comeytrowe Parish Council	0.001	0.003	0.004
Crewkerne Town Council & Burial Board	0.010	0.037	0.047
East Coker Parish Council	0.001	0.002	0.003
Frome Town Council	0.053	0.184	0.237
Glastonbury Town Council	0.018	0.063	0.081
Ilminster Town Council	0.011	0.035	0.046
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.045	0.139	0.184
Minehead Town Council	0.016	0.056	0.072
Nether Stowey Parish Council	0.001	0.004	0.005
North Petherton Town Council	0.003	0.007	0.010
Puriton Parish Council	0.001	0.003	0.004
Shepton Mallet Town Council	0.008	0.030	0.038
Somerton Town Council	0.004	0.017	0.021
Street Parish Council	0.008	0.024	0.032
Watchet Town Council	0.004	0.006	0.010
Wellington Town Council	0.007	0.023	0.030
Wells Burial Board & Parish Council	0.037	0.117	0.154
West Coker Parish Council	0.001	0.003	0.004
Williton Parish Council	0.002	0.010	0.012
Wincanton Town Council	0.005	0.021	0.026
Yeovil Town Council	0.016	0.052	0.068

Table continued on next page

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Further-education colleges			
Bridgwater and Taunton College	0.827	2.743	3.570
Richard Huish Sixth Form College	0.169	0.524	0.693
Strode College	0.175	0.623	0.798
Yeovil College	0.254	0.713	0.967
Academies			
Ansford Academy	0.042	0.168	0.210
Ashill Primary Academy	0.003	0.013	0.016
Avishayes Academy	0.023	0.093	0.116
Axbridge Academy	0.015	0.062	0.077
Barwick and Stoford School	0.001	0.002	0.003
Bath & Wells Academy Trust	0.378	1.466	1.844
Bishop Fox's Academy	0.077	0.310	0.387
Blackbrook Primary School	0.015	0.066	0.081
Brent Knoll Primary School	0.013	0.057	0.070
Bridgwater College Academy	0.194	0.760	0.954
Brookside Academy	0.076	0.310	0.386
Bruton Sexeys Academy	0.072	0.286	0.358
Brymore Academy	0.066	0.272	0.338
Buckland St. Mary Church of England School	0.006	0.026	0.032
Buckler's Mead Academy	0.047	0.188	0.235
Castle Academy	0.087	0.335	0.422
Castle Primary School	0.012	0.050	0.062
Charlton Horethorn School	0.004	0.017	0.021
Cheddar First School	0.022	0.093	0.115
Chilton Trinity Academy	0.047	0.188	0.235
Countess Gytha Primary School	0.016	0.065	0.081
Courtfields Academy	0.062	0.251	0.313
Crispin Academy	0.057	0.231	0.288
Critchill School	0.050	0.205	0.255

Table continued on next page

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Danesfield Academy	0.024	0.099	0.123
Draycott and Rodney Stoke First School	0.005	0.022	0.027
East Brent School	0.008	0.033	0.041
East Huntspill Primary School	0.006	0.029	0.035
Enmore Academy	0.009	0.037	0.046
Fairlands Middle School	0.022	0.093	0.115
Hambridge Primary School	0.011	0.046	0.057
Hamp Academy	0.022	0.098	0.120
Hatch Beauchamp Primary School	0.003	0.014	0.017
Hayesdown Academy	0.020	0.084	0.104
Haygrove Academy	0.077	0.290	0.367
Hemington Primary School	0.005	0.020	0.025
Holy Trinity Church of England School	0.037	0.156	0.193
Holyrood Academy	0.082	0.327	0.409
Horrington Primary School	0.009	0.039	0.048
Hugh Sexey's School	0.039	0.139	0.178
Huish Academy	0.037	0.155	0.192
Huish Episcopi Academy	0.094	0.368	0.462
Huish Episcopi Primary Academy	0.013	0.055	0.068
Isambard Kingdom Brunel School	0.017	0.073	0.090
King Alfred School	0.078	0.318	0.396
King Arthur's School	0.024	0.095	0.119
King Edward Road Nursery	0.014	0.058	0.072
King Ina (Monteclefe)	0.028	0.120	0.148
Kings of Wessex Academy	0.089	0.333	0.422
Kings of Wessex Leisure	0.027	0.059	0.086
Kingsmead Academy	0.063	0.247	0.310
Leigh On Mendip First School	0.008	0.034	0.042
Lympsham School	0.013	0.059	0.072

Table continued on next page

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
Maiden Beech Academy	0.013	0.157	0.170
Manor Court Primary School	0.029	0.127	0.156
Mark Academy	0.013	0.053	0.066
Mendip School	0.055	0.228	0.283
Middlezoy Primary School	0.004	0.015	0.019
Milford Junior School	0.037	0.149	0.186
Minehead First School	0.026	0.112	0.138
Minehead Middle School	0.054	0.221	0.275
Minerva Primary School	0.019	0.078	0.097
Neroche Primary School	0.016	0.069	0.085
North Cadbury School	0.008	0.033	0.041
Northgate Primary School	0.027	0.117	0.144
Nunney First School	0.006	0.023	0.029
Oakfield Academy	0.040	0.160	0.200
Old Cleeve Academy	0.011	0.048	0.059
Othery Primary School	0.003	0.014	0.017
Otterhampton Primary School	0.009	0.038	0.047
Our Lady of the Mount Catholic School	0.013	0.054	0.067
Pawlett Primary School	0.004	0.017	0.021
Pen Mill Academy	0.015	0.061	0.076
Preston Academy	0.066	0.255	0.321
Preston C of E Primary School	0.078	0.289	0.367
Primrose Lane Primary School	0.023	0.098	0.121
Priorswood Academy	0.014	0.060	0.074
Puriton Primary School	0.014	0.058	0.072
Redstart Academy	0.050	0.199	0.249
Ruishton Primary School	0.022	0.092	0.114
Selwood Academy	0.034	0.133	0.167
Selworthy School	0.091	0.382	0.473
Shipham Church of England First School	0.010	0.042	0.052
Spaxton Primary School	0.006	0.026	0.032

Table continued on next page

Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Academies (continued)			
St. Dunstan's Academy	0.025	0.105	0.130
St. Cuthbert's Academy	0.012	0.053	0.065
St Gildas Catholic Primary School	0.016	0.068	0.084
St Joseph & St Teresa School	0.011	0.048	0.059
St Josephs CatholicPrimary School	0.020	0.085	0.105
St Josephs Catholic School	0.015	0.064	0.079
St. Michael's Academy	0.031	0.125	0.156
St. Michael's Church of England School	0.012	0.049	0.061
St. Peter's Academy	0.009	0.040	0.049
St Peters Nursery	0.010	0.040	0.050
Stanchester Academy	0.035	0.144	0.179
Steiner Academy, Frome	0.016	0.070	0.086
Stogursey Primary School	0.008	0.033	0.041
Tatworth Academy	0.013	0.055	0.068
Taunton Academy	0.168	0.698	0.866
The Blue School, Wells	0.112	0.452	0.564
Weare Academy	0.015	0.065	0.080
Wedmore Academy	0.017	0.071	0.088
Wellesley Park Primary School	0.020	0.087	0.107
West Huntspill Primary School	0.012	0.051	0.063
West Monkton Primary School	0.066	0.264	0.330
West Somerset Community College	0.042	0.175	0.217
Westfield Academy	0.083	0.317	0.400
Westover Green Academy	0.041	0.189	0.230
Whitstone Academy	0.045	0.179	0.224
Willowdown Academy	0.027	0.116	0.143
Winsham Primary School	0.005	0.020	0.025
Woolavington Academy	0.016	0.064	0.080
Total other scheduled employers	15.775	55.737	71.512

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Note 5: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
Admitted bodies			
Abri	0.252	1.208	1.460
Aster Communities Ltd	0.035	0.314	0.349
BAM FM	0.003	0.013	0.016
Capita	0.002	0.007	0.009
Dimensions	0.295	0.697	0.992
Edward and Ward Ltd	0.001	0.001	0.002
Everyone Active	0.025	0.087	0.112
Freedom Leisure	0.007	0.029	0.036
Glen Cleaning Company Ltd	0.004	0.023	0.027
Homes in Sedgemoor	0.163	0.489	0.652
Idverde Ltd	0.009	0.035	0.044
Imperial Cleaning	0.000	0.000	0.000
KGB South West	-0.003	-0.016	-0.019
Leisure East Devon	0.002	0.003	0.005
Lifestyle Fitness	0.002	0.014	0.016
Magna West Somerset Housing Association	0.057	0.277	0.334
Mama Bear's	0.002	0.006	0.008
MD Building Services	0.011	0.039	0.050
National Autistic Society	0.006	0.036	0.042
NSL Ltd	0.015	0.056	0.071
Pabulum	0.001	0.004	0.005
SASP	0.008	0.004	0.012
Shared Lives South West	0.000	-0.001	-0.001
Society of Local Council Clerks	0.045	0.134	0.179
Somerset Care Ltd	0.022	0.276	0.298
Somerset Skills & Learning	0.075	0.268	0.343
South West Audit Partnership	0.125	0.550	0.675
South West Heritage	0.055	0.177	0.232
South West Provincial Councils	0.050	0.366	0.416
Suez Recycling	0.021	0.083	0.104
Total admitted employers	1.290	5.179	6.469
Total	**26.079**	**96.627**	**122.706**

Note 6: Transfer values

2021/2022 £ millions		2022/2023 £ millions
0.950	Group transfer values received	0.000
10.543	Individual transfer values received	9.175
11.493		**9.175**
-1.434	Group transfer values paid	0.000
-7.681	Individual transfer values paid	-11.761
-9.115		**-11.761**

Note 7: Refunds

2021/2022 £ millions		2022/2023 £ millions
-0.316	Contributions refunded to members who leave service	-0.367
-0.006	Interest accumulated on refunds agreed in the past	-0.014
-0.322		**-0.381**
0.000	Deductions from contributions equivalent premium	0.000
0.002	Less payments to Department for Work and Pensions contributions equivalent premium	0.008
-0.320		**-0.373**

Note 8: Administrative expenses

2021/2022 £ millions		2022/2023 £ millions
0.000	Benefits administration costs charged by Somerset CC	0.000
-1.339	Benefits administration costs charged by Devon CC	-1.429
-1.339		**-1.429**
0.000	Legal advice costs charged by Somerset CC	0.000
-0.024	External legal advice	-0.014
-0.024		**-0.014**
-1.363		**-1.443**

Note 9: Investment management expenses

2021/2022 £ millions		2022/2023 £ millions
	Fund manager fees	
-0.031	Somerset County Council	-0.006
-0.078	Abrdn	-0.018
-0.515	Other fund managers	-0.353
-0.624		**-0.377**
	Other expenses	
0.000	Transaction costs	0.000
-0.058	Custody fees	-0.044
-0.058		**-0.044**
	Pooling	
-0.881	Brunel Fees	-1.016
-4.838	3rd Party Fund Manager Fees	-5.680
-1.217	Property unit trust managers' fees	-1.570
-0.645	Custody fees	-0.767
-0.248	Other costs	-0.314
-7.829		**-9.347**
-8.511		**-9.768**

The “other fund manager” fees identified above is an estimate of fund management fees that are deducted from within investments held by the pension fund but not invoiced to the fund.

No performance related fees were invoiced to the Fund by fund managers.

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel.

In addition to these costs, indirect costs are incurred through bid/offer spread on investment purchases. No attempt has been made to quantify these amounts.

No attempt has been made to estimate transaction costs incurred within pooled funds.

Note 10: Oversight and governance expenses

2021/2022 £ millions		2022/2023 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.227	Investments administration costs charged by Somerset CC	-0.241
-0.237		**-0.251**
-0.105	Actuary's fees	-0.186
0.073	Recharge of Actuary's fees to employers	0.080
-0.032		**-0.106**
-0.037	External audit fees	-0.049
0.013	Refund of external audit fees	0.015
-0.014	Non-audit fees of external auditor	0.000
0.000	Recharge of non-audit fees to employers	0.000
-0.038		**-0.034**
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.051	Professional services and subscriptions	-0.040
-0.197	IT systems	-0.198
0.000	Performance measurement fees	0.000
-0.003	External legal advice	0.000
0.000	Voting advice fees	0.000
-0.017	Pooling costs	-0.017
-0.008	Other expenses	-0.007
-0.583		**-0.653**

The pooling costs referred to in this note are costs that are related to pooling but not paid to Brunel or regarding anything that Brunel provides. Typically this is legal and other consulting work regarding pooling.

The external audit fees disclosed in the auditor's formal audit plan to the Fund for the 2022/2023 financial year are £36,871 plus £12,600 for IAS 19 assurance work for employers. Any discrepancy relates to invoices being received by the Fund after the accounts are closed and not being accrued for in relation to invoices for both the 2021/22 and 2022/23 financial years. Similar discrepancies appear in the 2021/2022 audit plan relating to the 2021/22 fee, shown as £33,659. The £36,871 does not include the fees for IAS assurance work undertaken by Grant Thornton on behalf of employers but this is included in the external audit fees in the table above. Due to a change in the disclosure rules for accounts this year the prior year IAS 19 work is separately disclosed as non-audit fees.

Note 11: Investment income

2021/2022 £ millions		2022/2023 £ millions
2.795	Bonds	0.000
0.050	Index linked bonds	0.000
0.074	UK equities	0.000
0.054	Overseas equities	0.324
12.332	Property unit trusts	7.923
0.293	Cash invested internally	2.667
0.000	Private equity	0.000
0.003	Stock lending	0.000
15.601		**10.914**

Note 12: Investment assets and liabilities

31 March 2022 £ millions	31 March 2022 £ millions	%	%		31 March 2023 £ millions	31 March 2023 £ millions	%	%
				UK equities				
489.006		17.2		Brunel UK equity fund	317.222		11.3	
13.260		0.5		Standard Life smaller companies fund	0.000		0.0	
	502.266		**17.7**			**317.222**		**11.3**
				Overseas equities				
782.616		27.6		Brunel passive global equity fund	586.312		21.0	
392.475		13.8		Brunel global high alpha equity fund	796.008		28.5	
189.091		6.7		Brunel global smaller companies fund	183.745		6.6	
108.096		3.8		Brunel emerging market equity fund	102.535		3.7	
	1,472.278		**51.9**			**1,668.600**		**59.8**
				Bonds				
62.263		2.2		Brunel passive gilt fund	43.760		1.6	
80.882		2.9		Brunel passive index-linked gilt fund	56.275		2.0	
196.828		6.9		Brunel sterling corporate bond fund	195.845		7.0	
77.723		2.7		Brunel multi-asset credit funds	94.869		3.4	
	417.696		**14.7**			**390.749**		**14.0**
				Property				
227.892		8.0		UK property funds	224.486		8.0	
	227.892		**8.0**			**224.486**		**8.0**
				Private equity				
10.190		0.4		Neuberger Berman Crossroads 2010 fund	6.822		0.2	
8.211		0.3		Neuberger Berman Crossroads XX fund	13.100		0.5	
20.955		0.7		Neuberger Berman Crossroads XXI fund	25.872		0.9	
33.762		1.2		Neuberger Berman Crossroads XXII fund	34.632		1.2	
10.188		0.4		Brunel private equity funds	18.104		0.6	
1.640		0.1		South West regional venture fund	1.640		0.1	
0.840		0.0		Brunel	0.840		0.0	
	85.786		**3.1**			**101.010**		**3.5**
				Cash and others				
131.432		4.6		Cash invested internally	95.765		3.4	
	131.432		**4.6**			**95.765**		**3.4**
	2,837.350		**100.0**	**Net Investment assets**		**2,797.832**		**100.0**
				Made up of				
	2,239.989			Historical cost		2,550.385		
	597.361			Unrealised profit or loss		247.447		
	2,837.350					**2,797.832**		

In response to the requirements of the investment regulations for LGPS funds to pool investment assets, Brunel Pension Partnership Ltd (BPP Ltd) has been formed to oversee the investment assets for the Avon, Buckinghamshire, Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire LGPS funds. Each of the ten funds own an equal share of Brunel Ltd.. The £840,000 investment shown as Brunel within private equity above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 14, note 17 and note 32 and a written disclosure is made in note 26 with regard to related parties.

Note 13: Analysis of collective investment fund investments

31 March 2022 £ millions		31 March 2023 £ millions
	Unit trusts	
166.720	UK property funds	158.902
	Unitised insurance policies	
782.616	Brunel passive global equity fund	586.312
13.260	Standard Life smaller companies fund	0.000
62.263	Brunel passive gilt fund	43.760
80.882	Brunel passive index-linked gilt fund	56.275
196.828	Brunel sterling corporate bond fund	195.845
1,135.849		**882.192**
	Limited liability partnerships	
73.118	Neuberger Berman private equity funds	80.426
10.188	Brunel private equity funds	18.104
1.640	South West regional venture fund	1.640
84.946		**100.170**
	UK authorised contractual scheme	
489.006	Brunel UK equity fund	317.222
392.475	Brunel global high alpha equity fund	796.008
189.091	Brunel global smaller companies fund	183.745
108.096	Brunel emerging market equity fund	102.535
1,178.668		**1,399.510**
	Other managed funds	
61.172	UK property funds	65.584
77.723	Brunel multi-asset credit funds	94.869
138.895		**160.453**
2,705.078	**Total**	**2,701.227**

Note 14: Movement in investment assets

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2021/2022	Total	2,608.448	-30.651	1,183.186	-1,124.112	37.169	163.310	2,837.350
Abrdn	UK equity	13.260	0.000	0.000	-10.323	7.171	-10.108	0.000
LaSalle / Brunel	Property	227.892	0.000	56.193	-24.621	5.643	-40.621	224.486
Neuberger Berman	Global private equity	73.118	0.000	0.000	-10.203	4.569	12.942	80.426
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Company	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	489.006	0.000	0.000	-174.615	22.247	-19.416	317.222
Brunel	Passive global equity	782.616	0.000	1,122.298	-1,312.297	238.722	-245.027	586.312
Brunel	Global high alpha equity	392.475	0.000	706.526	-346.610	13.482	30.135	796.008
Brunel	Global smaller co.'s	189.091	0.000	0.000	0.000	0.000	-5.346	183.745
Brunel	Emerging market equity	108.096	0.000	0.000	0.000	0.000	-5.561	102.535
Brunel	UK Government Gilts	62.263	0.000	0.000	0.000	-0.006	-18.497	43.760
Brunel	UK Gov't index linked Gilts	80.882	0.000	0.000	0.000	-0.007	-24.600	56.275
Brunel	Sterling corporate bonds	196.828	0.000	20.000	0.000	0.000	-20.983	195.845
Brunel	Multi-asset credit	77.723	0.000	20.000	0.000	0.000	-2.854	94.869
Brunel	Global private equity	10.188	0.000	7.895	-0.007	0.006	0.022	18.104
Somerset County Council	Cash	131.432	-39.578	0.000	0.000	3.911	0.000	95.765
2022/2023	**Total**	**2,837.350**	**-39.578**	**1,932.912**	**-1,878.676**	**295.738**	**-349.914**	**2,797.832**

Manager	Asset class	Investment assets as at 1 April £ millions	Change in cash invested internally £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Investment assets as at 31 March £ millions
2020/2021	Total	2,046.706	9.654	1,731.892	-1,724.697	105.819	439.074	2,608.448
Somerset County Council	Global equity	0.375	0.000	0.000	-0.381	-0.008	0.014	0.000
Abrdn	UK equity	12.994	0.000	0.000	0.000	0.000	0.266	13.260
Abrdn	Bonds	390.427	0.000	300.590	-700.685	47.445	-37.777	0.000
Abrdn	Derivatives	0.518	0.000	347.123	-347.569	0.698	-0.770	0.000
LaSalle / Brunel	Property	174.890	0.000	41.031	-11.999	-19.383	43.353	227.892
Neuberger Berman	Global private equity	69.405	0.000	1.142	-15.818	2.754	15.635	73.118
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Company	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	450.502	0.000	0.000	0.000	0.000	38.504	489.006
Brunel	Passive global equity	681.900	0.000	0.000	0.000	-0.036	100.752	782.616
Brunel	Global high alpha equity	360.872	0.000	0.000	0.000	0.000	31.603	392.475
Brunel	Global smaller co.'s	184.984	0.000	0.000	0.000	0.000	4.107	189.091
Brunel	Emerging market equity	122.078	0.000	0.000	0.000	0.000	-13.982	108.096
Brunel	UK Government Gilts	0.000	0.000	67.444	0.000	-0.004	-5.177	62.263
Brunel	UK Gov't index linked Gilts	0.000	0.000	80.872	0.000	-0.004	0.014	80.882
Brunel	Sterling corporate bonds	0.000	0.000	210.024	0.000	0.000	-13.196	196.828
Brunel	Multi-asset credit	0.000	0.000	126.567	-47.660	0.150	-1.334	77.723
Brunel	Global private equity	0.574	0.000	8.393	0.000	-0.071	1.292	10.188
Somerset County Council	Cash	156.449	-30.651	0.000	0.000	5.628	0.006	131.432
2021/2022	**Total**	**2,608.448**	**-30.651**	**1,183.186**	**-1,124.112**	**37.169**	**163.310**	**2,837.350**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 17 and note 32 and a written disclosure is made in note 26 with regard to related parties.

Note 15: Actuarial present value of promised retirement benefits

The present value of promised retirement benefits is an estimate of the value of the lump sums and pensions that the fund will pay in the future. The estimate has been calculated by the fund's actuary and has been prepared in accordance with International Accounting Standard (IAS) 26. In calculating the disclosed numbers the actuary has adopted methods and assumptions that are consistent with IAS19.

To assess the value of the Fund's liabilities at 31 March 2023, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2022

The estimation of the present value of promised retirement benefits is subject to significant variances based on changes to the underlying assumptions. In accordance with IAS 19 the assumptions used to make the calculations are set with reference to market conditions at the net asset statement date. The assumptions used are as follows:

31 March 2022		31 March 2023
	Financial assumptions	
3.20%	CPI increases	2.85%
4.20%	Salary increases	3.85%
3.20%	Pension increases	2.85%
2.60%	Discount Rate	4.80%
	Life expectancy (from age 65)	
23.1	Retiring today - Males	21.4
24.7	- Females	23.2
24.4	Retiring in 20 years - Males	22.7
26.1	- Females	24.7

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40 year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, the actuary's view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 9 years). This results in an overall IRP of between 0.0% p.a. and 0.25% p.a. depending on the term of the liabilities (for terms ranging from 1 year up to 30 years).

Salaries are assumed to increase at 1.0% p.a. above CPI. This is consistent with the approach at the previous accounting date.

An estimate of the Fund's future cashflows is made using notional cashflows based on the estimated duration of 22 years. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30-year point). This is consistent with the approach used at the last accounting date.

A sensitivity analysis of the present value of promised retirement benefits to changes in these assumptions is provided in the table below.

	£ millions	**£ millions**
Actuarial present value of promised retirement benefits	3,057.553	
Sensitivity to	**+0.1%**	**-0.1%**
Discount rate	3,006.575	3,109.920
Salary increase	3,061.246	3,053.892
Pension increases and deferred revaluation	3,107.181	3,009.233
Sensitivity to	**+ 1 year**	**- 1 year**
Life expectancy assumptions	3,175.224	2,944.755

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

2021/2022 £ millions		2022/2023 £ millions
-210.913	Current service cost	-184.085
-97.832	Interest cost	-125.629
301.406	Change in financial assumptions	2073.799
0.000	Change in demographic assumptions	328.684
-10.424	Experience loss/(gain) on defined benefit obligations	-359.835
5.407	Liabilities assumed/(extinguished) on settlements	0.000
97.257	Estimated benefits paid net of transfers in	107.171
-0.923	Past service costs, including curtailments	-0.569
-24.102	Contributions by scheme members	-24.329
59.876		**1,815.207**

Note 16: Other investment balances

31 March 2022 £ millions		31 March 2023 £ millions
	Assets	
0.620	- Accrued income	0.894
0.000	- Payments due on investments sold	0.000
0.620		**0.894**
	Liabilities	
0.000	- Payments not made on purchases and losses due on sales	0.000
0.000		**0.000**
0.620		**0.894**

Note 17: Management structure

31 March 2022 £ millions	%	Manager	Asset class	31 March 2023 £ millions	%
13.260	0	Abrdn	UK equity	0.000	0
73.118	2	Neuberger Berman	Global private equity	80.426	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
131.432	5	Somerset County Council	Cash	95.765	3
220.290	**7**	**Not-pooled sub total**		**178.671**	**6**
489.006	17	Brunel	UK Equity	317.222	11
782.616	28	Brunel	Pasive global equity	586.312	21
392.475	14	Brunel	Global high alpha equity	796.008	28
189.091	7	Brunel	Global smaller companies	183.745	7
108.096	4	Brunel	Emerging market equity	102.535	4
62.263	2	Brunel	UK Government Gilts	43.760	2
80.882	3	Brunel	UK Gov't index linked Gilts	56.275	2
196.828	7	Brunel	Sterling corporate bonds	195.845	7
77.723	3	Brunel	Multi-asset credit	94.869	3
227.892	8	Brunel	Property	224.486	8
10.188	0	Brunel	Global private equity	18.104	1
2,617.060	**93**	**Pooled sub total**		**2,619.161**	**94**
2,837.350	**100**	**Net investment assets**		**2,797.832**	**100**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 14 and note 32 and a written disclosure is made in note 26 with regard to related parties.

Note 18: Classification of financial instruments

31 March 2022 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost		31 March 2023 £ millions Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
			Investment assets and liabilities			
2,837.350			Investment assets	2,797.832		
0.000			Investment liabilities	0.000		
	0.620		Other investment balances		0.894	
			Current assets			
	4.078		Contributions due from employers		7.144	
	0.500		Cash at bank		0.831	
	4.713		Other debtors		0.560	
			Current liabilities			
		0.000	Unpaid benefits			0.000
		0.000	Bank overdraft			0.000
		-2.165	Other creditors			-1.862
2,837.350	**9.911**	**-2.165**	**Net assets of the scheme available to fund benefits at end of year**	**2,797.832**	**9.429**	**-1.862**

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Note 19: Net gains and losses on financial instruments

2021/2022 £ millions		2022/2023 £ millions
200.479	Fair value through profit and loss	-54.176
0.000	Amortised cost - realised gains (losses) on derocognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
200.479		**-54.176**

Note 20: Major holdings

31 March 2022 Rank	£ millions	Stock	Description	31 March 2023 Rank	£ millions	% of net investments
3	392.475	Brunel global high alpha equity fund	Pooled fund of developed market equities	1	796.008	28.5
1	782.616	Brunel passive global equity fund	Pooled fund of developed market equities	2	586.312	21.0
2	489.006	Brunel UK equity fund	Pooled fund of UK equities	3	317.222	11.3
4	196.828	Brunel sterling corporate bond fund	Pooled fund of corporate bonds	4	195.845	7.0
5	189.091	Brunel global smaller companies fund	Pooled fund of developed market equities	5	183.745	6.6
6	108.096	Brunel emerging market equity fund	Pooled fund of emerging market equities	6	102.535	3.7
9	46.421	Brunel Neuberger Berman MAC fund	Pooled fund of multi-asset credit	7	56.413	2.0
7	80.882	Brunel passive index-linked gilt fund	Pooled fund of UK Gov't index-linked gilts	8	56.275	2.0
8	62.263	Brunel passive gilt fund	Pooled fund of UK Gov't gilts	9	43.760	1.6
10	33.762	Neuberger Berman Crossroads XXII fund	Private equity fund	10	34.632	1.2
15	20.955	Neuberger Berman Crossroads XXI fund	Private equity fund	11	25.872	0.9
-	0.000	UBS Triton UK PUT	Pooled fund of UK property	12	24.656	0.9
13	23.993	CBRE UK Property Fund	Pooled fund of UK property	13	21.067	0.8
12	24.183	Nuveen UK Property Fund	Pooled fund of UK property	14	20.911	0.7
11	26.693	IPIF	Pooled fund of UK property	15	19.915	0.7
22	15.576	Brunel Oaktree MAC fund	Pooled fund of multi-asset credit	16	19.237	0.7
14	22.708	Clearbell UK Property Fund	Pooled fund of UK property	17	19.224	0.7
21	15.727	Brunel CQS MAC fund	Pooled fund of multi-asset credit	18	19.220	0.7
18	18.815	Octopus Healthcare fund	Pooled fund of UK property	19	18.940	0.7
16	20.739	Blackrock UK PUT	Pooled fund of UK property	20	17.013	0.6

The largest five holdings of the fund each make up more than 5% of the net investment assets. The percentage of net investment assets that each holding makes up is shown in the final column of the table above.

Note 21: Derivatives

Investment in derivative instruments may only be made if they contribute to a reduction of risk or they facilitate more efficient portfolio management.

During the year the fund didn’t use any derivatives. The use of derivatives is permitted by some of the collective investment funds managed by Brunel that we invest in.

Note 22: Capital commitments (investments)

As at 31 March 2023 the fund had outstanding capital commitments (investments) totalling £86.814m (31 March 2022 - £74.842m). These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the pooled private equity and pooled property fund elements of the investment portfolio. The amounts ‘called’ by these funds are irregular in both size and timing from the date of the original commitment due to the nature of the investments.

31 March 2022 £ millions Total commitment	31 March 2022 £ millions Outstanding commitment		31 March 2023 £ millions Total commitment	31 March 2023 £ millions Outstanding commitment
87.343	27.760	Neuberger Berman PE funds	93.008	29.560
21.000	13.425	Property funds	42.100	16.866
42.423	33.657	Brunel PE funds	57.283	40.388
150.766	**74.842**		**192.391**	**86.814**

Note 23: Stock lending

Following the transition of assets to Brunel the Fund no longer directly undertakes stock lending. Stock lending is permitted by some of the collective investment funds managed by Brunel that we invest in.

Note 24: Membership statistics

As at 31 March	2017	2018	2019	2020	2021	2022	2023
Active scheme members	**21,550**	**21,151**	**20,485**	**20,877**	**20,605**	**21,378**	**21,508**
Pensioners							
Current (in payment)	15,421	16,322	17,326	18,289	18,921	19,690	20,399
Deferred (future liability)	22,268	25,119	26,741	26,449	26,543	26,906	27,565
Undecided leavers	3,778	2,617	2,337	1,808	1,838	1,586	1,630
Total (active plus pensioners)	**63,017**	**65,209**	**66,889**	**67,423**	**67,907**	**69,560**	**71,102**
Active members for each current pensioner	1.40	1.30	1.18	1.14	1.09	1.09	1.05

Note 25: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to Utmost Life and Pensions (formally Equitable Life) and Prudential to buy extra pension benefits when they retire. The pension fund accounts, in accordance with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998 do not include AVC transactions. The contributions for the year and the outstanding value of assets invested via AVCs at 31 March are shown in the following table.

31 March 2022 £ millions		31 March 2023 £ millions
	Value of additional voluntary contributions	
4.238	Prudential	
0.200	Utmost (formally Equitable Life)	
4.438		**0.000**

2021/2022 £ millions		2022/2023 £ millions
	Additional voluntary contributions paid during the year	
0.511	Prudential	
0.000	Utmost (formally Equitable Life)	0.000
0.511		**0.000**

Neither Prudential or Utmost have provided AVC data regarding contributions in 2022/23 or the total value of assets as at 31 March 2023 at the time of publication.

Note 26: Related parties

Committee members Sarah Williams and Paul Butler were active members of the scheme during the year and Committee member Sarah Payne was a deferred member of the scheme during the year.

Pension Board members Nigel Behan and Rachel Ellins were active members of the scheme during the year. Pension Board members Antony White and Roderick Bryant were deferred members of the scheme during the year.

Via collective investment funds the fund holds shares in a number of companies that Somerset County Council and the other member bodies have commercial dealings with. Decisions about the suitability of companies for the fund to invest in are takenby the fund managers that Brunel employ within the pooled funds we invest in without referring to the county council, its officers or other member bodies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 8, 9 and 10.

<u>Brunel Pension Partnership Ltd (Company number 10429110)</u>

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and oversees the investment of pension fund assets for Avon, Buckinghamshire. Cornwall, Devon, Dorset, Environment Agency, Gloucestershire, Oxfordshire, Somerset, and Wiltshire Funds.

Each of the 10 local authorities, including Somerset County Council own 10% of BPP Ltd.

The fund paid BPP Ltd £1,016,000 in fees for services in the 2022-2023 financial year as disclosed in note 9.

During the year the fund did not purchase or sell shares in BPP Ltd. These accounts show this investment valued at £840,000 and is disclosed separately from any other investment in note 12, note 14, note 17 and note 32.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 5 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

Note 27: Remuneration

No staff are directly employed by Somerset County Council Pension Fund. All officers who undertake work on behalf of the fund are employed by Somerset County Council and then costs, including pay where appropriate, are charged to the fund. The total cost of these charges is shown in notes 8, 9 and 10 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2023 of any officer who undertake work for the fund and receives salary of greater than £60,000 is shown in the table below. This represents their full salary and benefits from Somerset County Council and does not represent the costs of the work this officer undertakes for the pension fund.

Year to 31 March 2023						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2022/23 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2022/23 £
Director of Finance and Governance	129,500	-	-	129,500	23,400	152,900

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2022 is shown in the table below.

Year to 31 March 2022 Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2021/22 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2021/22 £
Director of Finance and Performance	123,300	-	-	123,300	22,300	145,600

Note 28: Investment Strategy Statement

We have prepared an Investment Strategy Statement, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the Somerset Council website.

Note 29: Contingent liabilities

There were no contingent liabilities as at 31 March 2023.

Note 30: Post balance sheet events

There were no post balance sheet events as at 30 June 2023.

Note 31: Nature and extent of risks arising from financial instruments

As a result of the adoption of IFRS the fund is required to make disclosures of the risks arising from holding Financial Instruments. For the purpose of this disclosure, financial instruments means all of the fund's investment assets and investment liabilities as shown in note 12 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2023 being £2,798m.

The main risks from the fund's holding of financial instruments are market risk, credit risk and liquidity risk. Market risk includes price risk, interest rate risk and currency risk.

The fund's assets are managed by a mixture of officers and external fund managers as described in note 17 of these accounts. A management agreement is put in place with each external fund manager which clearly states the type of investments they are allowed to make for the fund, asset allocation ranges and any further restrictions we believe are necessary.

To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian. Only cash holdings and a small number of pooled funds stay under the control of officers.

Because the fund adopts a long term investment strategy, the high level risks described below will not alter significantly during the year unless there are significant strategic or tactical changes in the portfolio.

Market Risk

Market risk represents the risk that the fair value of a financial instrument will fluctuate because of changes in the market prices of assets or currencies where the assets are priced in currencies other than British pounds.

The fund is exposed to market risk on all of its investment assets with the exception of the cash holdings in British pounds. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio over the long term.

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The sensitivity of the fund's investments to changes in market prices have been analysed using the volatility of returns experienced by asset classes. The volatility data used is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2023 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	317.222	17.90%	56.783	-56.783
Overseas equities	1,668.600	15.30%	255.296	-255.296
UK bonds	239.605	7.70%	18.450	-18.450
Overseas bonds	94.869	13.20%	12.523	-12.523
UK index-linked bonds	56.275	7.20%	4.052	-4.052
Property	224.486	6.20%	13.918	-13.918
Private equity*	101.010	15.30%	15.455	-15.455
Cash	95.765	0.00%	0.000	0.000
Net investment assets	**2,797.832**		**376.475**	**-376.475**

* Includes level 3 assets, further details can be found in note 32 of these accounts.

Credit Risk

Credit risk represents the risk that the counterparty to a financial instrument will fail to meet an obligation and cause the fund to incur a financial loss. This is often referred to as counterparty risk.

The fund is subject to credit risk within its general debtors although none of these would represent a material risk to the fund.

The fund has credit risk to each of its employer bodies in that they could become insolvent and default on a pension deficit owed to the fund. The majority of the employers in the fund are statutory bodies backed to a greater or lesser extent by the UK government. For the admitted bodies the credit risk is mitigated and managed by the holding of guarantee bonds or having their deficit guaranteed by one of the statutory bodies within the fund.

Bankruptcy or insolvency of the custodian may affect the fund's access to its assets. However, all assets held by a custodian are ring-fenced as "client assets" and therefore cannot be claimed by creditors of the custodian. The fund manages its risk by monitoring the credit quality and financial position of custodians.

A source of credit risk is the cash balances held to meet operational requirements or by the managers at their discretion and cash deposits with various institutions. Internally held cash is managed on the fund's behalf by the Council's Treasury Management Team in line with the fund's Counterparty Policy which sets out the permitted counterparties and limits. The exposure within the cash management part of the portfolio to a single entity is limited to £10m and all counterparties must be rated at least “A-” or higher by the three major rating agencies. In this context the fund’s cash balances (including the cash held at bank or net of bank overdraft) of £95.8m is subject to credit risk.

Forward foreign exchange contracts are subject to credit risk in relation to the counterparties of the contracts, which are primarily banks. The maximum credit exposure on foreign currency contracts is the full amount of the contractual settlement should the counterparty fail to meet its obligations to the fund when it falls due. The fair value and full exposure levels of any forward foreign exchange contracts held are provided in note 21 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due by not having available cash. The fund mitigates this risk by monitoring and projecting its cash flow to enable it to have cash resources as they are required and maintains a cash balance to meet working requirements.

A substantial portion of the fund's investments consist of cash and readily realisable securities. This gives the fund access to in excess of £50m of assets which could be realistically liquidated into cash in less than a week. The majority of the Brunel provided pooled funds provide weekly dealing, providing access to further liquidity should it be required.

The main liability of the fund is the benefits payable, which fall due over a long period and the investment strategy reflects the long term nature of these liabilities. The estimated present value of these obligations is shown on the net asset statement of these accounts and the value of these benefits that fell due in the past financial year is shown on the fund account of these accounts.

Note 32: Fair value hierarchy

The fund measures fair values using the following hierarchy that reflects the significance of the inputs used in making the measurements:

- Level 1: Unadjusted quoted prices in an active market for identical assets or liabilities that the fund has the ability to access at the measurement date.
- Level 2: Inputs other than quoted prices under Level 1 that are observable for the asset or liability, either directly or indirectly.
- Level 3: Unobservable inputs for the assets or liability used to measure fair value that rely on the fund's own assumptions concerning the assumptions that market participants would use in pricing an asset or liability.

The basis for the valuation of each class of investment asset is set out below.

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Market quoted equities and bonds	Level 1	Published closing bid prices ruling at year end.	Not required.	Not required.
Cash and cash equivalents	Level 1	Carrying value is deemed to be fair value because of the short-term nature of these financial instruments.	Not required.	Not required.
Exchange traded futures and forward foreign exchange contracts	Level 1	Published exchange prices at the year end.	Not required.	Not required.

Table continued on next page

Description of Asset	Fair Value Hierarchy	Basis of Valuation	Observable and unobservable inputs	Key sensitivities affecting the valuation provided
Pooled equity funds	Level 2	Published single price ruling at year end.	Quoted prices of underlying holdings of the assets held within the pooled fund	Not required.
Brunel pooled funds	Level 2	Closing bid price where bid and offer prices are available. Closing single price where single price available.	Quoted prices of underlying holdings of the assets held within the pooled fund	Not required.
Pooled property funds	Level 2	Closing bid price where bid and offer prices are available. Closing single price where single price available.	Prices of the underlying property assets assessed by an independent valuer.	Not required.
Private equity limited liability partnerships	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transaction prices.	Market transactions, market outlook, cash flow projections, last financings and multiple projections	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.
Unquoted equity	Level 3	Valued using a number of different market and income valuation methods as well as comparable market transaction prices.	Earnings and revenue multiples. A discount for lack of marketability may be applied.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts.

The table below analyses the fund's investment assets at 31 March 2023 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities				0.000
Brunel pooled equity funds		1,985.822		1,985.822
Brunel pooled bond funds		390.749		390.749
Property funds		224.486		224.486
Private Equity funds			101.010	101.010
Cash	95.765			95.765
Net investment assets	**95.765**	**2,601.057**	**101.010**	**2,797.832**

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2022 is shown in the table below.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities		13.260		13.260
Brunel pooled equity funds		1,961.284		1,961.284
Brunel pooled bond funds		417.696		417.696
Property funds		227.892		227.892
Private Equity funds			85.786	85.786
Cash	131.432			131.432
Net investment assets	**131.432**	**2,620.132**	**85.786**	**2,837.350**

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2023.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2023.

Asset class	Fair Value as at 31 March 2022 £ millions	Transfers into Level 3 £ millions	Transfers out of Level 3 £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Fair Value as at 31 March 2023 £ millions
Global private equity	83.306	0.000	0.000	7.895	-10.210	4.575	12.964	98.530
UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	0.840	0.000	0.000	0.000	0.000	0.000	0.000	0.840
Total	**85.786**	**0.000**	**0.000**	**7.895**	**-10.210**	**4.575**	**12.964**	**101.010**

The £840,000 investment shown as Brunel above refers to the value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). This value is not the value of assets managed by BPP Ltd, which as at 31 March 2023 was £2,619,161,000. This investment is also disclosed separately from any other investment in note 12, note 14 and note 17 and a written disclosure is made in note 26 with regard to related parties.

Note 33: Accounting standards that have been issued but have not yet been adopted

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. The Pension Fund has yet to adopt the following accounting standards:

Definition of Accounting Estimates (Amendments to IAS 8) issued in February 2021.

On February 12, 2021, the IASB published Definition of Accounting Estimates (Amendments to IAS 8) to help entities to distinguish between accounting policies and accounting estimates. The amendments are effective for annual periods beginning on or after January 1, 2023

Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2) issued in February 2021.

Sets out amendments to IAS 1 Presentation of Financial Statements, the Basis for Conclusions on IAS 1 Presentation of Financial Statements and other IFRS Standards and publications with effect for annual reporting periods beginning on or after 1 January 2023.

Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12) issued in May 2021.

These amendments address uncertainty in practice about how an entity applies the initial recognition exemption in paragraphs 15 and 24 of IAS 12 to transactions that give rise to both an asset and liability on initial recognition and may result in temporary differences of the same amount.

Updating a Reference to the Conceptual Framework (Amendments to IFRS 3) issued in May 2020.

On May 14, 2020, the IASB published Reference to the Conceptual Framework (Amendments to IFRS 3) with amendments to IFRS 3, Business Combinations that update an outdated reference in IFRS 3 without significantly changing its requirements.

We do not expect any of the amendments above, to have a material impact on our accounts when they are applied prospectively from 1st April 2023.

J. C. Vaughan

Jason Vaughan
Director of Finance and Governance
30 June 2023

Actuary's statement as at 31 March 2023

Introduction

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2022 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) as amended and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 29 March 2023.

Asset value and funding level

The results for the Fund at 31 March 2022 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2022 for valuation purposes was £2,775m.
- The Fund had a funding level of 95% i.e. the assets were 95% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a deficit of £139m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- The annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- any difference between each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 19.8% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2023.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

Assumptions

The assumptions used to value the liabilities at 31 March 2022 are summarised below:

Assumptions	Assumptions used for the 2022 valuation
Financial assumptions	
Market date	31 March 2022
CPI inflation	2.9% p.a.
Salary increases	3.9% p.a.
Discount rate	4.6% p.a.
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increases. For members that reach SPA after this date , we have assumed that Funds are required to pay the entire inflationary increases
Demographic assumptions	
Post-retirement mortality	Male / Female
Member base tables	S3PA
Member mortality multiplier	105% / 115%
Dependant base tables	S3DA
Dependant mortality multiplier	100% / 105%
Projection model	CMI 2021
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	0.0% p.a.
2020/21 weighting parameter	5%

The mortality assumptions translate to life expectancies as follows:

Assumed life expectancies at age 65:	
Average life expectancy for current pensioners - men currently age 65	21.4 years
Average life expectancy for current pensioners - women currently age 65	23.2 years
Average life expectancy for future pensioners - men currently age 45	22.6 years
Average life expectancy for future pensioners - women currently age 45	24.6 years

Further details of assumptions used can be found in the relevant actuarial valuation report.

Updated position since the 2022 valuation

<u>Assets</u>

Returns over the year to 31 March 2023 have been lower than expected. As at 31 March 2023, the Fund assets were less than they were predicted to be at the previous valuation.

<u>Liabilities</u>

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2023, the real discount rate is estimated to be higher than at the 2022 valuation due to a reduction in the long term rate of inflation from 31 March 2023 onwards.

In addition, benefits were increased by 10.1% in line with the 2023 LGPS pension increase which is higher than the long term pension increase assumed at the previous valuation. However, this was anticipated at the 2022 valuation and built into the long-term inflation assumption. The projection for the future rate of long-term inflation from 31 March 2023 has reduced since the previous valuation in line with expectations.

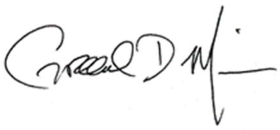
The higher pension increase has been broadly offset by the higher real discount rate, however, the value of the liabilities will have increased due to the accrual of new benefits and interest on the liabilities.

Overall position

On balance, we estimate that the funding position has weakened slightly when compared on a consistent basis to 31 March 2022.

However, the increase in the real discount rate since 31 March 2022 is likely to place a lower value on the cost of future accrual which results in a lower primary contribution rate. The impact on secondary contributions will vary by employer.

The next formal valuation will be carried out as at 31 March 2025 with new contribution rates set from 1 April 2026.



Graeme Muir FFA
Partner, Barnett Waddingham LLP
1st September 2023

Independent auditor's report to the members of Somerset County Council on the pension fund financial statements of Somerset Pension Fund

Will appear here on completion of the auditor's review.

Independent auditor’s report to the members of Somerset County Council on the consistency of the pension fund financial statements of Somerset County Council Pension Fund included in the Pension Fund Annual Report

Will appear here on completion of the auditor’s review.

Glossary of terms

Absolute annual investment return
An investment return that is an exact amount, for example 7%, rather than a return compared to a benchmark.

Accrual (to accrue)
An amount to cover income or spending that has not yet been paid but which belongs to that accounting period.

Active members
Members of the pension fund who are currently working and contributing to the fund.

Actuary
An independent consultant who advises the fund and reviews the financial position of the fund every three years.

Actuarial present value of promised retirement benefits
A calculated value for the amount of money needed today to meet the pension payments the fund will make in the future. In calculating this value the actuary takes account of factors such as investment returns, inflation and life expectancy.

Actuarial valuation
A valuation to check that the funding is on track to cover liabilities and review employers' contributions.

Administering authority
The organisation that runs the pension fund.

Admitted organisations
An organisation that takes part in the pension scheme under an 'admission agreement' (that is, an agreement and terms under which they are allowed to join our scheme).

Annualised return
The average yearly return over a period of more than one year.

Asset allocation
The percentage of the fund set aside for each type of investment.

Augmentation
Payments to provide new benefits or improved benefits such as early retirement.

Benchmark
An index (for example, the FTSE 100) or peer group that the fund, or a section of the fund, is measured against to work out whether the fund has performed well.

Bid price
The price at which investments can be sold.

Bid-offer spread
The difference between the bid price and the offer price.

CIPFA
Chartered Institute of Public Finance and Accountancy

Co-investment
Investing alongside someone else in the same investment.

Collateral
Assets placed with a lender as security against a borrower failing to make agreed payments. For example, in the case of a mortgage, the house would usually be the collateral against which the bank lent money to an individual.

Common contribution rate
The normal contributions of member authorities and organisations must meet 100% of benefits. The common contribution rate is the future service cost of members' contributions, including an allowance for expenses.

Corporate governance
The system by which companies are controlled and directed, and the way they respond to their shareholders, employees and society.

Currency hedges
Assets that are owned to reduce the effects of foreign-exchange movements on the fund.

Deferred benefits
Built-up pension rights, for ex-employees, that are kept in the pension fund.

Deferred pension
The pension benefit that is paid from the normal retirement date to a member of the fund who no longer pays contributions as a result of leaving employment or opting out of (leaving) the pension scheme before their retirement age.

Derivatives
A type of investment that is linked to another asset. Examples of derivatives are options, forwards and futures.

Developed markets
Countries that index providers (such as FTSE or MSCI) have decided have strong regulation and large investment markets that are well developed.

Dividend
The distributed profits of a company.

Emerging markets
Countries that index providers (such as FTSE or MSCI) have decided have weaker regulation and new or small investment markets.

Employer of sound covenant
An employer who is unlikely to become insolvent (unable to pay its debts).

Engagement
Discussions between investors or their fund managers and companies about corporate governance or socially responsible investment.

Equities
Ordinary shares in a company.

Ethical investments
Investments that are moral and are not linked to companies that, for example, are involved in trading weapons, exploiting developing countries or contributing to climate change.

Ex-dividend
A share is 'ex-dividend' on a date set by a company when current shareholders are entitled to a dividend on their holding. Even if the holding is sold, the previous owner will receive the income. On that date, the market price of a share will be adjusted to reflect the income due to the holder. (For example, a share which goes ex-dividend with a dividend of 10p will see the market price reduce by that amount.) Stock may be sold ex-dividend (without dividend entitlement) or 'cum-div' (with dividend entitlement).

Full-funding basis
When the future value of assets matches the future value of liabilities. At the last actuarial valuation, which was carried out as at 31 March 2007, the fund was 95% funded. This means that the value of the assets was 95% of the estimated value of the liabilities.

Futures or forwards
Buying or selling a package of shares, currency or commodities (for example, coffee or metal) at a specific point in the future at a price agreed when the contract is taken out.

Hedging
A process of reducing or removing the risk of a portfolio by buying or selling assets that act in an opposite way to those already owned.

Historical cost
The amount paid for an investment when it was bought.

Index-linking
When pension benefits are updated in line with inflation.

Liquid assets
Assets that can be sold to provide cash very quickly.

Mandate
An agreement with an investment manager to manage a particular type of asset.

Mid price
The price halfway between the bid price and the offer price.

Myners
Paul Myners was commissioned by the Government to review and report on UK institutional investment.

Option
The right to buy or sell shares within a set timescale at a price confirmed at the time the option is bought.

Over-the-counter trades
A trade for an investment that has not taken place on a stock exchange and has been made to meet the particular needs of the investor.

Passive management or passive investment
Tracking an index and not taking active investment decisions.

Peer group
Other local-authority pension funds.

Pooled investments
Investments where the assets are not held directly by the investors, but are held in a 'pool'. Examples of pooled investments are unit trusts, life funds, open-ended investment companies and limited liability partnerships.

Portfolio
A collection of stocks, shares and other securities.

Preserved benefits
The benefits to which members would be entitled if they left service, based on the service they had completed up to the date they left. As long as members had enough service, the benefits they had earned up to the date they left would be held (preserved) in the fund for them and would be paid when they retired. Between leaving service and retirement, the benefits would be increased broadly in line with price inflation.

Projected unit method
One of the common methods actuaries use to estimate the cost of future benefits from a pension scheme. The method works out the cost of the benefits members are expected to earn over a period (often one year) following the valuation date, allowing for predicted future increases in pay until members retire or leave service. The cost is set out as a percentage of members' contributions. As long as the distribution of members remains stable (that is, new members join the scheme to replace scheme members who have left), the cost is expected to remain stable.

Quantitative analysis system
A computer model to help analyse share holdings and make investment decisions.

Quoted investment
A company listed on a stock exchange.

Realised profit
A realised profit is the profit (or loss) when an investment is sold and is the difference between what it was sold for and what was paid for it.

Recoverable tax
Tax that has been paid but can be claimed back.

Recurring pension
A pension that is paid regularly, usually every month.

Real discount rate
The discount rate is the return that the actuary uses to work out how much money needs to be saved today to pay future liabilities. For example, if the discount rate is 5.25% then you need to save £95 today to have £100 in a year's time. The real discount rate is a discount rate where the effects of inflation have been removed.

Safe custody
The responsibility for keeping the fund's financial assets safe, settling transactions, collecting income, and other procedures relating to investments.

Scheduled organisations
Local-government organisations which have the automatic right to take part in the pension scheme.

Secondary investments
A private equity fund that is bought from an existing investor, rather than being an investor when the fund was first created.

Settle transactions
Swapping money for assets when you buy or sell shares or bonds. Financial assets usually settle two or three days after the trade is agreed.

Shareholder engagement
Where the owners of shares try to influence a company's behaviour by campaigning in the press, voting at company meetings or talking to company managers. Typical issues that might be raised are the company's effect on the environment, their labour standards and pay for the board of managers.

Smoothed market value, smoothing mechanism
Most shares and bonds that the fund owns change value every few minutes and the price can vary quite a lot. The fund's actuary will make an adjustment for this when valuing the fund so that extreme highs and lows are ignored.

Solvency
Whether the assets of the fund are greater than the liabilities.

Specific ethical investment
Investing in companies that do not invest in, for example, the arms trade, third-world exploitation, animal testing or tobacco, or in companies which promote environmentally-friendly products, education and training, waste management and so on.

S&P 500
A broad-based equity index made up of the 500 largest equity stocks quoted in the US.

Statutory instrument
Secondary legislation made by government ministers.

Statutory pension scheme
A pension scheme established by an Act of Parliament and run in line with statutory instruments.

Stock lending or securities lending
Shares owned are lent on the stock market to generate income. The owner keeps all benefits, except for the voting rights.

Tender
A process of assessing and choosing a business to do work on your behalf.

Time-weighted return
Estimating the performance of a fund, taking into account the effect of money coming into, or leaving the fund, during the period of time you are looking at, so those money movements don't give an inaccurate return.

Transfer value
The capital payment made from one pension fund to another when the person paying contributions changes to another pension scheme.

Transition management
Organising the complex movements of assets that happen when a scheme changes its investments or its asset managers.

Unlisted shares
Shares for companies not listed on the stock exchange.

Unrealised loss
An unrealised loss is the loss suggested when an asset was bought for more than it is currently worth, but the loss is not 'available' (or 'realised') until the asset is sold.

Unrealised profit
An unrealised profit is the profit suggested when an asset was bought for less than it is currently worth, but the profit is not 'available' (or 'realised') until the asset is sold.

Venture capital
Investments in small companies that are not listed on a stock exchange.

Vested benefits
Benefits due now and in the future to members of the fund that are already drawing their pension.

WM Company
The company appointed by most local authorities to collect performance statistics.

Yield
The yearly interest paid by a bond divided by its price. When we refer to yields, this usually means the yield on UK government bonds.

Contacts

If you would like more information, please contact one of the following people.

- About the pensions or benefits

  Peninsula Pensions
  Great Moor House
  Bitten Road
  Sowton Industrial Estate
  Exeter
  EX2 7NL
  Phone: 01392 383000 (ask for 'pensions')
  E-mail: pensions@devon.gov.uk

- About the investments or accounts

  Anton Sweet
  Funds and Investments Manager
  Somerset Council Pension Fund
  County Hall
  Taunton
  TA1 4DY
  Phone: 01823 359584
  E-mail: anton.sweet@somerset.gov.uk

- The actuary

  Graeme Muir
  Barnett Waddingham
  163 West George Street
  Glasgow
  G2 2JJ
  Phone: 0141 243 4400

- The auditor

  Julie Masci
  Grant Thornton UK LLP
  2 Glass Wharf
  Bristol
  BS2 0EL
  Phone: 029 2023 5591
  E-mail: julie.masci@uk.gt.com

Web Links

The following web links provide further information and documents related to the Fund.

Further details relating to member administration, including details of the scheme can be found on Peninsula Pensions website.

www.peninsulapensions.org.uk

Further details relating to Brunel Ltd and how it is helping the Fund achieve its pooling obligations can be found on Brunel's website.

https://www.brunelpensionpartnership.org/

The pensions committee page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

Committee details - Pension Fund Committee (somerset.gov.uk)

The pension board page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

Committee details - Pension Fund Board (somerset.gov.uk)

These accounts are also available on the internet at.

Pensions (somerset.gov.uk)

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.