

Resources review, financial projection setting and committee objective setting

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1. Summary

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

2. Recommendations

- 2.1 Committee are required to set objectives for the 2025/26 financial year for the fund, agree the resources required to meet the objectives and agree criteria by which attainment of the objectives can be measured. To this end committee are asked to:
- Agree a fund financial projection for the 2025/26 financial year.
 - Review the absolute return target for the investment return of the fund.
 - Consider defining criteria for measuring the success in meeting the Committee's objectives for the year.
 - Consider the resources Committee requires to meet their objectives for the year.

3. Background

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

4. Fund objectives

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

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

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

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

4.3 In order to ensure that sufficient resources are available to meet all liabilities as they fall due over the next 12 months, and the costs associated with this aim and the running of the fund in general are managed, a draft financial projection has been produced for the 2025/26 financial year and is attached as **Appendix A**. Committee is asked to review the draft financial projection and approve its adoption subject to any amendments they agree on.

4.4 The maximisation of investment return within reasonable risk is achieved through the management of the investment fund, principally through the creation of the Investment Strategy Statement. To measure the performance of the fund we have a fund specific benchmark that we aim to outperform. Performance of the fund relative to this benchmark is monitored and disclosed quarterly to the committee in the standard investment performance report, it is proposed that this continues. CIPFA's key themes also state that it is good practice for the fund to set an absolute return target for the fund. Since the discount rate utilised by the actuary is in effect the investment return needed by the fund to achieve the objective of full funding within the deficit recovery period it would be sensible to set an absolute return target consistent with the discount rate. The discount rate used in the 2022 valuation results is 4.6% pa. The current adopted target is 4.6% agreed at the March 2024 meeting.

4.5 Officers recommend keeping the target in line with the discount rate within the 2022 valuation of 4.6%.

5. Committee objectives

- 5.1 The committee's objectives for the forthcoming year are highlighted within the Committee business plan and forward work plan. As part of the business plan update committee will reaffirm the objectives set within the business plan.
- 5.2 Committee are asked to consider how it will assess its performance in meeting the objectives of the business plan. This may involve setting criteria against which success can be measured.

6. Resources

- 6.1 Committee are asked to consider the resources that they as a committee require to meet the needs of the business plan and work plan. This assessment should include consideration of training needs, facilitation time and whether sufficient formal meeting time is available within the work plan to deliver the objectives.
- 6.2 The Committee is committed to 4 formal meetings a year. There is a presumption of at least one informal meeting or training session per year and officers believe they have the resources to support further meetings should Committee request them.
- 6.3 Benefits administration is provided by Peninsula Pensions, a shared service with Devon CC.
- 6.4 Within Somerset Council, the resources allocated to the administration of the Pension Fund is currently provided by staff within the Investments team.
- 6.5 This means the investment team will have 3.7 full time equivalent (FTE) employees who will be charged to the fund to provide:
- investment administration and accounting for the fund,
 - actuarial support and liaising with the actuary,
 - the support of Committee and Pension Board, and
 - accounting for benefits and contributions.

This is the same resource as is currently provided (subject to vacancies).

- 6.6 The overall finance structure has now been agreed as part of the whole council exercise and no further changes are currently planned.

7. Consultations undertaken

7.1 None

8. Financial implications

8.1 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.

9. Legal implications

There are no specific legal implications associated with this report.

10. Background papers

10.1 None

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