

# Somerset County Council Pension Fund Annual Report & Accounts 2019/20



County Hall, Taunton, Somerset TA1 4DY

[www.somerset.gov.uk](http://www.somerset.gov.uk)

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## **Chairman's report**

This annual report sets out the activities of the pension fund for the year ending 31 March 2020. 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).**

Once again it has been a relatively quiet year for new regulations impacting on the Local Government Pension Scheme (LGPS). The only significant change has been the introduction of exit payments where an employer leaves the scheme and has a surplus, this balances up the previous regulations where deficits had to be paid to the fund but surpluses were not paid back to the employer.

Under the regulations put in place with the "new" scheme in 2014 was a periodic review of the cost base of the scheme to employers. The first review under this scheme took place this year and reported that the costs had fallen below the required envelope. Proposals to improve the benefits were put forward to redress the balance but these have found themselves on hold due to the McCloud judgement in the court of appeal. It is likely that these will be revisited once legislation to correct McCloud has been enacted.

McCloud is a member of the judiciary pension fund. When the new schemes were introduced across the public sector provisions were put in place to provide additional protection of benefits for those close to retirement. Ms McCloud took the government to court on the basis that these transitional protections were discriminatory on the basis of age. On 27<sup>th</sup> June 2019 the courts denied the Government the right to appeal an earlier judgement in favour of Ms McCloud, following which the Government conceded the case and confirmed they would look to change all public pension funds (including the LGPS) such that they were no longer discriminatory. The Government is now consulting on proposals to address this and we presume they will move to new regulations in due course. Estimates of the cost of this to the LGPS are in the range of 0.5% of existing liabilities to 1%. Our actuaries will only be able to clarify this additional cost once the Government have issued revised regulations.

The workload for officers during the year has been firmly focussed on the pooling of our investments, as per Government requirements. Brunel, the company that we created along with 9 other LGPS funds, went live in July 2017 and took on its first assets in July 2018. Brunel now manages over 55% of the Somerset Fund's investment assets. The COVID-19 crisis has caused some delays in the transition program, but we still expect to have more than 90% of the Fund's assets managed by Brunel by 31 March 2021. Details of this and the savings we hope to achieve from pooling are covered later in this annual report.

Investment returns for the year, at -5.9%, were poor and this reflects the impact of the COVID-19 crisis with returns in the quarter to 31 March 2020 of -13.4%. Thankfully as I write this much of the losses in the quarter to March have been recovered as markets bounced back. Although equity asset returns for the year were negative we did make positive returns in fixed income assets.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was 0.8% above the benchmark return of -6.8%.

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 £11.1m. We expect this figure to continue to be positive for the current financial year.

2019 was a valuation year, where the actuary reassesses our liabilities and the cost of the scheme and set contribution rates for the next 3 years. We were pleased to see the funding level improve from 77% in 2016 to 86%, showing our long-term deficit reduction plans continuing to make progress.

I would like to thank my fellow committee and board members for their commitment and support over the last year. 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.

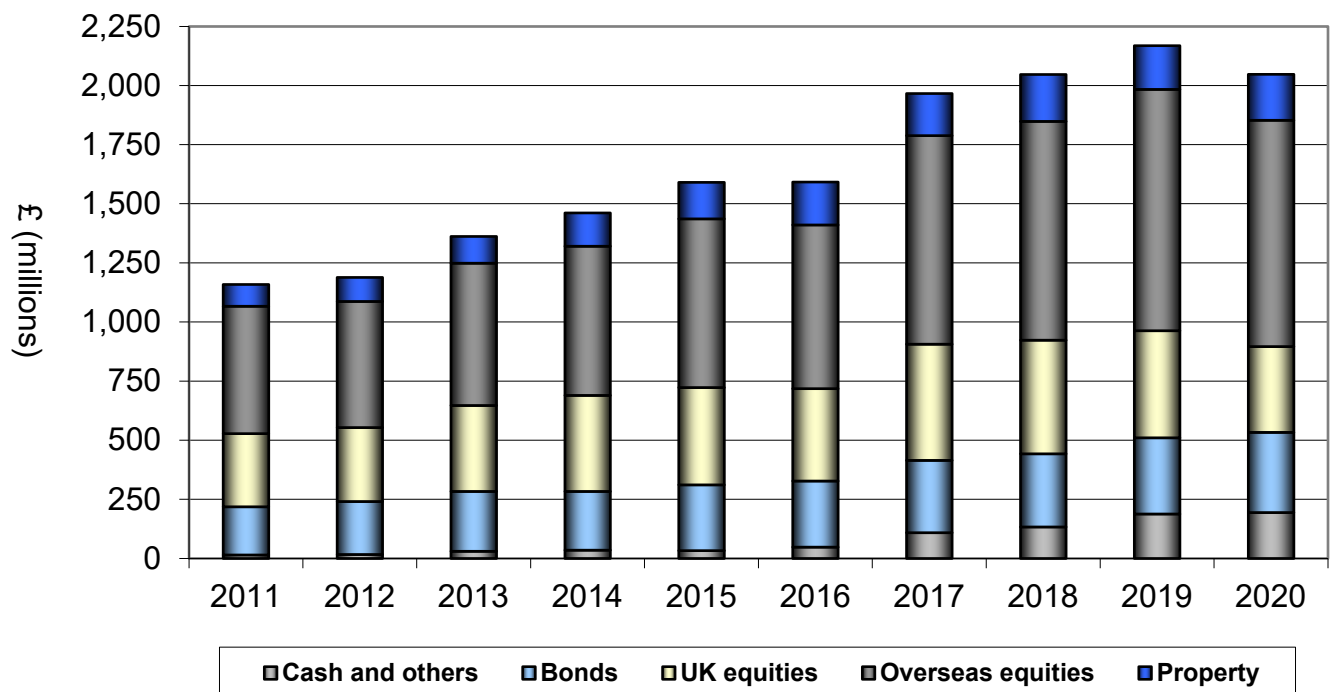
**Graham Noel**

Chairman of the pensions committee

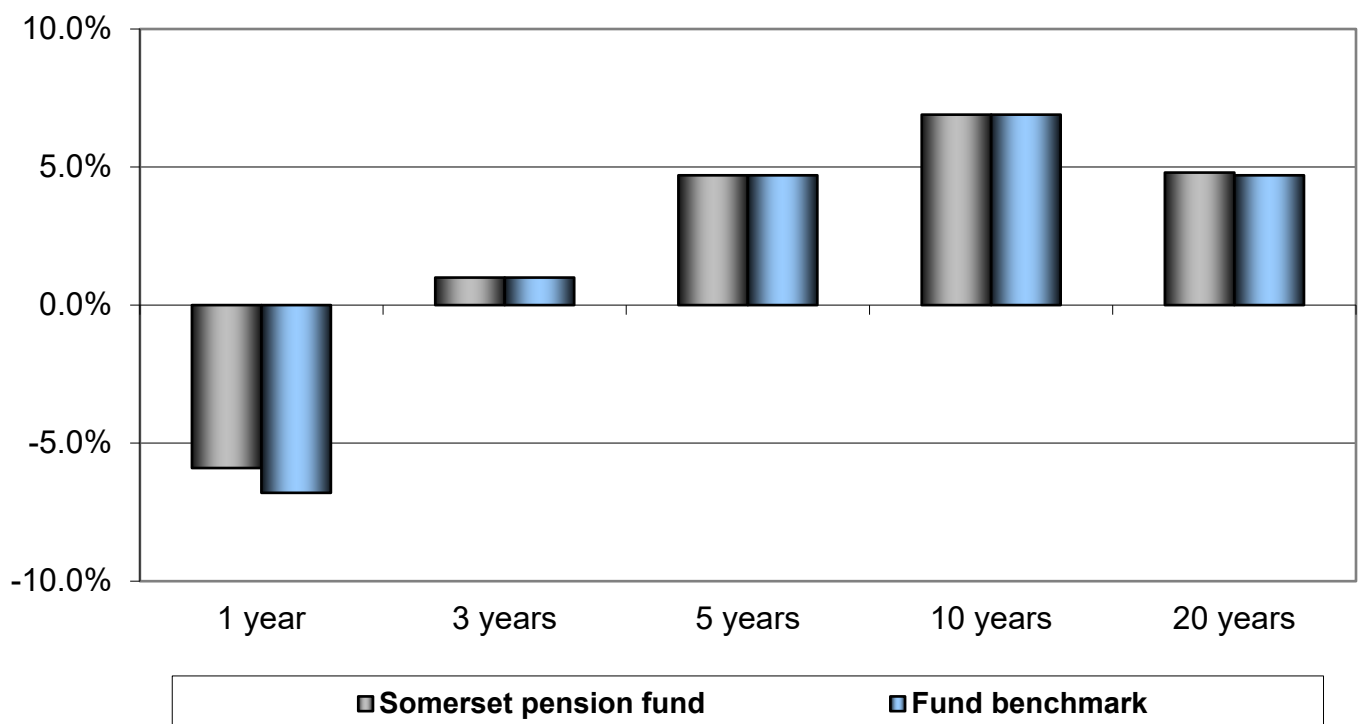
# Summary of the scheme

## Statistical overview

### Fund investment assets



### Annualised fund investment performance



Source: Somerset CC

## Analysis of investment assets

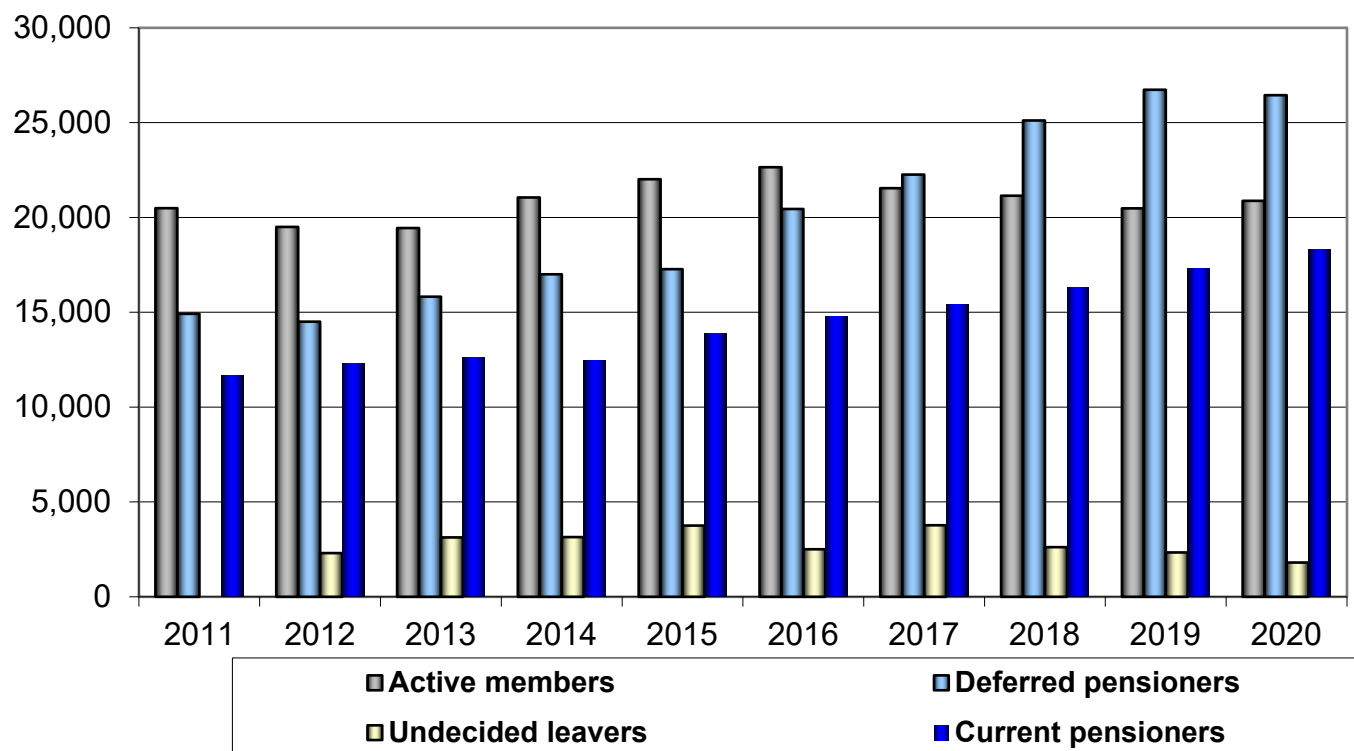
	UK £m	Non-UK £m	Global £m	Total £m
Equities	362.852	226.632	729.869	1,319.353
Fixed Interest	226.558	112.703	0.000	339.261
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	196.522	0.023	58.605	255.150
Cash	132.942	0.000	0.000	132.942
Other	0.000	0.000	0.000	0.000
<b>Total</b>	<b>918.874</b>	<b>339.358</b>	<b>788.474</b>	<b>2,046.706</b>

## Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	0.879	7.760	0.000	8.639
Fixed Interest	6.541	4.380	0.000	10.921
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	12.942	0.000	0.000	12.942
Cash	1.163	0.000	0.000	1.163
Other	0.000	0.000	0.137	0.137
<b>Total</b>	<b>21.525</b>	<b>12.140</b>	<b>0.137</b>	<b>33.802</b>



## Fund membership statistics



## Employer statistics

	Active	Ceased	Total
Scheduled body	129	15	144
Resolution body	27	2	29
Admitted body	38	27	65
<b>Total</b>	<b>194</b>	<b>44</b>	<b>238</b>

## Financial Statistics – five-year trends

	2015/2016 £ millions	2016/2017 £ millions	2017/2018 £ millions	2018/2019 £ millions	2019/2020 £ millions
Income from contributions	87.578	95.316	107.412	114.351	122.636
Spending on benefits	-83.961	-86.989	-94.887	-102.191	-111.516
<b>Contributions less benefits</b>	<b>3.617</b>	<b>8.327</b>	<b>12.525</b>	<b>12.160</b>	<b>11.120</b>
<b>Management Expenses</b>	<b>-6.257</b>	<b>-6.861</b>	<b>-7.619</b>	<b>-7.956</b>	<b>-8.175</b>
Investment income	44.794	52.166	58.515	45.712	33.203
Change in value of investments	-39.348	318.549	25.319	70.521	-159.714
<b>Net return on investments</b>	<b>5.446</b>	<b>370.715</b>	<b>83.834</b>	<b>116.233</b>	<b>-126.511</b>
<b>Change in net assets</b>	<b>2.806</b>	<b>372.181</b>	<b>88.740</b>	<b>120.437</b>	<b>-123.566</b>

## Value for money statistics

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Administration expenses (£m)	1.305	1.157	1.113	1.170	1.285
Investment management expenses (£m)	4.302	4.964	5.706	6.178	6.228
Oversight and governance expenses (£m)	0.650	0.740	0.800	0.608	0.662
<b>Total expenses</b>	<b>6.257</b>	<b>6.861</b>	<b>7.619</b>	<b>7.956</b>	<b>8.175</b>
Administration expenses per member	22.25	18.75	17.36	17.71	19.13
Total expenses per member	106.67	111.20	118.84	120.46	121.73
Investment expenses (p) per £ of assets	0.27	0.28	0.28	0.29	0.30
Total expenses (p) per £ of assets	0.39	0.39	0.38	0.38	0.39

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

	2015/2016	2016/2017	2017/2018	2018/2019	2019/2020
Income yield on average assets	2.86%	2.98%	2.98%	2.23%	1.60%
Average pension in payment (£)	4,495	4,514	4,487	4,518	4,586

# **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 for the full financial year covered by this report.

## **Graham Noel (Chairman)**

Graham is one of the four county council representatives on the committee and is the councillor for Mendip West. Graham joined the committee in May 2013.

## **Simon Coles**

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. Cllr. Liz Leyshon replaced Simon Coles for a period when he was unable to attend.

## **James Hunt**

James is one of the four county council representatives on the committee and is the councillor for Upper Tone. James joined the committee in May 2013.

## **John Parham**

John is one of the four county council representatives on the committee and is the councillor for Shepton Mallet. Mandy joined the committee in May 2019.

## **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.

## **Mark Simmonds (police representative)**

Mark represents the Police and Crime Commissioner for Avon and Somerset on the committee. Mark is the Chief Finance Officer for the Police and Crime Commissioner for Avon and Somerset. Mark is an ACA qualified accountant. He has been a member of the committee since May 2013.

### **Gordon Bryant (represents other employers)**

Gordon represents all of the employers except those specifically covered by another committee member. Gordon is Head of Finance and Operations for Exmoor National Park Authority.

Gordon is a CIPFA-qualified accountant. Gordon has been a member of the pensions committee since May 2017.

### **Sarah Payne (employees' and members' representative)**

Sarah is the employees' and members' representative on the pensions committee. Until 2010 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 deferred member of the fund. Sarah still retains contact with 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 –**

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 through the year were:

Sheila Collins (Interim Director of Finance) – 1<sup>st</sup> April 2019 to 29<sup>th</sup> February 2020

Jason Vaughan (Director of Finance) – 1<sup>st</sup> March 2020 to present

## **The work the committee has done this year**

During the financial year 2019/2020, the committee formally met two times. At each of these meetings (quarterly, two planned meetings cancelled) 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 employer bodies within the fund. Every September, the committee receive a report on the investment returns for the previous financial year and an update on the funding position from the fund's actuary.

During the year, as part of an on-going programme, the committee formally reviewed a number of the external fund managers, and decided to continue with those managers for the time being.

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

## **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.

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	Internal training days
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Number of meetings	2	1	1	1
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**Committee members**

Graham Noel (Chairman)	2		1	1
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Simon Coles	0 (of 1)			
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James Hunt	2			1
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Liz Leyshon	1 (of 1)	1	NA	NA
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John Parham	2	1		
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Ross Henley	0	1		
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Mark Simmonds	0			
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Gordon Bryant	1			1
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Sarah Payne	2		1	
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**Independent advisor**

Caroline Burton	2			1
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## 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 County Council website, there is a link on the last page of this annual report. As at 31 March 2020 the key risks on the risk register were:

- 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.
- 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.
- Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SCC IT support.
- Risk of Regulatory change:
  - Implementation of change risks
  - Consequences of change risks
- Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.
- Failure of Pensions Committee to manage the fund effectively.
- Insolvency of the fund's Global Custodian.
- Failure of Brunel to deliver either fee savings or investment performance.
- A breach of cyber security

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 set a budget for the forthcoming financial year and then receive quarterly outturn reports and updated projections for the full year. A copy of the current budget report can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

Copies of the most recent investment returns and budget information can be found with all of the other committee papers on the Somerset County 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 the in-house managed funds a specialist company is retained to provide analysis and advice on how we should vote our shares, the current provider is PIRC.

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.

In addition PIRC publishes the advice it gives clients (including SCC) on how to vote at company meetings on its website. Some of our external fund managers also place their voting record on their public websites.



# **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

## **Employer representatives**

### **Mark Healey (Chairman)**

Mark is a representative of the county council on the board and is the councillor for Huntspill. Mark joined the Board in July 2015.

### **Paul Deal**

Paul is the chief financial officer of Mendip District Council. Paul joined the Board in July 2015.

### **Vacancy**

There is currently a vacancy for an employer representative on the Board.

## **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.

### **Vacancy**

There are currently two vacancies for member representatives on the Board.

## **The work the board has done this year**

During the financial year 2018/2019, the board did not formally meet although papers were produced and distributed. In each set of papers the Board receives an update on the their business plan and workplan, an update on the fund's risk register and review of all of the papers presented to the Pensions Committee.

The board has taken on responsibility for receiving the report of the external auditor and related matters. The board also receives an annual report on the timeliness of the receipt of contributions from employers for the previous financial year.

**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 committee members attended this year.

	Board meetings	Brunel Engagement Event	Conference days
Number of meetings	0	1	
<b>Committee members</b>			
Mark Healey (Chairman)	0		
Nigel Behan	0		
Paul Deal	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 2019/2020 financial year (prior year comparative in brackets) there were 176 (167) instances of late payment of contributions by employers, making up 8.96% (9.22%) of payments due. The corresponding figures for more than 10 days beyond due date were 71 (68) instances and 3.62% (3.75%) of payments due.

Instances of failure to pay by the due date were spread over 61 (68) employers.

Based on average monthly contributions from employers it is estimated that by value 94.96% (89.34%) of contributions were received on or before due date and 99.00% (99.18%) 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 2019/20 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 employers and members.

## 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 employers and members alike.

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

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

Performance improved considerably over the course of the year, following the restructure of the service during 2018/19, and the team has settled into the new ways of working and revised processes and procedures.

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

### Employer liaison and communication

This team is headed up by Shirley Cuthbert, Employer and Communications Manager, 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; and
- increasing the use of self-service portals and the website.

### Technical and compliance

This function is headed up by Rachel Lamb, Technical and Compliance Manager, 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;
- finance;
- systems development; 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.



## Member services

This function is headed up by Natalie Taylor, Member Services Manager, 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;
- processing notifications such as changes of address, hours and marital status; and
- responding to all queries from LGPS fund members via a variety of communication methods.

## Pension Administration Strategy

During 2019/20, Peninsula Pensions developed a revised Pension Administration Strategy.

Pension Administration Strategies (PAS) were first introduced into the LGPS regulations in 2008, and now fall under Regulation 59 of the LGPS 2013 Regulations. Although they are not a legal requirement, a PAS provides a mechanism to formulate a service level agreement between the administering authority and employers. They cover a number of areas including procedures for liaison and communication, and set out the performance standards and expectations for the administering authority and employers.

A PAS also helps to improve governance arrangements, ensuring that the administering authority and employers work together to ensure compliance with The Pensions Regulator Code of Practice.

Peninsula Pensions first introduced a PAS in April 2015, following review and approval from the Somerset Pensions Committee. During 2019/20 we have worked to introduce a revised PAS. The review of the PAS followed the restructure of Peninsula Pensions and reflects the growth in membership and demands of scheme members and employers, changes to LGPS regulations, advances in technology and improvements to performance monitoring.

Following review by the Devon and Somerset Pension Boards and Pensions Committees, the draft PAS was circulated to employers and comment. Employers were also provided with the opportunity to provide feedback on the PAS at a series of PLOG (Pension Liaison Officer Group) events held during February 2020.

The final version of the PAS was approved by the Devon and Somerset Pensions Committees and will go live during 2020/21.

### Website

The Employer and Communications team have been working on a new and improved version of the Peninsula Pensions website, which is due for launch during 2020/21.

Feedback regarding the website has been collated from a wide range of service users, and will be incorporated into the new design which will be more user friendly, easier to navigate and will be in full compliance with the Public Sector Bodies (Websites and Mobile Applications) (No. 2) Accessibility Regulations 2018.

The team have also published a series of online videos and user guides for scheme members and employers. These will continue to be developed on an ongoing basis.

### Member Self-Service

An enhanced version of Member-Self Service (MSS) was launched during 2019/20. The new release is compatible with mobile phones and tablets, and provides a much improved user experience for members who have elected to sign up for the service.

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.

### Employer Self-Service

Employer Self-Service (ESS) was formally launched during 2019/20. ESS provides employers with direct access to members' pension records held on our administration system via a secure web connection. ESS enables employers to view, create and amend pension records and inform us of employees leaving the scheme. It also enables employers to perform estimates for employees, including obtaining strain costs for redundancy purposes.

### Guaranteed Minimum Pension (GMP) Reconciliation

The team has continued to work on the GMP reconciliation project throughout the year, which involves the reconciliation of data held by HMRC with the data held by contracted-out pension schemes. The team have successfully met all of the target dates set by HMRC and are now well placed to complete the exercise during the coming year.

## COVID-19

Despite having an effective risk register and robust business continuity plan in place, nobody could have anticipated the impact that COVID-19 would have on our day-to-day operations. However, prior to the Government imposed lockdown restrictions, Peninsula Pensions took early action to ensure that the impact on the level of service provision would be minimal.

A summary of actions taken by the team are set out below:

- all members of staff were asked to trial working from home and to take laptops and equipment home on a daily basis prior to lockdown;
- health risk assessments were carried out for all members of staff with underlying health issues. Anyone identified to be at risk, including those living with a person classed as vulnerable, were instructed to work from home with immediate effect;
- any members of staff displaying symptoms associated with COVID-19, or living with someone displaying the symptoms, were instructed to work from home and to self-isolate with immediate effect;
- all staff were instructed to work from home from 24th March 2020;
- email signatures, the Peninsula Pensions website and telephone welcome message were all updated in respect of the COVID-19 situation;
- letters were issued to all scheme members, notifying them of a potential impact to our printing and postage facilities, and recommending the use of Member Self-Service (MSS) for future communication purposes. Three categories of letter were produced, depending on the recipient:
  - Existing MSS users were advised to check their log-on credentials to ensure that they were still able to access the service;
  - non-MSS users were encouraged to consider signing up for the service and were provided with registration instructions; and
  - members who had previously opted out of MSS were encouraged to reconsider signing up and were provided with registration instructions.
- some members of staff volunteered to work in the office for part of the week to enable the team to continue to send and receive postal communications from scheme members who were unable to sign up for MSS; and
- the team have increased the use of technology during the lockdown to enable continued communication with colleagues and customers and for staff management purposes.

Taking this early action ensured that Peninsula Pensions has been able to operate as close to business as usual as possible throughout the pandemic, and the impact of our level of service provision has been minimal.

## Key administration performance data

### Work flow indicators

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

In addition to the internal targets, 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.

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

During 2017/18 and 2018/19, the team completed 76% and 80% respectively of work within target against our internal timescales.

The performance of the team has continued to improve and the total overall performance for the financial year 2019/20 against our internal timescales is 89%.

Following a change to reporting methods in January 2019, we are now able to monitor our performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Our overall performance against the Disclosure Regulations for 2019/20 is 98%.

The table below shows a detailed breakdown of administration performance relating to the Somerset Pension Fund only against the internal targets and Disclosure Regulations for the year ending 31st March 2020.

	<b>Cases completed</b>	<b>Performance (internal targets)</b>	<b>Performance (disclosure regs)</b>
High priority procedures	7,855	89%	91%
Medium priority procedures	10,964	89%	95%
Low priority procedures	2,976	83%	93%
<b>Total</b>	<b>21,795</b>	<b>88%</b>	<b>93%</b>

The table below provides additional detail on high priority procedures.

	<b>Cases completed</b>	<b>Performance (internal targets)</b>	<b>Performance (disclosure regs)</b>
Changes	2,085	99%	100%
Complaints (member)	21	100%	100%
Complaints (employer)	0	-	-
Deaths	650	77%	85%
Payroll	1,667	98%	99%
Refunds	494	100%	100%
Retirements (active)	1,291	67%	73%
Retirements (deferred)	1,647	85%	86%
<b>Total</b>	<b>7,855</b>	<b>89%</b>	<b>91%</b>

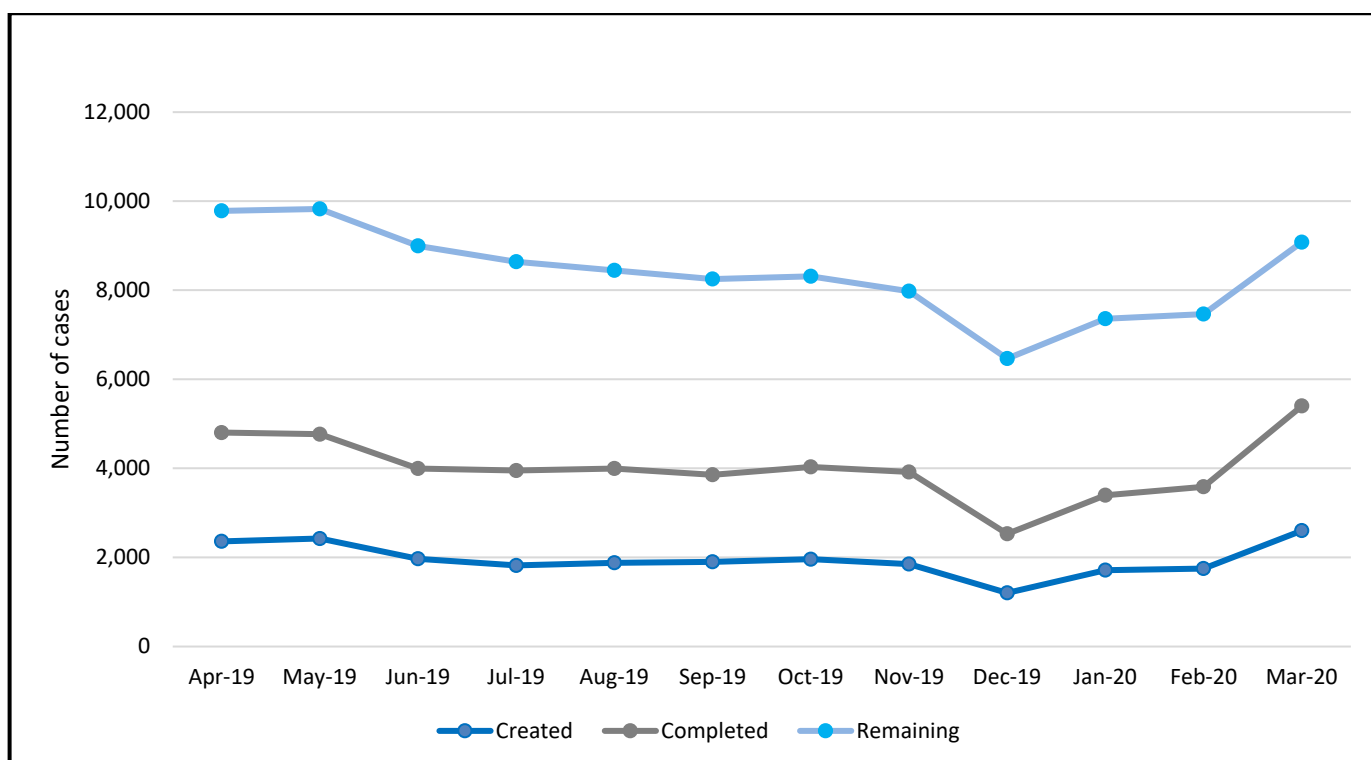
The table below provides additional detail on medium priority procedures.

	<b>Cases completed</b>	<b>Performance (internal targets)</b>	<b>Performance (disclosure regs)</b>
Amalgamation of records	1,668	68%	93%
Deferred benefit calculations	1,926	79%	85%
Divorce calculations	180	97%	97%
Employer queries	1,559	82%	96%
Estimates (bulk)	0	-	-
Estimates (employer)	158	100%	100%
Estimates (member)	522	97%	97%
General	1,368	99%	100%
HMRC	42	88%	86%
Member self-service	3,541	100%	100%
<b>Total</b>	<b>10,964</b>	<b>89%</b>	<b>95%</b>

The table below provides additional detail on low priority procedures.

	Cases completed	Performance (internal targets)	Performance (disclosure regs)
Estimates (other)	145	74%	77%
GMP queries	11	100%	100%
Interfund transfers in	195	44%	84%
Interfund transfers out	293	46%	85%
Pension top ups	386	96%	97%
Frozen refunds	1,215	96%	96%
New starters	22	100%	100%
Pension transfers in	411	76%	95%
Pension transfers out	298	87%	93%
<b>Total</b>	<b>2,976</b>	<b>83%</b>	<b>93%</b>

The graph below highlights the overall performance of Peninsula Pensions (Somerset Fund only) for the year ending 31st March 2019.



## Financial Indicators

For the financial year 2019/20, the costs of providing a pensions administration service equated to £18.13 per fund member (compared with £15.86 for 2018/19).

Our pension payroll costs per pensioner equated to £5.22 per pensioner (compared with £4.84 for 2018/19)

This increase in cost is primarily due to one-off additional in year-costs in respect of enhancements to Member-Self Service, communications and additional staff costs relating to internal projects. However, the costs of administering the scheme remain below the national average.

During 2018/19, officers made the decision to withdraw from the CIPFA Benchmarking Club, which enabled cost comparisons to be made against other LGPS administrators. In addition to saving on membership costs, the decision to withdraw was made in view of the decreasing number of funds taking part in the exercise, results not being available until after the Annual Report is published. For the 3 financial years prior to our withdrawal, the costs of our administration service compared favourably against the national average.

We will continue to monitor and benchmark our costs internally against the national average.

## Staffing indicators

Peninsula Pensions employs 62.18 full-time equivalent members of staff. This equates to approximately 3,372 fund members for every full-time equivalent member of staff (compared with 3,218 for 2018/19).

## Compliments and Complaints

During the 2019/20 year 14 compliments were received by Peninsula Pensions and 16 complaints, these figures do not include complaints raised under IDRP (see below).



## Other Information

A further analysis of new pensioners for the Somerset Pension Fund during 2019/20 is set out in the table below:

<b>Pensioner category</b>	<b>Number of new pensioners</b>
Ill-health retirement	53
Early retirement	890
Normal retirement	416
<b>Total</b>	<b>1,359</b>

## **Member Self-Service**

Peninsula Pensions encourages scheme members to sign up for Member Self-Service (MSS). This facility enables scheme members to:

- view pension records online;
- update personal information;
- view documents such as annual benefit statements, newsletters and pensioner payslips; and
- calculate pension forecasts and estimates.

MSS has proved to be very popular with our members. It is easy to access and use, in addition to being a more environmentally friendly method of communication than post. As at 31<sup>st</sup> March 2020, approximately 36% of our active fund members have signed up for the service and 7% have opted out (Somerset Pension Fund only).

Member self-service can be accessed via the following link:

<https://members.peninsulapensions.org.uk/altairMSSWeb/login>

## **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.

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.

## **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 Interim 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.

During 2019/20 there were 4 Stage 1 appeals and 1 Stage 2 appeal.

However, as many Stage 1 appeals are dealt with by the member's employer we may not have been informed of all appeals.

# 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. Regular reports have been made to Government on progress towards the pooling of investment assets, and Brunel Ltd has received positive feedback on its progress.

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 a 1/10th 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. Mark Simmonds (pensions Committee member representing the Police) 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 in to 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 four highly experienced and independent non-executive directors, chaired by Denise LeGal and four executive directors. Further information can be found on Brunel's website:  
[www.brunelpensionpartnership.org/people](http://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**

Brunel has made excellent progress during the year, meeting a number of its core objectives for clients including:

- starting the process of transitioning client property fund portfolios across to Brunel management;
- launching a further 2 equity funds within the ACS structure;
- further developing the private markets offering;
- developing the ESG offering including the launch of Brunel's Climate Change Policy.

In accordance with a revised timetable agreed across the partner Funds as part of the 2019/20 Brunel Ltd business plan process, it is anticipated that investment assets will be transitioned across from our existing investment managers to the portfolios managed by Brunel Ltd between July 2018 and around October 2021. For those assets which have yet to transition, we will continue to maintain the relationship with our current investment managers and oversee their investment performance, working in partnership with Brunel Ltd where appropriate.

During 2019/20, Somerset County Council Pension Fund continued to transition assets into Brunel portfolios. In October 2019 we transitioned into the active emerging market equity portfolio and in November 2019 we transitioned into the active global high alpha portfolio. We expect the rest of our listed equity assets to transition during 2020 and 2021.

Following the completion of the transition plan, we envisage that almost all of our Fund's investment assets will be invested through Brunel Ltd. The Fund 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.

## 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 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									<b>1.145</b>
Ongoing Brunel Costs			0.400	0.517	0.534	0.552	0.569	0.588	0.607	8.115	<b>11.882</b>
Clients Savings			-0.040	-0.042	-0.043	-0.044	-0.045	-0.047	-0.048	-0.635	<b>-0.944</b>
Transition costs			1.257	1.805	0.010						<b>3.072</b>
Fee savings			0.008	-0.750	-1.295	-1.454	-1.630	-1.816	-1.945	-33.253	<b>-42.135</b>
<b>Net costs / (realised savings)</b>	<b><u>0.117</u></b>	<b><u>1.028</u></b>	<b><u>1.625</u></b>	<b><u>1.530</u></b>	<b><u>-0.794</u></b>	<b><u>-0.946</u></b>	<b><u>-1.106</u></b>	<b><u>-1.275</u></b>	<b><u>-1.386</u></b>	<b><u>-25.773</u></b>	<b><u>-26.980</u></b>

## 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 2019/20. 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
<b>TOTAL SET UP COSTS</b>	<b>1.073</b>



## Transition costs

The transition costs for 2019/20 are for our Global high alpha equity and emerging market equity. Transition costs are summarised in the table below:

	2019/2020			Cummulative to date £ millions
	Direct £ millions	Indirect £ millions	total £ millions	
Transition Fee	0.000	0.084	0.084	0.084
Tax	0.000	0.205	0.205	0.832
Other Transition Costs	0.000	1.237	1.237	3.008
	<b><u>0.000</u></b>	<b><u>1.526</u></b>	<b><u>1.526</u></b>	<b><u>3.924</u></b>

## Investment Fee savings

A summary of fee savings for the 2019/20 financial year are provided below.

Portfolio	Value in original business case (31 March 2016) £ millions	Value 31 March 2019 £ millions	Price variance £ millions	Quantity variance £ millions	Total Savings £ millions
Global passive equity	383.102	489.305	0.003	-0.014	-0.011
Active UK equity	363.467	353.367	0.207	-0.201	0.006
Global high alpha equity	274.912	240.564	0.046	0.018	0.064
Emerging market equity	60.977	69.184	-0.086	-0.029	-0.115
<b>Total</b>			<b>0.170</b>	<b>-0.226</b>	<b>-0.056</b>

For the global high alpha portfolio this represents a partial year saving as the fund transitioned in November 2019. For the emerging market equity portfolio this is also a partial year effect as the fund transitioned in October 2019.

## 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.

	2018/19				2019/20			
	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	0.400	0.400	0.566	0.566	0.517	0.917	0.979	1.545
Clients Savings	-0.040	-0.040	0.000	0.000	-0.042	-0.082	0.000	0.000
Transition costs	1.257	1.257	2.399	2.399	1.805	3.062	1.526	3.925
Fee savings	0.008	0.008	-0.057	-0.057	-0.750	-0.742	-0.170	-0.227
<b>Net costs / (realised savings)</b>	<b>1.625</b>	<b>2.770</b>	<b>2.908</b>	<b>3.981</b>	<b>1.530</b>	<b>4.300</b>	<b>2.335</b>	<b>6.316</b>

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

- Fee savings in 2019/20 are lower as a result of slower than anticipated transitioning to Brunel portfolios.
- 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.

## **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. Progress on the implementation of Brunel Ltd, our asset transitions and the business case/business plan are 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 transition of our assets, management of costs and working closely with our partner Funds and Brunel Ltd will continue to be a key focus for the Committee throughout 2019/20.

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 14 sub-funds for investment-management purposes.

## **In-house**

### Global Equity Portfolio

#### Aim

To track the benchmark.

#### Benchmark

FTSE All-World Developed Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'.

#### Type of investments

Equities. A percentage of these investments are overseas.

#### Method

Since this fund has a passive investment style, a quantitative analysis system is used to identify suitable equity stocks and how much of each stock to hold.

#### Allocation of the fund

The target allocation is 30% of the whole fund to passive global equity, the majority of this fund transferred to a Brunel run portfolio in July 2018.

#### Appointed

The pension fund has been running an in-house tracking fund since February 1991.

## US Equity Portfolio

### Aim

To track the benchmark.

### Benchmark

S&P 500 index

### Type of investments

USA equities

### Method

Since this fund has a passive investment style, a quantitative analysis system is used to identify suitable equity stocks and how much of each stock to hold.

### Allocation of the fund

Pending transition to Brunel, this fund no longer has a target allocation.

### Appointed

The in-house team took over the running of the US equity fund on 1<sup>st</sup> January 2012

## Cash Portfolio

### 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

## **Aberdeen Standard Investments**

### UK equity portfolio

#### Aim

To outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after Aberdeen Standard's fees have been deducted.

#### Benchmark

FTSE All-Share index.

#### Type of investments

UK equities

#### Allocation of the fund

The target allocation is 20% of the whole fund to UK equity, the majority of this money moved to a Brunel run portfolio in November 2018.

#### Appointed

July 2004

### Fixed-income portfolio

#### Aim

To outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after Aberdeen Standard's fees have been deducted.

#### Benchmark

22% FTSE Actuaries UK government all-stock gilt total return index

21% FTSE Actuaries UK government index-linked all-stocks total return index

42% iBoxx Sterling non-gilt over 10-year total return index

15% Merrill Lynch European Currency High Yield Index

#### Type of investments

Bonds

#### Allocation of the fund

The target allocation is 19% of the whole fund.

#### Appointed

February 2008

## **Nomura Asset Management**

### **Aim**

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Nomura's fees have been deducted.

### **Benchmark**

TOPIX Index

### **Type of investments**

Japanese equities

### **Allocation of the fund**

Pending transition to Brunel, this fund no longer has a target allocation.

### **Appointed**

March 2010

## **Maple-Brown Abbott**

### **Aim**

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after Maple-Brown Abbott's fees have been deducted.

### **Benchmark**

FTSE All-World Developed Asia Pacific ex-Japan Index

### **Type of investments**

Far East equities. This will mainly be equities listed in South Korea, Hong Kong, Singapore, Australia and New Zealand, but other Asian countries are allowed.

### **Allocation of the fund**

Pending transition to Brunel, this fund no longer has a target allocation.

### **Appointed**

July 2014, prior to this the portfolio was managed by the in-house team on a passive basis.



## **LaSalle Investment Management**

The team that previously managed our money at Aviva Investors was bought by LaSalle Investment Management with effect from November 2018

### **Aim**

To outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after LaSalle's fees have been deducted.

### **Benchmark**

IPD All Balanced Funds Index

### **Type of investments**

Property unit trusts

### **Allocation of the fund**

The target allocation is 10% of the whole fund.

### **Appointed**

February 2004 (as Aviva)

## **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 is 5% of the whole fund.

### **Appointed**

March 2010

## **Brunel Pension Partnership**

### Passive global equity portfolio

#### Aim

To track the benchmark.

#### Benchmark

FTSE All-World Developed Index. This index contains over 2,000 companies from the 25 countries that FTSE have defined as 'developed'.

#### 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 30% 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.

#### Type of investments

UK equities

#### Underlying fund manager

Brunel has employed Baillie Gifford, Investec and Aberdeen Standard Investments to manage this portfolio on its behalf.

#### Allocation of the fund

The target allocation is 20% of the whole fund to UK equity.

#### Appointed

November 2018

## Global high alpha 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

MSCI world index.

### Type of investments

Equities. A percentage of these investments are overseas.

### Underlying fund manager

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 10% of the whole fund.

### Appointed

November 2019

## Emerging market 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

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

November 2018

As well as the 13 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 16 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 Brunel's custodian 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.

## **Voting advice** – Pensions Investment Research Consultants (PIRC)

PIRC provides us with background information about proposed votes at company meetings, along with a recommendation on how to vote in line with best corporate-governance practice. The in-house managed funds use this information and PIRC's recommendations to help us decide how to vote.

## **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 1<sup>st</sup> 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 2018-2019	Salary range 2019-2020	Salary range 2020-2021
5.50%	£0 to £14,100	£0 to £14,400	£0 to £14,600
5.80%	£14,101 to £22,000	£14,401 to £22,500	£14,601 to £22,800
6.50%	£22,201 to £35,700	£22,501 to £36,500	£22,801 to £37,100
6.80%	£35,701 to £45,200	£36,501 to £46,200	£37,101 to £46,900
8.50%	£45,201 to £63,100	£46,201 to £64,600	£46,901 to £65,600
9.90%	£63,101 to £89,400	£64,601 to £91,500	£65,601 to £93,000
10.50%	£89,401 to £105,200	£91,501 to £107,700	£93,001 to £109,500
11.40%	£105,201 to £157,800	£107,701 to £161,500	£109,501 to £164,200
12.50%	More than £157,801	More than £161,501	More than £164,201

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.

	2017/2018		2018/2019		2019/2020		2020/2021	
	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m
Common fund rate	22.9%	0.000	22.9%	0.000	22.9%	0.000	24.3%	0.000
Somerset County Council	15.5%	12.215	15.5%	12.507	15.5%	12.806	18.1%	9.330
Mendip District Council	14.9%	0.815	14.9%	0.834	14.9%	0.854	17.3%	0.810
Sedgemoor District Council	14.9%	1.555	14.9%	1.592	14.9%	1.630	18.7%	1.410
South Somerset District Council	16.1%	1.240	16.1%	1.621	16.1%	1.659	17.6%	1.360
Somerset West & Taunton	15.4%	2.403	15.4%	2.460	15.4%	2.518	17.5%	2.140
Avon and Somerset Police	13.2%	2.808	13.2%	2.875	13.2%	2.944	16.3%	2.260
Further education colleges	13.8% to 16.2%	Variable	13.8% to 16.2%	Variable	13.8% to 16.2%	Variable	16.3% to 19.9%	Variable
Academies	20.9%	0.000	20.9%	0.000	20.9%	0.000	23.7%	0.000
Town councils	17.8%	Variable	17.8%	Variable	17.8%	Variable	20.3%	Variable
Admitted organisations	9.3% to 24.4%	Variable	9.3% to 24.4%	Variable	9.3% to 24.4%	Variable	12.8% to 28.4%	Variable



A full actuarial valuation of the fund was carried out as at 31 March 2019 and this showed a funding level of 86%. This was higher than the level at the 2016 valuation. Despite an increase in the funding level at the 2019 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 2022. 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 1/80<sup>th</sup> of final salary for each year of service for pre-April 2008 service;
- A pension calculated at 1/60<sup>th</sup> of final salary for each year of service for service between April 2008 and March 2014;
- A pension calculated on 1/49<sup>th</sup> 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, 3/80<sup>th</sup> 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 chose 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 2018 was 3.0% and the increase applied from April 2020 was 1.7%.

For more details of the current benefits visit the LGPS members' website: [www.LGPsmember.org](http://www.LGPsmember.org)

## **Principles and policies**

The statements, policies and principles listed below are those that were in place at 31<sup>st</sup> March 2020.

## **Funding strategy statement**

### **Introduction**

This is the Funding Strategy Statement for the Somerset County Council Pension Fund. It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (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).

The Fund Actuary, Barnett Waddingham LLP, has 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 issued by CIPFA.

### **Purpose of the Funding Strategy Statement**

The purpose of this Funding Strategy Statement 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(5) 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 purposes 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 purposes of the Fund are 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 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 to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions;
- 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.

## **Key parties**

The key parties involved in the funding process and their responsibilities are as follows:

### **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;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets;
- 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, including admission bodies, participate in the Fund.

The responsibilities of each Scheme 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 of Communities and Local Government (DCLG).

## **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 to the administering authority on bonds or other forms of security against the financial effect on the Fund 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 his or her 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 2016. A summary of the methods and assumptions adopted is set out in the sections below.

The actuarial valuation involves a projection of future cash flows 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.

## Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution 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. The funding target may, however, depend on certain employer circumstances and in particular, whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer 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 chosen funding target.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Funding Method which considers separately the benefits in respect of service completed before the valuation date (past service) and benefits in respect of service expected to be completed after the valuation date (future service). This approach focuses on:

- 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 for pensions in payment. 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 primary rate as defined in Regulation 62(5) of the Regulations) which is the level of contributions required from the individual employers which, in combination with employee contributions is expected to support the cost of benefits accruing in future.

The key feature of this method is that, in assessing the future service cost, the primary contribution rate represents the cost of one year's benefit accrual.

For closed employers, the 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 of the remaining expected working lifetime of active members.

## **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 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 statistical assumptions which are essentially estimates of the likelihood 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. This is derived by considering the average difference in yields over the appropriate period from conventional and index linked gilts during the six months straddling the valuation date to provide an estimate of future price inflation as measured by the Retail Price Index (RPI). The RPI assumption adopted as at 31 March 2016 was 3.3% p.a.

### **Future pay inflation**

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 inflation. Historically, there has been a close link between price and pay inflation with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2016 was CPI plus 1.5%, with a short-term assumption in line with CPI for the period to 31 March 2020. An allowance has also been made for promotional increases.

### **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. A deduction of 0.9% p.a. is therefore made to the RPI assumption to derive the CPI assumption. The CPI assumption adopted as at 31 March 2016 was 2.4% p.a.



## **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 2016 valuation was 5.4% 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 Scheme 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 to set 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 do 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.

## **Asset valuation**

For the purposes 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.

## **Statistical assumptions**

The statistical assumptions incorporated into the valuation, such as future mortality rates, are based on national statistics. These are adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of all of the assumptions adopted are included in the latest actuarial valuation report.

## **2016 valuation results**

As at 31 March 2016, as calculated at the 2016 valuation, the Fund was 77% funded, corresponding to a deficit of £461m.

The primary rate required to cover the employer cost of future benefit accrual was 15.0% of payroll p.a.

## **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. Accordingly the Fund will normally either be in surplus or in deficit.

Where the actuarial valuation discloses a significant surplus or deficit then the levels of required employers' 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 2016 valuation varied from 3 years to 24 years. 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 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 main purpose of pooling is to produce more stable employer contribution levels in the longer term whilst, recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

In the event of a dispute regarding the pooling of individual employers the administering authority will consult with all relevant employers and the fund's actuary before making a decision in the best interests of the fund, which will be binding on all relevant employers.

## **Cessation valuations**

When a Scheme employer exits the Scheme and becomes an exiting employer, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as an exit payment, unless it is agreed by the administering authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

In assessing the financial position on termination, the Fund Actuary may adopt a discount rate based on gilt yields and adopt different assumptions to those used at the previous valuation in order to protect the other employers in the Fund from having to fund any future deficits which may arise from the liabilities that will remain in the 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 underlying 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 underlying 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. 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.

However, the Pension Fund 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.

The liabilities of the Fund can also increase by more than has been planned as a result of early 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.

## **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.

## **Governance**

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.

## **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 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  
June 2017**

# 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 Fund as well as providing transparency in relation to how Fund investments are managed.

The Somerset CC 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 Fund aims to be a long term investors, 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 CC 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 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 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 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 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 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 Pension 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:

<b>Asset Class</b>	<b>Strategic Allocation</b>	<b>Role(s) within the strategy</b>	<b>Geography</b>	<b>Currency</b>
Equities				
Global Passive	23%	Growth Inflation protection	Diversified	Diversified
UK Active	23%	Growth Inflation protection	UK	GBP
US Passive	5%	Growth Inflation protection	US	USD
Europe Active	5%	Growth Inflation protection	Europe ex-UK	Diversified
Japan Active	3%	Growth Inflation protection	Japan	JPY
Far East Active	3%	Growth Inflation protection	Diversified	Diversified
Emerging Market Active	5%	Growth Inflation protection	Diversified	Diversified
<b>Total</b>	<b>67%</b>			
<b>Maximum</b>	<b>100%</b>			



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
High yield bonds	3	Stabilising	Diversified	Diversified
<b>Total</b>	<b>19%</b>			
<b>Maximum</b>	<b>100%</b>			
Alternatives				
Property	10%	Growth Inflation protection	UK	GBP
Private equity	3%	Growth	Diversified	Diversified
<b>Total</b>	<b>13%</b>			
<b>Maximum</b>	<b>25%</b>			
Cash				
Cash	1%	Liquidity	UK	GBP
<b>Total</b>	<b>1%</b>			
<b>Maximum</b>	<b>100%</b>			

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.

Each manager mandate clearly states what assets can be invested in and where appropriate limits on certain asset types, this is monitored by officers for compliance. The Fund can invest in the following asset types:

- listed stocks, shares and warrants of companies;
- listed government and corporate bonds;
- futures and options;
- 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 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 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 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 investment managers.
- 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 is also exposed to operational risk; this is mitigated through:

- 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 Fund maintains a risk register which is considered by the Pensions Committee regularly and updated as necessary. The risk register considers a number of non-investment risks such as funding risk, employer covenant risk, regulatory risk and operational risks.

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 is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Somerset Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Somerset fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of Somerset Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

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 will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been 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 towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Somerset County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above (approximately 2020), it is envisaged that all of the Fund's assets except certain cash holdings will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed by the Fund in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

## 5. Social, environmental and corporate governance policy

The 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. For example, the Fund will not require any form of dis-investment from fossil fuels, tobacco or such like.
- It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
- 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. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. 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 Council's investment managers will vote in accordance with the Fund's interest on investment grounds.
- 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 therefore expects its investment managers to monitor and manage the associated risks. As the Fund moves towards the new arrangements for the pooling of investments it 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.

## **6. Policy of the exercise of rights (including voting rights) attaching to investments**

The Fund recognises its responsibility as an institutional investor to support and encourage good corporate-governance practices in the companies it invests in. The committee considers that good corporate governance can contribute to business health and success by encouraging boards, shareholders and other stakeholders to answer to each other. Good corporate governance also plays an important part in encouraging corporate responsibility to shareholders, employees and wider society.

The Fund is fully supportive of the UK Stewardship Code, published in July 2010, and the Pensions Committee accepts the rights and responsibilities that attach to being a shareholder and will play an active role in overseeing the management of the companies in which it invests. The Fund is a signatory to the Code and a copy of the Funds most recent Stewardship Statement can be found within the Fund's annual report on the SCC website: <http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/>

The Funds policy on the exercise of voting rights is:

- To vote on all resolutions at company meetings where the fund holds shares in UK companies and where practically possible for shares in overseas companies.
- To give external investment managers the power to vote on our behalf in line with their own process and policy, which we review, within industry standards and the principles of this statement.
- For the in-house managed funds, to receive external advice from a specialist organisation on voting issues and to follow their recommendations in voting on all resolutions where practically possible. This service is currently provided PIRC Ltd.

External investment managers are required to report on their voting activity as part of their standard quarterly reporting. A summary of the Fund's voting activity is reported to the Pensions Committee twice a year.

The Fund's voting rights are an asset and will be used to further the long-term interests of the Fund's objectives. As a general principle, votes will be used to:

- Protect shareholder rights.
- Reduce, as far as possible, risk to companies from corporate governance failing.
- Improve long-term value.
- Encourage corporate social responsibility.

As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website: <https://www.brunelpensionpartnership.org/>



## **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 the Brunel Client Officer Group project team 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 BPP Ltd. once it becomes operational.

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 CC, Cornwall Council, Devon CC, Dorset CC, 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  
June 2017**

## Annex 1

### Working in line with Myners

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

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

#### Principle 1: Effective Decision Making

##### **Administering authority should ensure that:**

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

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

#### Principle 2: Clear Objectives

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

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

### Principle 3: Risk and Liabilities

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

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

The fund is fully compliant with this principle.

### Principle 4: Performance Assessment

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

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

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

### Principle 5: Responsible Ownership

**Administering authorities should:**

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

The fund is fully compliant with this principle.

## Principle 6: Transparency and Reporting

### **Administering authorities should:**

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

The fund is fully compliant with this principle.

# 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.

<b>Statutory Guidance Governance Standards and Principles</b>	<b>Our compliance status</b>	<b>Evidence of compliance and justification for non-compliance</b>
<b>A – Structure</b>		
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.	<b>Compliant</b>	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.	<b>Compliant</b>	<p>The Pensions Committee includes representation of all the participating employers.</p> <p>Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.</p>
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<b>Not Applicable</b>	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.	<b>Not Applicable</b>	There are no secondary committees or panels in place.

<b>B – Representation</b>		
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);	<b>Compliant</b>	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);	<b>Compliant</b>	Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
iii) where appropriate, independent professional observers;	<b>Compliant</b>	The independent investment advisor attends all Pensions Committee Meetings.
iv) expert advisors (on an ad-hoc basis).	<b>Compliant</b>	<p>Our in-house officer expert advisors attend all Pension Committee meetings, including the Chief Financial Officer, investments manager and fund administration manager.</p> <p>The appointed actuary, external auditors and performance advisors also attend on an ad-hoc basis at least once per annum.</p>

<p>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.</p>	<p><b>Compliant</b></p>	<p>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.</p>
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## C – Role of members

<p>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.</p>	<b>Compliant</b>	<p>All new members receive regular specific training and access to external training and seminars.</p> <p>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.</p> <p>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.</p> <p>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.</p>
<p>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.</p>	<b>Compliant</b>	<p>Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.</p>



<b>D – Voting</b>		
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.	<b>Compliant</b>	All members of the Pensions Committee have full voting rights.
<b>E – Training, facility time and expenses</b>		
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.	<b>Compliant</b>	<p>A formal training policy for members has been adopted by the Pensions Committee.</p> <p>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.</p> <p>All members are encouraged to undertake regular training including attendance at the specific training days.</p> <p>All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.</p>
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.	<b>Compliant</b>	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	<b>Compliant</b>	A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.
<b>F – Meetings (frequency/quorum)</b>		
a) That an administering authority's main committee or committees meet at least quarterly.	<b>Compliant</b>	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.	<b>Not Applicable</b>	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.	<b>Compliant</b>	The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.

<b>G – Access</b>		
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.	<b>Compliant</b>	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.
<b>H – Scope</b>		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>Compliant</b>	<p>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.</p> <p>The Committee also receives regular reports and updates on approved policies including the communications policy statements.</p> <p>There are also annual reports from the appointed actuary, external auditor and performance advisors.</p>

## I – Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

### **Compliant**

The Governance Arrangements of the Pensions Committee are formally reviewed every four years as part of the Forward Business Plan.

There are procedures in place for the re-appointment of individuals to the Pensions Committee at least every four years.

All of the policies adopted by the Pensions Committee on behalf of the administering authority including the Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement are published annually in the Fund's annual report and financial statement and are available on the County Council's website. All of the policies and the annual report are available in hard or electronic copy on request.

## **Local Pensions Board**

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

### **PENSION BOARD OF THE SOMERSET COUNTY COUNCIL PENSION FUND**

#### **TERMS OF REFERENCE**

## **1. Introduction**

- 1.4 This document sets out the terms of reference of the Pension Board of Somerset County Council. The Pension Board is established under Section 5 of the Public Service Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme Regulations 2013 (as amended).
- 1.5 The Board is established by Somerset County Council in its capacity as the Administering Authority of the Somerset County Council Pension Fund and operates independently of the Pensions Committee.
- 1.6 The terms of reference will be formally approved by the Council as the Administering Authority and by the Board itself at its first meeting.
- 1.7 These terms of reference shall be reviewed by the Council on the advice of the Board and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Board.

## **2. Definitions**

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

### **3. Purpose and functions of the Board**

- 3.1 The regulations state that the role of the Board is to assist the Administration Authority to:
- (a) secure compliance with:
- the LGPS Regulations;
  - any other legislation relating to the governance and administration of the LGPS; and
  - the requirements imposed by the Pensions Regulator in relation to the LGPS, and
- (b) ensure the effective and efficient governance and administration of the LGPS.
- 3.2 The Board will assist the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy and can only challenge decisions made by the Pensions Committee where the Board considers a decision to be in breach of the relevant Regulations (or overriding legislation). The Board's role is to have oversight of the governance process for making decisions and agreeing policy.
- 3.3 In discharging its role, the Board's remit shall cover all aspects of governance and administration of the LGPS, including funding and investments. The Board must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the Public Service Pensions Act 2013.

- 3.4 The Board will exercise its duties in the following areas:
- (a) monitor compliance with the relevant legislation and Codes of Practice set by The Pensions Regulator;
  - (b) review and ensure compliance of the Fund's:
    - (i) governance compliance statement
    - (ii) funding strategy statement
    - (iii) pension administration strategy statement
    - (iv) discretionary policy statement
    - (v) communications policy statement
    - (vi) statement of investment principles
    - (vii) annual report and accounts
  - (c) review and scrutinise the performance of the Fund in relation to its governance and administration, policy objectives and performance targets;
  - (d) ensure policies and processes are in place so that employers comply with their obligations under the regulations;
  - (e) review the processes for setting strategy, policy and decision-making and ensure they are robust;
  - (f) agree the annual internal audit plan for the Fund;
  - (g) consider the output of any internal audit work carried out on the Fund;
  - (h) consider the external audit report on the Fund's Annual Report and Statement of Accounts;
  - (i) review the Fund's risk register;
  - (j) monitor the Fund's Internal Dispute Resolution Procedures;
  - (k) from time to time the administering authority may consult the Board or ask assistance on specific issues.
- 3.5 Under Regulation 106(8) the Board has the general power to do anything which is calculated to facilitate or is conducive or incidental to, the discharge of its functions.
- 3.6 The Board must always act within its Terms of Reference.

#### **4. Membership of the Board**

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

- (a) Three employer representatives
    - (i) one employer representative will be a county councillor who is not a member of the Pension Committee and will be selected by the Administering Authority having taken account of their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the Local Government Pension Scheme;
    - (ii) two employer representatives to be nominated by the employers having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.
  - (b) Three scheme member representatives
    - i) two members representatives will be nominated by the recognised trade unions having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS;
    - ii) one members representative will be open to all scheme members. The administering authority shall contact scheme members advising them of the role and seeking nominations and asking them to demonstrate their capacity to represent other scheme members, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.
- 4.2 Due to the specialist knowledge requirements of Board members, substitutes to the appointed members of the Board are not permitted.



## **5. Responsibilities of the Chair**

5.1 The Chair is responsible for:

- (e) ensuring the Board delivers its purpose as set out in the Board's terms of reference;
- (f) the arrangements for meetings of the Board;
- (g) ensuring that Board meetings are productive and effective and that opportunity is provided for the views of all Board members to be expressed and considered;
- (h) seeking to achieve the consensus of all Board members on the business presented to the Board and ensure that decisions are properly put to a vote when that cannot be reached.

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

## **6. Conflicts of interest**

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

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

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

## **7. Knowledge and understanding including training**

- 7.1 All new members must follow an induction training plan and all members of the Board will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 All members must be prepared to participate in such regular personal training needs analysis or other processes as are put in place to ensure that they maintain the required level of knowledge and understanding to carry out their role.
- 7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

## **8. Term of office and removal from office**

- 8.1 The members of the Board serve for a four year term, subject to the following:
  - (a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
  - (b) the two union nominated member representatives can be amended at any time by the unions, but with a view to maintaining stability of membership.
- 8.2 Members of the Board will be expected to attend all meetings and training sessions. This will be recorded and published. The membership of any member who fails to attend for two consecutive meetings or two consecutive training events shall be reviewed by the Board and shall be terminated in the absence of mitigating factors

- 8.3 Subject to 8.4 below, a Board member can be removed from the Board in the following circumstances (but not limited to):
- (a) A poor attendance record;
  - (b) if a member does not undertake training as requested by the administering authority;
  - (c) if a member is In breach of Council's Code of Conduct / Declarations policy;
  - (d) if a member has a conflict of interest that cannot be managed in accordance with the Board's conflicts policy;
  - (e) if a representative member ceases to represent his constituency e.g. leaves the employer so no longer has the capacity to represent the Fund's employers.
- 8.4 Other than by ceasing to be eligible for appointment to the Board, Board members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Board at a meeting of the Board where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.
- 8.5 Arrangements shall be made for the replacement of Board members in line with the procedures for their original appointment.

## **9. Meetings**

- 9.1 The frequency of meetings is to be determined by the Board once it has agreed a workplan, with a minimum of two meetings annually. In addition to this, training sessions will be held as necessary to ensure that Board members have sufficient knowledge and skills to undertake the role.
- 9.2 The Chair of the Board may call additional meetings with the consent of other members of the Board. Urgent business of the Board between meetings may, in exceptional circumstances, be conducted via communications between members of the Board including telephone conferencing and emails.
- 9.3 The Board will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.
- 9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Board. Board meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Board and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

## **10. Quorum**

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

## **11. Voting rights**

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

## **12. Code of Conduct**

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

## **13. Allowances and Expenses**

- 13.1 Any councillor of the Council appointed to the Board will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).
- 13.2 Reimbursement of expenses for all members of the Board will be claimable in line with Somerset County Council's agreed expenses rates.

## **14. Budget**

- 14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Board will be met by the Fund.
- 14.2 The Council's Community Governance Team will provide the secretariat services to the Board, the cost of which will be met by the Fund.
- 14.3 The Board will have open access to all officers involved in the running of the Fund and any advisors already employed by the Fund (e.g. the Fund's Actuary).
- 14.4 The Board may make requests to the Section 151 Officer to approve any additional expenditure required to fulfil its obligations which will then be charged to the Fund. This would include any officer resources not already employed by the Fund.

## **15. Accountability and reporting**

- 15.1 The Board is accountable solely to the County Council for the effective operation of its functions.
- 15.2 The Board shall report to the Pensions Committee as often as the Board deems necessary and at least annually on:
- (a) a summary of the work undertaken;
  - (b) the work plan for the next 12 months;
  - (c) areas raised to the Board to be investigated and how they were dealt with;
  - (d) any risks or other areas of potential concern it wishes to raise;
  - (e) details of training received and planned; and
  - (f) details of any conflicts of interest and how they were dealt with.
- 15.3 The Board shall report annually to Full Council on its work. It will also and as necessary from time to time report to Full Council any breach in compliance, or other significant issue, which has not been resolved to the satisfaction of the Board within a reasonable time of being reported to the Pensions Committee.
- 15.4 The Board shall report to the Scheme Advisory Board:
- (a) any areas of persistent non-compliance;
  - (b) any areas of non-compliance with the LGPS Regulations that have been reported to the Pensions Committee and full council but persist to be of a material concern.
- 15.5 The Board shall report to the Pensions Regulator all material breaches of the Pensions Regulator regulatory guidance, following notification to full council and the Pensions Committee.

## **16. Data protection and Freedom of Information**

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

### **Arrangements for reviewing 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  
June 2017**

# 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.

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

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.

Ensure all contributions due are collected from employers.

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

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

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

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

Decide the aims of the investment policy.

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

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

The Committee will decide the fund's voting, engagement and socially responsible investment policies. The Chief Financial Officer will make arrangements for the implementation, monitoring and any necessary reporting against the agreed policies.

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 Committee will advise the Chief Financial Officer of their preferences when appointing external fund managers, under County Council contract standing orders all contracts must be awarded and managed by officers. The Committee will advise the Chief Financial Officer if they wish a fund manager's contract to be terminated.

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 regularly, typically quarterly, to discuss performance.

The Committee will review the performance of all fund managers and the fund as a whole quarterly. The Committee will meet with external fund managers periodically at their discretion to discuss performance.

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

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

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

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

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

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

The Committee will meet with the actuary at least annually to receive an update.

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

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

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

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

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

### Contract Standing Orders

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

#### **General clarification:**

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

#### **Section 24.7**

Exempt in full. The pension fund does not use purchase orders.

#### **Section 43.1**

Table to be amended such that contract values over £500,000 to be approved by the Chief Financial Officer and such decisions are Non-Key Decisions.

#### **Section 44.2**

Section to be amended to remove any reference to, or need for, a purchase order.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
December 2017**

# **Pensions Committee Training Policy**

## **Introduction**

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

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

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

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

## **CIPFA Knowledge and Skills Framework**

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

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

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

## **Annual Training Commitment**

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

### Level 1 - New Pensions Committee members 1<sup>st</sup> year of office

New members should have 1-3 days training via:

- Receiving 1/2 day in-house induction training on the LGPS and its benefits, the membership and role of the Committee and the current investment structure of the fund.
- Reading the Pension Committee Members Handbook containing key documents such as the Fund Members guide, the Fund Annual Report and Financial Statement and background reading and knowledge building for 1/2 day.
- Attending at least one days external training on relevant topics.
- Attending the annual employers communications meeting.

### Level 2 – Members 2<sup>nd</sup> and 3<sup>rd</sup> year of office

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

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

### Level 3 - Member serving longer than 3 years

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

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

## **Suitable Events**

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

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

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

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

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
June 2017**

# 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 of 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 1<sup>st</sup> year of office

New members should have 1-5 days training via:

- Receiving 1/2 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 2<sup>nd</sup> and 3<sup>rd</sup> 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](http://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  
June 2017**

# Pension administration strategy

## 1. Introduction

Peninsula Pensions is a shared pension administration service, run by Devon County Council, providing the Local Government Pension Scheme (LGPS) administration for both Devon and Somerset administering authorities.

The shared service started on 1 September 2013 with both teams coming together in one office in February 2014.

The Devon and Somerset Pension Funds and their Committees remain independent from each other with each Administering Authority retaining Investment responsibility. Both the Devon and Somerset Pension Fund Committees, have agreed to the implementation of a Pension Administration Strategy (PAS). Although there will be one strategy per fund, the contents will be the same for both, to ensure an equal, efficient and quality service for all stakeholders.

The Pensions Administration Strategy supports the pension fund on behalf of its employing authorities and the administering authority. The objective of the strategy is to define the roles and responsibilities of the Administering Authority and the employing authorities under the LGPS regulations.

In no circumstances does this strategy override any provision or requirement of the regulations set out below nor is it intended to replace the more extensive commentary provided by the Employers' Guide and website for day-to-day operations.

The Fund will review and revise this policy statement if policies which relate to strategy matters change. Employers will be consulted and informed of the changes and a revised statement will be supplied to the Secretary of State.



## 2. The Regulations

In accordance with Regulation 59 of the Local Government Pension Scheme (Administration) Regulations 2013:

- 1) An administering authority may prepare a written statement of the authority's policies in relation to such of the matters mentioned in paragraph (2) as it considers appropriate ("its pension administration strategy") and, where it does so, paragraphs (3) to (7) apply.
- 2) The matters are:
  - a) procedures for liaison and communication with Scheme employers in relation to which it is the administering authority ("its Scheme employers");
  - b) the establishment of levels of performance which the administering authority and its Scheme employers are expected to achieve in carrying out their Scheme functions by:
    - (i) the setting of performance targets,
    - (ii) the making of agreements about levels of performance and associated matters, or
    - (iii) such other means as the administering authority considers appropriate;
  - c) procedures which aim to secure that the administering authority and its Scheme employers comply with statutory requirements in respect of those functions and with any agreement about levels of performance;
  - d) procedures for improving the communication by the administering authority and its Scheme employers to each other of information relating to those functions;
  - e) the circumstances in which the administering authority may consider giving written notice to any of its Scheme employers under regulation 70 (additional costs arising from Scheme employer's level of performance) on account of that employer's unsatisfactory performance in carrying out its Scheme functions when measured against levels of performance established under sub-paragraph (b);
  - f) the publication by the administering authority of annual reports dealing with:
    - (i) the extent to which that authority and its Scheme employers have achieved the levels of performance established under sub-paragraph (b), and
    - (ii) such other matters arising from its pension administration strategy as it considers appropriate; and
  - g) such other matters as appear to the administering authority after consulting its Scheme employers and such other persons as it considers appropriate, to be suitable for inclusion in that strategy.

3) An administering authority must:

a) keep its pension administration strategy under review; and

b) make such revisions as are appropriate following a material change in its policies in relation to any of the matters contained in the strategy.

4) In preparing or reviewing and making revisions to its pension administration strategy, an administering authority must consult its Scheme employers and such other persons as it considers appropriate.

5) An administering authority must publish:

a) its pension administration strategy; and

b) where revisions are made to it, the strategy as revised.

6) Where an administering authority publishes its pension administration strategy, or that strategy as revised, it must send a copy of it to each of its Scheme employers and to the Secretary of State as soon as is reasonably practicable.

7) An administering authority and its Scheme employers must have regard to the pension administration strategy when carrying out their functions under these Regulations.

8) In this regulation references to the functions of an administering authority include, where applicable, its functions as a Scheme employer.

### 3. The Administration Strategy

This strategy formulates the administrative arrangements between the pension fund and the participating employing authorities. It recognises that both fund employers and Peninsula Pensions have a shared role in delivering an efficient and effective pension fund to its scheme members and this can only be achieved by co-operation.

With the introduction of this framework, the aim is to enhance the flow of data by having clear channels of communication in place, so that each authority is fully aware of its role and responsibilities within this process, as outlined by the LGPS provisions.

An annual report will be issued by Peninsula Pensions to illustrate the extent to which the standard of performance established under this strategy has been achieved and such other matters arising from the strategy as appropriate.

### 4. Liaison and Communication

The delivery of a high quality, cost-effective administration service is not the responsibility of just the administering authority, but depends on the administering authority working with a number of individuals in different organisations to make sure that members and other interested parties receive the appropriate level of service and ensure that statutory requirements are met.

Peninsula Pensions will have an Employer Liaison Officer who will be the main contact for any administration query relating to the correct interpretation of the LGPS regulations, employer responsibilities and help when completing interfaces and forms.

Each employing authority will designate named individual(s) to act as a **Pensions Liaison Officer** the primary contact with regard to any aspect of administering the LGPS. The Pension Liaison Officer(s) will be given a user name 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 employing authorities to ensure that all requirements are consistently met.

The various channels of communication employed by the fund include:

1. **Peninsula Pensions website** – the main communication tool for both employers and scheme members.
  - **Employers** – 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.
  - **Electronic communication** – unless agreed separately all employers will be 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. Member Self service area where member's can update personal details, review annual benefit statements and newsletters and do their own pensions estimates.
  - **Contact Details** – All Peninsula Pension Staff roles and contact information together with both Funds Investment Team contact details
2. **Scheme members** who have chosen to opt out of the Member Self Service will continue to receive postal communication. They will still be able to access up-to-date information about all aspects of the LGPS via our website.
3. **Periodic newsletters** issued to scheme members and all employing authorities and placed on Peninsula Pensions website.
4. **Induction and pre-retirement workshops** undertaken upon request to develop both employer and scheme member understanding, minimum number of attendees 10 required
5. **Pension surgeries** held for scheme members upon employer request to resolve any individual or collective issues that members may have.
6. **Quarterly E-zine** sent directly to employer representatives to provide notification of any scheme / administrative updates and developments.
7. **Employer seminars and training groups** held when required to review scheme developments, or to resolve any training needs that employers may have.
8. **Annual Consultative Meeting** held to review the investment and administrative issues that the pension fund has experienced during the preceding 12 months, and also to look forward at the challenges that lie ahead for the next 12 months.
9. **Employer representatives** distribute information supplied by the pension fund to scheme members within their organisation, such as scheme guides and factsheets.

**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. That responsibility rests with the employer.

**Payroll providers** – where an employer delegates responsibility to a payroll provider, for the provision of information direct to Peninsula Pensions, a delegation form needs to be completed confirming which areas you are allowing them to act on your behalf for. If the information received from the payroll provider results in wrong information/benefit being paid the responsibilities under the Local Government Pension Regulations rest with the Employer.

## 5. Standards of Performance - Employers

Expectation is to complete 90% of cases within the timescale quoted.

<b>Employer Responsibility</b>	<b>Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods</b>
To ensure that all employees subject to automatic admission are brought into the scheme from the date of appointment. Determine their pensionable pay and contribution rate.	1 month
Update Peninsula Pensions with changes to scheme members details such as change of hours or name.	1 month
Deduct scheme member contributions including APCs and pay over to the fund.	As stipulated by your pension fund
To deduct from a members pay and pay over any Additional Voluntary Contributions (AVCs) to the in-house AVC provider	Before the 19 <sup>th</sup> of the following month after deducted from pay
On cessation of membership determine reason for leaving, final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	<b>Retirees preferably at least 1 month before date of leaving..</b> All within 5 working days of final payday. <b>Leavers under age 55</b> within 1 month from final payday.
Where a member dies in service determine final pay for calculating pre 2014 benefits and CARE pay for post 2014 benefits as appropriate.	Preferably within 2 weeks of date of death. All within 5 working days of final payday.
Provide monthly CARE data within required format	Within 2 weeks of pay run
Provide end-of-year data within required format	30 April each year

Publishing a policy relating to the key employing authority discretions required by the LGPS regulations	Within 1 month of publication
Under Data Protection Act 1998 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
There will be a regular exercise to review the membership to the employers' website and employing authority contacts in general; Pension Liaison Officers will be expected to assist the Employer Liaison Officer in this exercise by confirming details Peninsula Pensions hold are correct .	Annually

## 6. Level of Performance – Peninsula Pensions

Expectation is to complete 90% of cases within timescale quoted based on all relevant information being received from the scheme employer.

<b>Peninsula Pensions Responsibility</b>	<b>Timescale</b>
To provide guidance on Employer Self Service and interfaces for recording any key information, such as starters, changes and leavers or, if agreed with the employer, to provide a document for the provision of information.	Ongoing support
Provide the Employer Liaison Officer and/or representatives with information and assistance on the LGPS, its administration and technical requirements.	Ongoing support
To accurately record and update member records on pension administration systems.	10 working days
To produce <b>a statutory notification and</b> 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.	1 month of notification
To process employer year-end contribution returns and provide consolidated and grouped error reports for action by employers.	3 months
To produce annual benefit statements for all active members as at the preceding 31 March and notify electronically or by post to member's home address.	Sent out/available on MSS by 31 August
To produce annual benefit statements for all preserved members, as at the preceding 31 March, and notify electronically or by post to member's home address.	Sent out/available on MSS by 30 June
To provide information and quotations to scheme member with regard to additional voluntary contribution (AVC) options.	Within 10 working days
To provide information and quotations to a scheme member on the option of making Additional Pension Contributions (APCs).	Within 10 working days

To produce retirement estimates for employers, once in receipt of all of the necessary information.	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 1 month
To accurately calculate and inform the member of the options available to them upon retirement.	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.	Within 5 working days
Under the Data Protection Act 1998 Peninsula Pensions will protect information relating to a member contained on any item issued by them or received by them from improper disclosure.	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 contributions rates	Assuming information provided by Actuaries provisional results December following valuation, with final results the following March



## 7. Financial Information

**Contributions** (but not Additional Voluntary Contributions) should be paid monthly to the pension fund by BACS unless we have agreed payment by cheque.

The employer must submit an advice with their payment stating the month and the amount of the payment split between pre-2014 membership, post-2014 50/50 membership, and post-2014 100/100 membership for both employee and employer contributions.

**Employer contribution** rates are not fixed. Employers are required to pay whatever is necessary to ensure that the portion of the fund relating to their organisation is sufficient to meet its liabilities as determined and certified by the fund actuary.

### **Administration fees and other charges**

#### **Interest on late payments**

- In accordance with the LGPS regulations, interest will be charged on any amount overdue from an employing authority by more than one month.
- Interest will be calculated at 1% above base rate on a day-to-day basis from the due date to the date of payment and compounded with three-monthly rests.

The employer is reported to The Pensions Regulator where contributions are received late in accordance with the regulators code of practice.

Any over-payment resulting from inaccurate information supplied by the employer shall be recovered from the employer.

In the event of the pension fund being levied by The Pensions Regulator, the charge will be passed on to the relevant employer where that employer's action or inaction (such as the failure to notify a retirement within the time limits described above, for example) cause the levy.

Where additional costs have been incurred by the pension fund because of the employing authority's level of performance in carrying out its functions under the LGPS, the additional costs will be recovered from that employing authority.

The pension fund will give written notice to the employing authority stating:

- the reasons for the additional cost incurred
- that the employing authority should pay the additional costs incurred by that authority's level of performance
- the basis on which the specified amount is calculated, and
- the relevant provisions of the Pension Administration Strategy under which the additional costs have arisen.

Any disagreement regarding the amount of additional cost being recovered 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 pension fund and the employing authority have complied with those provisions in carrying out their functions under these regulations.

The pension fund has an actuarial valuation undertaken every three years by the fund's actuary. The actuary balances the fund's assets and liabilities in respect of each employer, and assesses the appropriate contribution rate for each employer 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.

**Note:** If an employer wishes to commission the fund actuary to undertake any additional work, the cost will be charged to the employer.

New admission agreements – the setting up of admission agreements requires input from the scheme administrator, their legal representative and the actuary. There will be a charge to the employer who commissions the outsourcing.

Please note charges are set out separately within the attached appendix.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
June 2017**

## **APPENDIX**

**Administration Fee** – Peninsula Pensions will charge employers outsourcing services a Fee of £750 to cover both the pension administration and legal work necessary in the setting up of an Admission Agreement. The Fee will become payable once we have issued the draft admission agreements to relevant parties. If the outsourcing is of a complex nature the Fee may be renegotiated with the employer concerned. This is in addition to any actuary work required

### **Actuary Fixed Fee Menu for Standard Work up to 31/12/2015 (revised annually)**

#### **Funding Updates (roll forward approach)**

Annual Funding update	£1,755
Quarterly Funding update	£1,175
Monthly Funding update	£760
Employer Funding update	As per FRS17 Scale

#### **Employer Work**

New Employer (no previous interest in Fund) Contribution Rate *	£1,395
New Employer Bond and Contribution *	£1,470
Single Bond review - ER Strain Only *	£960
Single Bond review - ER Strain and Deficit *	£2,060
Cessation Valuation *	£2,060
Cessation Valuation Update	£885
Projected Cessation Valuation with sensitivities *	£2,930

Cessation roll forward from valuation to payment date	£265
Closure Valuation *	£2,060
Combined Closure/cessation valuation *	£2,930
New employer deficit assessment and ctbn rate (academies etc)	£1560
	£1480
New pooled employer deficit assessment and ctbn rate (academies etc)	£530
Pooled Free School ctbn rate	
Review of GAD Broadly Comparable Report	£1,120
Internal Bulk Transfer *	£950
Valuation of unfunded pensions and report *	£1,395
<b>Miscellaneous Work</b>	
Actuarial Statement for Accounts	£585
Individual Member Calculation (excl tax calcs)	£320
Review of FSS/SIP	£1,470
Projected cashflow report	£3,715

**FRS17/IAS19 Work**

Audit letter	£365
Rerun report (amended data - eg conts)	£180
Own assumptions - extra charge	£300
Rerun report (different assumptions)	£300
Full valuation of unfunded pensions	£885
Projected Service Costs per employer	£185
IAS 26 report whole fund	£750
Additional Sensitivity table other than 0.1%	£265
Employer Monthly Update	£530
First time FRS17/IAS19 report (non roll forward approach)	£1,675
First time FRS17/IAS19 report (roll forward approach)	£835
Early report (pre accounting date)	£835
Early report (post accounting date) - scale fee plus	£185

## **FRS17/IAS19 Reports (roll forward approach)**

First Employer	£1,400
Next 9 employers	£485
Next 20 employers	£285
Thereafter	£165
Minimum fee per roll forward report	£360
Maximum fee per roll forward report	£770

## **Actuary Notes**

Assumes between 10 and 500 members. If less than 10 members then a discount of 20% will apply. If more than 500 members then fee is increased by 10%

If the nature of the work changes due to regulatory changes then we may want to review the level of fee

Some work may need to be customised to meet any specific requests - any additional fee will be quoted in advance

FRS17/IAS19 roll forward fees increase by 10% in year following triennial valuation

## **Director of Finance's report**

### **Investment activity**

During the 2019-2020 financial year, the planned-asset allocation of the fund was altered to reflect the pathway of transitioning assets to Brunel, this does not represent a major shift in the underlying exposures. We are continuing the process of transferring the management of the vast majority of our investment assets to our chosen LGPS pool, Brunel. During the year we have moved 2 mandates covering 15% of the assets to management by Brunel.

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 2019		31 March 2020
Target %	Asset class	Target %
23	Passive global equity	30
23	UK equity	20
0	Active global developed equity	10
5	US equity	0
5	European equity	0
3	Japanese equity	0
3	Far East equity	0
5	Emerging market equity	5
<b>67</b>	<b>Total listed equity</b>	<b>65</b>
4	UK government gilts	4
4	UK government index-linked bonds	4
8	Sterling corporate bonds	8
3	High yield Corporate bonds	3
<b>19</b>	<b>Total listed bonds</b>	<b>19</b>
10	Property	10
3	Private Equity	5
<b>13</b>	<b>Total alternatives</b>	<b>15</b>
<b>1</b>	<b>Cash</b>	<b>1</b>
<b>100</b>		<b>100</b>

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 lowered official UK base rate twice with both adjustments in March. The first adjustment lowered base rate from 0.75% to 0.25%. The second adjustment lowered it from 0.25% to 0.1%.

## Investment returns

Returns for the year were negative for the whole fund over the whole year. Returns from equities were negative due to the effects of the COVID-19 crisis in the quarter to 31 March 2020. Bond returns for the year were positive but relatively muted. UK property returns were negative, although in contrast to equities this trend was gradual and was evident before the COVID-19 crisis.

## Key market indicators

	Start of year	End of year	Percentage change for the year
<b>Base rate</b>	0.75%	0.10%	
<b>Strength of sterling</b>			
against US dollars	1.30	1.24	-5%
euro	1.16	1.13	-3%
yen	144.44	133.59	-8%
<b>Stock markets (quoted in local currency)</b>			
FTSE 100 (UK)	7,279	5,672	-22%
FTSE All Share (UK)	3,978	3,107	-22%
Dow Jones (USA)	25,929	21,917	-15%
S&P 500 (USA)	2,834	2,585	-9%
FTSE Eurofirst 300 ex UK (Europe)	1,734	1,519	-12%
Nikkei 225 (Japan)	21,206	18,917	-11%
MSCI Emerging Market	1,058	849	-20%

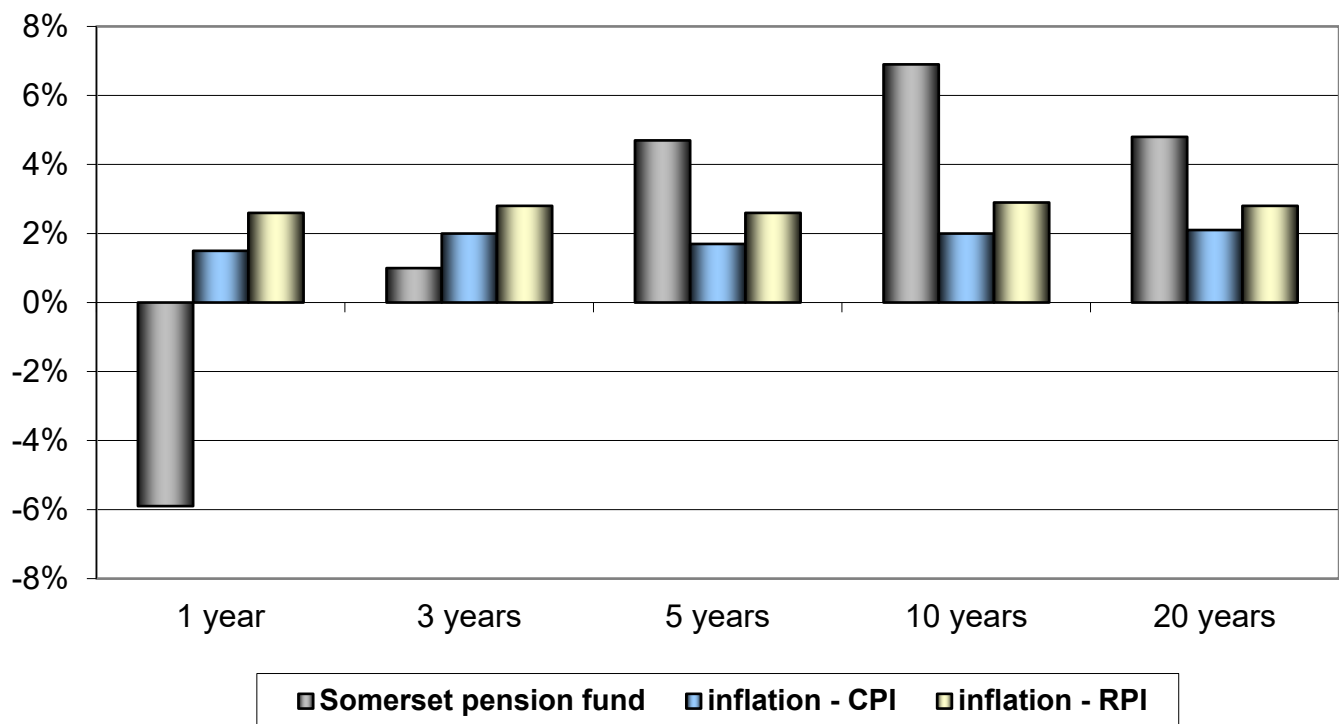
Source: Bank of England  
Bloomberg

# 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, 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 2019/2020, the fund had a negative return and this return was below 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 -5.9%. 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 -6.8% and the fund outperformed against this by 0.9%. 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
Somerset County Council	Passive global equity	-2.2%	-5.4%	3.2%
Brunel	Passive global equity	-5.4%	-5.4%	0.0%
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	-15.1%	-18.5%	3.4%
Brunel	UK equity	-20.0%	-18.5%	-1.5%
Somerset County Council	Passive US equity	-1.5%	-2.2%	0.7%
Nomura	Japanese equity	-10.7%	-2.5%	-8.2%
Maple-Brown Abbott	Far East equity	-23.2%	-17.6%	-5.6%
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	2.7%	2.5%	0.2%
LaSalle	Property	-0.7%	0.0%	-0.7%
Neuberger Berman	Global private equity	12.2%	0.7%	11.5%
Technology Venture Partners	Venture capital	0.0%	0.7%	-0.7%
Somerset County Council	Cash	1.0%	0.7%	0.3%
<b>Whole Fund</b>		<b>-5.9%</b>	<b>-6.8%</b>	<b>0.9%</b>

Source: Somerset CC

### 3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	3.4%	2.6%	0.8%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	-5.4%	-4.2%	-1.2%
Brunel	UK equity	Initial investment in November 2018		
Somerset County Council	Passive US equity	6.1%	5.4%	0.7%
Nomura	Japanese equity	-2.4%	1.2%	-3.6%
Maple-Brown Abbott	Far East equity	-7.6%	-4.2%	-3.4%
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	3.0%	2.9%	0.1%
LaSalle	Property	4.3%	4.9%	-0.6%
Neuberger Berman	Global private equity	12.2%	0.6%	11.6%
Technology Venture Partners	Venture capital	0.0%	0.6%	-0.6%
Somerset County Council	Cash	0.8%	0.6%	0.2%
<b>Whole Fund</b>		<b>1.0%</b>	<b>1.0%</b>	<b>0.0%</b>

Source: Somerset CC

## 5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	8.0%	7.6%	0.4%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	0.0%	0.6%	-0.6%
Brunel	UK equity	Initial investment in November 2018		
Somerset County Council	Passive US equity	11.3%	10.6%	0.7%
Nomura	Japanese equity	3.3%	6.3%	-3.0%
Maple-Brown Abbott	Far East equity	0.5%	2.7%	-2.2%
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	4.5%	4.4%	0.1%
LaSalle	Property	4.5%	5.7%	-1.2%
Neuberger Berman	Global private equity	13.1%	0.5%	12.6%
Technology Venture Partners	Venture capital	0.0%	0.5%	-0.5%
Somerset County Council	Cash	0.7%	0.5%	0.2%
<b>Whole Fund</b>		<b>4.7%</b>	<b>4.7%</b>	<b>0.0%</b>

Source: Somerset CC

## 10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	9.5%	9.2%	0.3%
Brunel	Passive global equity	Initial investment in July 2018		
Brunel	Global high alpha equity	Initial investment in November 2019		
Aberdeen Standard	UK equity	4.4%	4.4%	0.0%
Brunel	UK equity	Initial investment in November 2018		
Somerset County Council	Passive US equity	Initial investment in December 2011		
Nomura	Japanese equity	5.5%	6.6%	-1.1%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Brunel	Emerging market equity	Initial investment in October 2019		
Aberdeen Standard	Bonds	6.8%	6.9%	-0.1%
LaSalle	Property	6.1%	7.2%	-1.1%
Neuberger Berman	Global private equity	8.3%	0.4%	7.9%
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.8%	0.4%	0.4%
<b>Whole Fund</b>		<b>6.9%</b>	<b>6.9%</b>	<b>0.0%</b>

Source: Somerset CC

## Investment cost transparency

Direct investment management fees and transaction costs are included in note 8 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 2019/20. 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 8 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 above 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 valorem	1.429		1.429	12.6	2.896		2.896	25.5	<b>4.325</b>	<b>19.1</b>
Performance			0.000	0.0	0.739		0.739	6.5	<b>0.739</b>	<b>3.3</b>
Research			0.000	0.0			0.000	0.0	<b>0.000</b>	<b>0.0</b>
Other charges	0.004		0.004	0.0			0.000	0.0	<b>0.004</b>	<b>0.0</b>
Asset pool shared costs	0.979		0.979	8.6			0.000	0.0	<b>0.979</b>	<b>4.3</b>
Transaction costs										
Taxes and stamp duty		0.202	0.202	1.8	0.036		0.036	0.3	<b>0.238</b>	<b>1.0</b>
Broker commission		0.187	0.187	1.6	0.058	0.477	0.535	4.7	<b>0.722</b>	<b>3.2</b>
Implicit costs		0.588	0.588	5.2		1.625	1.625	14.3	<b>2.213</b>	<b>9.7</b>
Entry/exit charges			0.000	0.0			0.000	0.0	<b>0.000</b>	<b>0.0</b>
Indirect transaction costs		-0.046	-0.046	-0.4		0.120	0.120	1.1	<b>0.074</b>	<b>0.3</b>
Custody	0.048		0.048	0.4	0.039	0.092	0.131	1.2	<b>0.179</b>	<b>0.8</b>
Other										
Stock lending			0.000	0.0	-0.137		-0.137	-1.2	<b>-0.137</b>	<b>-0.6</b>
Other costs		0.076	0.076	0.7			0.000	0.0	<b>0.076</b>	<b>0.3</b>
<b>Total</b>	<b><u>2.460</u></b>	<b><u>1.007</u></b>	<b><u>3.467</u></b>	<b><u>30.5</u></b>	<b><u>3.631</u></b>	<b><u>2.314</u></b>	<b><u>5.945</u></b>	<b><u>52.4</u></b>	<b><u>9.412</u></b>	<b><u>41.5</u></b>



The different types of costs itemised in the above table are defined below:

- **Ad valorem** 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 8.
- **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 valorem 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			3 year			5 year		
	Gross	Net	Benchmark	Gross	Net	Benchmark	Gross	Net	Benchmark
<b>Brunel asset pool managed investments</b>									
Passive global equity	-5.4%	-5.4%	-5.4%						
UK equity	-19.8%	-20.0%	-18.5%						
Global high alpha equity *	-10.3%	-10.5%	-12.6%						
Emerging market equity *	-17.1%	-17.4%	-15.1%						
<b>Non-asset pool managed investments</b>									
Passive global equity	-2.1%	-2.2%	-5.4%	3.4%	3.4%	2.6%	8.0%	8.0%	7.6%
UK equity	-14.8%	-15.1%	-18.5%	-5.3%	-5.4%	-4.2%	0.2%	0.0%	0.6%
Passive US equity	-1.5%	-1.5%	-2.2%	6.1%	6.1%	5.4%	11.3%	11.3%	10.6%
Japanese equity	-10.2%	-10.7%	-2.5%	-1.8%	-2.4%	1.2%	3.8%	3.3%	6.3%
Far East equity	-23.0%	-23.2%	-17.6%	-7.3%	-7.6%	-4.2%	0.8%	0.5%	2.7%
Bonds	2.9%	2.7%	2.5%	3.2%	3.0%	2.9%	4.7%	4.5%	4.4%
Property	-0.5%	-0.7%	0.0%	4.4%	4.3%	4.9%	4.7%	4.5%	5.7%
Global private equity	13.4%	12.2%	0.7%	13.4%	12.2%	0.6%	14.3%	13.1%	0.5%
Venture capital	1.4%	0.0%	0.7%	1.4%	0.0%	0.6%	1.4%	0.0%	0.5%
Cash	1.0%	1.0%	0.7%	0.8%	0.8%	0.6%	0.7%	0.7%	0.5%

The marked asset classes (\*) have been managed for less than a year. 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
- 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**

The Director of Finance 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 2020.

In preparing this statement of accounts, the Director of Finance 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 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

2018/2019		2019/2020		Notes
£ millions	£ millions	£ millions	£ millions	
	<b>Contributions and other income</b>			
20.909	Contributions from employees	21.186		4
85.071	Contributions from employers	82.132		4
2.699	Recoveries from member organisations	3.301		4
5.672	Transfer values received	16.017		5
<b>114.351</b>		<b>122.636</b>		
	<b>Less benefits and other payments</b>			
-76.008	Recurring pensions	-81.657		4
-17.761	Lump sum on retirement	-15.654		4
-2.088	Lump sum on death	-2.515		4
-5.951	Transfer values paid	-11.386		5
-0.383	Refund of contributions to leavers	-0.304		6
<b>-102.191</b>		<b>-111.516</b>		
<b>12.160</b>	<b>Net additions from dealings with members</b>		<b>11.120</b>	
	<b>Management Expenses</b>			
-1.170	Administrative expenses	-1.285		7
-6.178	Investment management expenses	-6.228		8
-0.608	Oversight and governance expenses	-0.662		9
<b>-7.956</b>		<b>-8.175</b>		
<b>4.204</b>	<b>Net additions including management expenses</b>		<b>2.945</b>	
	<b>Investment income</b>			
42.212	Investment income received	29.629		10
4.714	Investment income accrued	4.173		10
-1.214	Less irrecoverable tax	-0.599		
<b>45.712</b>		<b>33.203</b>		
	<b>Change in market value of investments</b>			
286.389	Realised profit or loss	161.409		13
-215.868	Unrealised profit or loss	-321.123		13
<b>70.521</b>		<b>-159.714</b>		
<b>116.233</b>	<b>Net return on investments</b>		<b>-126.511</b>	
<b>120.437</b>	<b>Net increase/ (decrease) in the net assets available for benefits during the year</b>		<b>-123.566</b>	

Table continued on next page

## Fund Account (continued)

2018/2019		2019/2020		Notes
£ millions	£ millions	£ millions	£ millions	
	<b>Change in actuarial present value of promised retirement benefits</b>			
-141.173	Vested benefits	197.881		14
<u>6.887</u>	Non-vested benefits	<u>41.584</u>		14
<b>-134.286</b>	<b>Net change in present value of promised benefits</b>	<b>239.465</b>		
	<b>Net increase/(decrease) in the fund during the year</b>	<b>115.899</b>		
-1,717.367	Add net liabilities at beginning of year	-1,731.216		
<u><b>-1,731.216</b></u>	<b>Net liabilities at end of year</b>	<u><b>-1,615.317</b></u>		

# Net Asset Statement

On 31 March 2019 £ millions		On 31 March 2020 £ millions		Notes
	<b>Investment assets and liabilities</b>			
2,168.578	Investment assets	2,046.977		11
-0.376	Investment liabilities	-0.271		11
4.681	Other investment balances	3.760		15
	<b>Current assets</b>			
5.609	Contributions due from employers	5.865		
0.489	Cash at bank	0.254		
2.657	Other debtors	1.152		
	<b>Current liabilities</b>			
0.000	Unpaid benefits	0.000		
0.000	Bank overdraft	0.000		
-2.262	Other creditors	-1.927		
<b>2,179.376</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>2,055.810</b>		
	<b>Actuarial present value of promised retirement benefits</b>			
-3,781.050	Vested benefits	-3,583.169		14
-129.542	Non-vested benefits	-87.958		14
<b>-1,731.216</b>	<b>Net liabilities at end of year</b>	<b>-1,615.317</b>		

# 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 4 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 2019-2020 financial year were the third year covered by the valuation of the fund as at 31 March 2016. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 15.5% for each of the years from 2017 to 2020 plus a fixed sum of £12.21m for 2017/2018, £12.51m for 2018/2019 and £12.81m for 2019/2020. This compares with a rate of 13.5% and a lump sum of £9.86m for the 2016/2017 year set under the 2013 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 22.9% at the 2016 valuation (20.4% at the 2013 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 22.9% is made up of a rate of 15.0% for new service and 7.9% for deficit funding. As part of the 2016 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 77% 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 1<sup>st</sup> 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 2019/20 financial year and its financial position at 31 March 2020. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (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;
- the South West Regional Venture Fund is valued at cost;
- the fund's holding in the shares of Brunel Pension Partnership Ltd is valued at cost;
- 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 11.

## Note 4: Contributions and benefits

<b>2019/2020</b>	<b>Somerset County Council £ millions</b>	<b>Other scheduled employers £ millions</b>	<b>Admitted employers £ millions</b>	<b>Total £ millions</b>
Employees' contributions				
- Normal	7.127	12.030	1.583	<b>20.740</b>
- Additional	0.198	0.226	0.022	<b>0.446</b>
Total	<u>7.325</u>	<u>12.256</u>	<u>1.605</u>	<b>21.186</b>
Employers' contributions				
- Normal	17.853	27.948	4.225	<b>50.026</b>
- Augmentation	0.635	1.020	0.610	<b>2.265</b>
- Deficit funding	12.806	14.295	2.740	<b>29.841</b>
Total	<u>31.294</u>	<u>43.263</u>	<u>7.575</u>	<b>82.132</b>
Recurring pension and lump sum payments	-47.493	-42.092	-10.241	<b>-99.826</b>
Money recovered from member organisations	1.848	1.385	0.068	<b>3.301</b>
	<u><b>-7.026</b></u>	<u><b>14.812</b></u>	<u><b>-0.993</b></u>	<u><b>6.793</b></u>

<b>2018/2019</b>	<b>Somerset County Council £ millions</b>	<b>Other scheduled employers £ millions</b>	<b>Admitted employers £ millions</b>	<b>Total £ millions</b>
Employees' contributions				
- Normal	7.225	11.347	1.977	<b>20.549</b>
- Additional	0.121	0.210	0.029	<b>0.360</b>
Total	<u>7.346</u>	<u>11.557</u>	<u>2.006</u>	<b>20.909</b>
Employers' contributions				
- Normal	18.014	26.104	5.314	<b>49.432</b>
- Augmentation	1.841	3.622	1.008	<b>6.471</b>
- Deficit funding	12.552	13.660	2.956	<b>29.168</b>
Total	<u>32.407</u>	<u>43.386</u>	<u>9.278</u>	<b>85.071</b>
Recurring pension and lump sum payments	-44.966	-40.377	-10.514	<b>-95.857</b>
Money recovered from member organisations	1.529	1.156	0.014	<b>2.699</b>
	<u><b>-3.684</b></u>	<u><b>15.722</b></u>	<u><b>0.784</b></u>	<u><b>12.822</b></u>

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>County council</b>			
Somerset	7.325	31.294	38.619
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	4.927	13.148	18.075
<b>District councils</b>			
Mendip	0.314	1.516	1.830
Sedgemoor	0.663	3.157	3.820
South Somerset	0.709	3.677	4.386
Somerset West & Taunton	1.033	5.042	6.075
<b>Other bodies</b>			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.125	0.419	0.544

Table continued on next page

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Parish and town councils</b>			
Axbridge Town Council	0.001	0.005	0.006
Berrow Parish Council	0.001	0.004	0.005
Bishop Hull Parish Council	0.000	0.000	0.000
Burnham & Highbridge Town Council	0.017	0.057	0.074
Castle Cary Town Council	0.002	0.008	0.010
Chard Town Council	0.017	0.057	0.074
Cheddar Parish Council	0.002	0.007	0.009
Coleford Parish Council	0.001	0.002	0.003
Comeytrove Parish Council	0.000	0.001	0.001
Creech St Michael Parish Council	0.001	0.003	0.004
Crewkerne Town Council & Burial Board	0.009	0.033	0.042
Frome Town Council	0.038	0.122	0.160
Glastonbury Town Council	0.011	0.038	0.049
Ilminster Town Council	0.005	0.018	0.023
Langport Town Council	0.002	0.007	0.009
Lower Brue Drainage Board	0.039	0.126	0.165
Minehead Town Council	0.009	0.037	0.046
Nether Stowey Parish Council	0.002	0.005	0.007
Parret Drainage Board	0.005	0.020	0.025
Shepton Mallet Town Council	0.006	0.015	0.021
Somerton Town Council	0.003	0.015	0.018
Street Parish Council	0.004	0.014	0.018
Watchet Town Council	0.002	0.006	0.008
Wellington Town Council	0.002	0.007	0.009
Wells Burial Board & Parish Council	0.022	0.063	0.085
West Coker Parish Council	0.001	0.002	0.003
Williton Parish Council	0.002	0.007	0.009
Wincanton Town Council	0.007	0.021	0.028
Yeovil Town Council	0.014	0.041	0.055

Table continued on next page

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Further-education colleges</b>			
Bridgwater College	0.752	2.404	3.156
Richard Huish Sixth Form College	0.148	0.395	0.543
Strode College	0.153	0.481	0.634
Yeovil College	0.204	0.547	0.751
<b>Academies</b>			
Ansford Academy	0.033	0.113	0.146
Ashill Primary Academy	0.003	0.010	0.013
Avishayes Academy	0.018	0.068	0.086
Axbridge Academy	0.013	0.048	0.061
Bath & Wells Academy Trust	0.286	1.024	1.310
Bishop Fox's Academy	0.058	0.198	0.256
Blackbrook Primary School	0.013	0.050	0.063
Brent Knoll Primary School	0.007	0.027	0.034
Bridgwater College Academy	0.134	0.428	0.562
Brookside Academy	0.059	0.214	0.273
Bruton Sexseys Academy	0.060	0.206	0.266
Brymore Academy	0.060	0.205	0.265
Buckland St. Mary Church of England School	0.003	0.013	0.016
Buckler's Mead Academy	0.055	0.171	0.226
Castle Academy	0.072	0.253	0.325
Castle Primary School	0.009	0.034	0.043
Charlton Horethorn School	0.003	0.012	0.015
Chilton Trinity Academy	0.043	0.129	0.172
Countess Gytha Primary School	0.013	0.047	0.060
Courtfields Academy	0.047	0.168	0.215
Crispin Academy	0.050	0.167	0.217

Table continued on next page

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Critchill School	0.018	0.066	0.084
Danesfield Academy	0.024	0.088	0.112
East Brent School	0.006	0.022	0.028
Enmore Academy	0.006	0.023	0.029
Hambridge Primary School	0.012	0.046	0.058
Hamp Academy	0.020	0.074	0.094
Hatch Beauchamp Primary School	0.002	0.006	0.008
Hayesdown Academy	0.016	0.059	0.075
Haygrove Academy	0.062	0.212	0.274
Hemington Primary School	0.003	0.012	0.015
Holy Trinity Church of England School	0.029	0.108	0.137
Holyrood Academy	0.065	0.239	0.304
Horrington Primary School	0.008	0.030	0.038
Hugh Sexey's School	0.030	0.109	0.139
Huish Academy	0.027	0.099	0.126
Huish Episcopi Academy	0.088	0.308	0.396
Huish Episcopi Primary Academy	0.011	0.041	0.052
King Alfred School	0.061	0.239	0.300
King Arthur's School	0.019	0.067	0.086
King Edward Road Nursery	0.011	0.037	0.048
King Ina (Monteclefe)	0.020	0.077	0.097
Kings of Wessex Academy	0.064	0.207	0.271
Kings of Wessex Leisure	0.019	0.045	0.064
Kingsmead Academy	0.059	0.207	0.266
Leigh On Mendip First School	0.007	0.025	0.032
Lympsham School	0.010	0.038	0.048

Table continued on next page

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Maiden Beech Academy	0.026	0.091	0.117
Manor Court Primary School	0.024	0.096	0.120
Mark Academy	0.011	0.044	0.055
Mendip School	0.037	0.137	0.174
Middlezoy Primary School	0.004	0.014	0.018
Milford Junior School	0.016	0.059	0.075
Minehead First School	0.026	0.098	0.124
Minehead Middle School	0.058	0.196	0.254
Minerva Primary School	0.017	0.063	0.080
North Cadbury School	0.007	0.026	0.033
Northgate Primary School	0.016	0.057	0.073
Nunney First School	0.003	0.012	0.015
Oakfield Academy	0.038	0.136	0.174
Old Cleeve Academy	0.011	0.043	0.054
Othery Primary School	0.004	0.017	0.021
Otterhampton Primary School	0.008	0.031	0.039
Pawlett Primary School	0.004	0.010	0.014
Pen Mill Academy	0.013	0.048	0.061
Preston Academy	0.051	0.185	0.236
Preston C of E Primary School	0.049	0.166	0.215
Primrose Lane Primary School	0.014	0.051	0.065
Priorswood Academy	0.013	0.048	0.061
Puriton Primary School	0.009	0.034	0.043
Redstart Academy	0.034	0.120	0.154
Ruishton Primary School	0.014	0.055	0.069
Selwood Academy	0.034	0.121	0.155

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#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Selworthy School	0.062	0.237	0.299
Spaxton Primary School	0.003	0.013	0.016
St. Dunstan's Academy	0.016	0.059	0.075
St. Cuthbert's Academy	0.012	0.043	0.055
St. Michael's Academy	0.023	0.085	0.108
St. Michael's Church of England School	0.010	0.038	0.048
St. Peter's Academy	0.012	0.046	0.058
St Peters Nursery	0.006	0.022	0.028
Stanchester Academy	0.040	0.143	0.183
Steiner Academy, Frome	0.029	0.104	0.133
Stogursey Primary School	0.004	0.015	0.019
Tatworth Academy	0.008	0.030	0.038
Taunton Academy	0.090	0.329	0.419
The Blue School, Wells	0.102	0.320	0.422
Weare Academy	0.011	0.042	0.053
Wedmore Academy	0.022	0.067	0.089
Wellesley Park Primary School	0.019	0.071	0.090
West Monkton Primary School	0.045	0.159	0.204
West Somerset Community College	0.038	0.140	0.178
Westfield Academy	0.061	0.205	0.266
Westover Green Academy	0.036	0.139	0.175
Whitstone Academy	0.037	0.132	0.169
Willowdown Academy	0.023	0.084	0.107
Winsham Primary School	0.003	0.012	0.015
Woolavington Academy	0.014	0.051	0.065
<b>Total other scheduled employers</b>	<b>12.256</b>	<b>43.263</b>	<b>55.519</b>

Table continued on next page

#### Note 4: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Admitted bodies</b>			
Aster Communities Ltd	0.034	1.328	1.362
BAM FM	0.004	0.018	0.022
Capita	0.005	0.018	0.023
Churchill Contract Services	0.000	0.001	0.001
Dimensions	0.526	1.881	2.407
Edward and Ward Ltd	0.006	0.024	0.030
Glen Cleaning Company Ltd	0.002	0.008	0.010
Greenwich Leisure	0.018	0.243	0.261
Homes in Sedgemoor	0.118	0.344	0.462
Idverde Ltd	0.013	0.036	0.049
KGB South West	0.022	0.093	0.115
Learning South West	0.000	0.088	0.088
Leisure East Devon	0.013	0.025	0.038
Magna West Somerset Housing Association	0.056	0.215	0.271
Mama Bear's	0.002	0.005	0.007
May Gurney Ltd	0.019	0.000	0.019
MD Building Services	0.027	0.080	0.107
MITIE	0.003	0.013	0.016
National Autistic Society	0.009	0.065	0.074
NSL Ltd	0.021	0.000	0.021
SASP	0.008	0.017	0.025
Shared Lives South West	0.002	0.009	0.011
Society of Local Council Clerks	0.032	0.097	0.129
Somerset Care Ltd	0.027	0.390	0.417
Somerset Skills & Learning	0.073	0.183	0.256
South West Audit Partnership	0.122	0.628	0.750
South West Heritage	0.070	0.137	0.207
South West Provincial Councils	0.033	0.299	0.332
Taylor Shaw Ltd	0.000	0.047	0.047
Yarlington Housing Group	0.340	1.283	1.623
<b>Total admitted employers</b>	<u>1.605</u>	<u>7.575</u>	<u>9.180</u>
<b>Total</b>	<u><b>21.186</b></u>	<u><b>82.132</b></u>	<u><b>103.318</b></u>

## Note 5: Transfer values

2018/2019 £ millions		2019/2020 £ millions
0.000	Group transfer values received	9.000
5.672	Individual transfer values received	7.017
<b>5.672</b>		<b>16.017</b>
0.000	Group transfer values paid	0.000
-5.951	Individual transfer values paid	-11.386
<b>-5.951</b>		<b>-11.386</b>

## Note 6: Refunds

2018/2019 £ millions		2019/2020 £ millions
-0.351	Contributions refunded to members who leave service	-0.294
-0.006	Interest accumulated on refunds agreed in the past	-0.017
<b>-0.357</b>		<b>-0.311</b>
-0.029	Deductions from contributions equivalent premium	-0.003
0.003	Less payments to Department for Work and Pensions contributions equivalent premium	0.010
<b>-0.383</b>		<b>-0.304</b>

## Note 7: Administrative expenses

2018/2019 £ millions	2019/2020 £ millions
0.000	0.000
Benefits administration costs charged by Somerset CC	
<u>-1.170</u>	<u>-1.273</u>
Benefits administration costs charged by Devon CC	
<b>-1.170</b>	<b>-1.273</b>
0.000	0.000
Legal advice costs charged by Somerset CC	
<u>0.000</u>	<u>-0.012</u>
External legal advice	
<b>0.000</b>	<b>-0.012</b>
0.000	0.000
Other expenses	
<u><b>-1.170</b></u>	<u><b>-1.285</b></u>

## Note 8: Investment management expenses

2018/2019 £ millions	2019/2020 £ millions
<b>Fund manager fees</b>	
-0.316	-0.339
-1.566	-1.102
-0.220	-0.171
-0.255	-0.135
-0.040	-0.041
-1.127	-0.590
-0.821	-0.855
<b>-4.345</b>	<b>-3.233</b>
<b>Other expenses</b>	
-0.488	-0.094
-0.047	-0.039
-0.355	-0.402
<b>-0.890</b>	<b>-0.535</b>
<b>Pooling</b>	
-0.566	-0.979
-0.336	-1.429
-0.012	-0.048
-0.029	-0.004
<b>-0.943</b>	<b>-2.460</b>
<b>-6.178</b>	<b>-6.228</b>

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.

\*The fund manager fees for these managers may include performance related fees. The total performance related fees attributable to the 2019/2020 financial year are £739,000 (£1,027,000 in 2018/2019).

The pooling category above includes fees directly invoiced by Brunel as well as costs deducted directly from pooled investments provided by Brunel.

The transaction costs shown above are broken down as follows:

2018/2019				2019/2020	
£ millions	£ millions			£ millions	£ millions
Broker				Broker	
comm-issions	Taxes and Fees	Manager	Asset Class	comm-issions	Taxes and Fees
<b>Purchase Costs</b>					
0.006	0.013	Somerset County Council	Passive global equity	0.001	0.002
0.031	0.241	Aberdeen Standard	UK equity	0.000	0.000
0.003	0.000	Somerset County Council	Passive US equity	0.002	0.000
0.009	0.001	Jupiter	European equity	0.005	0.007
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.019	0.004	Maple-Brown Abbott	Far East equity	0.017	0.004
0.000	0.000	Amundi	Emerging market equity	0.000	0.000
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.068	0.259			0.025	0.013
<b>Sales Costs</b>					
0.008	0.102	Somerset County Council	Passive global equity	0.002	0.001
0.022	0.000	Aberdeen Standard	UK equity	0.000	0.000
0.002	0.001	Somerset County Council	Passive US equity	0.002	0.000
0.008	0.000	Jupiter	European equity	0.007	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.013	0.005	Maple-Brown Abbott	Far East equity	0.022	0.022
0.000	0.000	Amundi	Emerging market equity	0.000	0.000
0.000	0.000	Aberdeen Standard	Bonds	0.000	0.000
0.000	0.000	LaSalle	Property	0.000	0.000
0.000	0.000	Neuberger Berman	Global private equity	0.000	0.000
0.000	0.000	TVP	UK venture capital	0.000	0.000
0.000	0.000	Somerset County Council	Cash	0.000	0.000
0.053	0.108			0.033	0.023
<b>0.121</b>	<b>0.367</b>			<b>0.058</b>	<b>0.036</b>
	<b>0.488</b>				<b>0.094</b>

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 9: Oversight and governance expenses

2018/2019 £ millions		2019/2020 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
-0.224	Investments administration costs charged by Somerset CC	-0.223
<b>-0.234</b>		<b>-0.233</b>
-0.102	Actuary's fees	-0.177
0.051	Recharge of Actuary's fees to employers	0.067
<b>-0.051</b>		<b>-0.110</b>
-0.018	External audit fees	-0.027
0.000	Refund	0.002
0.000	Recharge of audit fees to employers	0.007
<b>-0.018</b>		<b>-0.018</b>
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.079	Professional services and subscriptions	-0.081
-0.160	IT systems	-0.171
0.000	Performance measurement fees	0.000
0.000	External legal advice	0.000
-0.025	Voting advice fees	-0.026
-0.032	Pooling costs	-0.018
-0.009	Other expenses	-0.005
<b>-0.608</b>		<b>-0.662</b>

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.

## Note 10: Investment income

2018/2019 £ millions		2019/2020 £ millions
9.452	Bonds	10.448
0.475	Index linked bonds	0.473
15.389	UK equities	0.879
13.074	Overseas equities	7.760
7.207	Property unit trusts	12.942
0.990	Cash invested internally	1.163
0.000	Private equity	0.000
0.339	Stock lending	0.137
<b>46.926</b>		<b>33.802</b>



## Note 11: Investment assets and liabilities

31 March 2019				31 March 2020			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>UK equities</b>							
1.973		0.1		1.490		0.1	
441.543		20.4		353.367		17.2	
9.499		0.4		7.995		0.4	
<b>453.015</b>		<b>20.9</b>		<b>362.852</b>		<b>17.7</b>	
<b>Overseas equities</b>							
135.332		6.2		91.714		4.5	
156.774		7.2		4.683		0.2	
2.763		0.1		2.321		0.1	
60.138		2.8		24.466		1.2	
3.838		0.2		2.331		0.1	
517.100		23.9		489.305		23.9	
0.000		0.0		240.564		11.7	
0.000		0.0		69.184		3.4	
63.140		2.9		31.933		1.6	
81.518		3.8		0.000		0.0	
<b>1,020.603</b>		<b>47.1</b>		<b>956.501</b>		<b>46.7</b>	
<b>Bonds</b>							
50.161		2.3		58.398		2.9	
84.912		3.9		89.507		4.4	
8.921		0.4		7.828		0.4	
0.409		0.0		1.193		0.1	
73.527		3.4		80.741		3.9	
28.331		1.3		26.239		1.3	
72.760		3.4		70.027		3.4	
0.772		0.0		0.798		0.0	
1.870		0.1		4.530		0.2	
<b>321.663</b>		<b>14.8</b>		<b>339.261</b>		<b>16.6</b>	
<b>Property</b>							
184.268		8.5		194.042		9.5	
0.079		0.0		0.023		0.0	
<b>184.347</b>		<b>8.5</b>		<b>194.065</b>		<b>9.5</b>	
<b>Private equity</b>							
9.900		0.5		6.219		0.3	
13.347		0.6		15.483		0.7	
15.409		0.7		22.145		1.1	
8.857		0.4		13.614		0.7	
1.640		0.1		1.640		0.1	
0.840		0.0		0.840		0.0	
<b>49.993</b>		<b>2.3</b>		<b>59.941</b>		<b>2.9</b>	

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## Note 11: Investment assets and liabilities (continued)

31 March 2019				31 March 2020			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>Derivatives</b>							
0.014		0.0		1.415		0.1	
0.000		0.0		0.000		0.0	
0.000		0.0		0.000		0.0	
<b>0.014</b>		<b>0.0</b>		<b>1.415</b>		<b>0.1</b>	
<b>Cash and others</b>							
138.943		6.4		132.942		6.5	
<b>138.943</b>		<b>6.4</b>		<b>132.942</b>		<b>6.5</b>	
<u><b>2,168.578</b></u>		<u><b>100.0</b></u>	<b>Investment assets</b>	<u><b>2,046.977</b></u>		<u><b>100.0</b></u>	
<b>Derivatives</b>							
-0.376		0.0		-0.271		0.0	
0.000		0.0		0.000		0.0	
0.000		0.0		0.000		0.0	
<b>-0.376</b>		<b>0.0</b>		<b>-0.271</b>		<b>0.0</b>	
<u><b>-0.376</b></u>		<u><b>0.0</b></u>	<b>Investment liabilities</b>	<u><b>-0.271</b></u>		<u><b>0.0</b></u>	
<u><b>2,168.202</b></u>		<u><b>100.0</b></u>	<b>Net investment assets</b>	<u><b>2,046.706</b></u>		<u><b>100.0</b></u>	
<b>Made up of</b>							
1,852.101			Historical cost	2,051.729			
316.101			Unrealised profit or loss	-5.023			
<u><b>2,168.202</b></u>				<u><b>2,046.706</b></u>			

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, with share capital invested by each fund of £840,000. The £840,000 investment shown as Brunel within private equity above refers to this value of the shares the fund holds in Brunel Pension Partnership Ltd. (BPP Ltd.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2020 was £1,152,420,000. This investment is also disclosed separately from any other investment in note 13, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

## Note 12: Analysis of pooled fund investments

31 March 2019 £ millions		31 March 2020 £ millions
	<b>Unit trusts</b>	
122.174	UK property funds	128.341
	<b>Unitised insurance policies</b>	
517.100	Brunel passive global equity fund	489.305
9.499	Standard Life smaller companies fund	7.995
<b>526.599</b>		<b>497.300</b>
	<b>Limited liability partnerships</b>	
0.082	UK property funds	0.000
0.053	Overseas property funds	0.000
9.900	Neuberger Berman Crossroads 2010 fund	6.219
13.347	Neuberger Berman Crossroads XX fund	15.483
15.409	Neuberger Berman Crossroads XXI fund	22.145
8.857	Neuberger Berman Crossroads XXII fund	13.614
1.640	South West regional venture fund	1.640
<b>49.288</b>		<b>59.101</b>
	<b>UK authorised contractual scheme</b>	
441.543	Brunel UK equity fund	353.367
0.000	Brunel global high alpha equity fund	240.564
0.000	Brunel emerging market equity fund	69.184
<b>441.543</b>		<b>663.115</b>
	<b>Other managed funds</b>	
63.140	Nomura Japan fund	31.933
81.518	Amundi emerging markets fund	0.000
62.013	UK property funds	65.701
0.026	Overseas property funds	0.023
<b>206.697</b>		<b>97.657</b>
<b>1,346.301</b>	<b>Total</b>	<b>1,445.514</b>

# **Note 13: 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
2018/2019	Total	2,046.726	22.367	2,867.860	-2,839.272	286.389	-215.868	2,168.202
Somerset County Council	Global equity	32.830	0.000	4.815	-6.790	0.837	-3.140	28.552
Aberdeen Standard	UK equity	9.499	0.000	0.000	0.000	0.000	-1.504	7.995
Somerset County Council	US equity	114.684	0.000	12.935	-55.425	24.335	-23.418	73.111
Jupiter	European equity	151.282	0.000	10.170	-177.307	86.876	-71.021	0.000
Nomura	Japanese equity	63.140	0.000	0.000	-30.664	16.545	-17.088	31.933
Maple-Brown Abbott	Far East equity	62.022	0.000	11.048	-38.522	3.691	-12.897	25.342
Amundi	Emerging Market equity	81.518	0.000	62.500	-83.727	-41.273	-19.018	0.000
Aberdeen Standard	Bonds	321.663	0.000	187.224	-169.797	9.303	-9.132	339.261
Aberdeen Standard	Derivatives	-0.365	0.000	935.862	-935.450	-1.077	2.174	1.144
LaSalle	Property	184.347	0.000	24.533	-0.020	-2.305	-12.490	194.065
LaSalle	Currency	0.003	0.000	0.243	-0.243	0.000	-0.003	0.000
Neuberger Berman	Global private equity	47.513	0.000	8.991	-4.673	0.466	5.164	57.461
TVP	UK venture capital	1.640	0.000	0.000	0.000	0.000	0.000	1.640
Brunel	Private equity	0.840	0.000	0.000	0.000	0.000	0.000	0.840
Brunel	UK Equity	441.543	0.000	0.000	0.000	0.000	-88.176	353.367
Brunel	Passive global equity	517.100	0.000	0.000	0.000	-0.009	-27.786	489.305
Brunel	Global high alpha equity	0.000	0.000	268.726	0.000	0.000	-28.162	240.564
Brunel	Emerging market equity	0.000	0.000	83.727	0.000	0.000	-14.543	69.184
Somerset County Council	Cash	138.943	-69.939	0.000	0.000	64.020	-0.082	132.942
<b>2019/2020</b>	<b>Total</b>	<b>2,168.202</b>	<b>-69.939</b>	<b>1,610.774</b>	<b>-1,502.618</b>	<b>161.409</b>	<b>-321.122</b>	<b>2,046.706</b>

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.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2020 was £1,152,420,000. This investment is also disclosed separately from any other investment in note 11, note 16 and note 30 and a written disclosure is made in note 24 with regard to related parties.

#### **Note 14: 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 2020, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2019

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 2019		31 March 2020
<b>Financial assumptions</b>		
3.40%	RPI increases	2.65%
2.40%	CPI increases	1.85%
3.90%	Salary increases	2.85%
2.40%	Pension increases	1.85%
2.40%	Discount Rate	2.35%
<b>Life expectancy (from age 65)</b>		
22.9	Retiring today - Males	23.3
24.0	- Females	24.7
24.6	Retiring in 20 years - Males	24.7
25.8	- Females	26.2

The Retail Prices Index (RPI) increase assumption is set using a Single Equivalent Inflation Rate (SEIR) approach. The single inflation rate derived is that which gives the same net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve, as applying the BoE implied inflation curve. The Merrill Lynch AA rated corporate bond yield spot curve is assumed to be flat beyond the 30-year point and the BoE implied inflation spot curve is assumed to be flat beyond the 40-year point. This is consistent with the approach used at the last accounting date.

CPI is assumed to be 0.8% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods. The difference between RPI and CPI is less than assumed at the previous accounting date. This reflects the movement in market implied RPI inflation that occurred following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor on the issue.

Salaries are assumed to increase at 1.0% p.a. above CPI. This differs from the salary increase assumption at the previous accounting date and has been updated in line with the most recent funding valuation.

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	3,671.127	
<b>Sensitivity to</b>	<b>+0.1%</b>	<b>-0.1%</b>
Discount rate	3,593.274	3,750.745
Salary increase	3,677.336	3,664.974
Pension increases and deferred revaluation	3,744.851	3,598.973
<b>Sensitivity to</b>	<b>+ 1 year</b>	<b>- 1 year</b>
Life expectancy assumptions	3,809.165	3,538.292

The table below shows a breakdown of the change in the present value of promised retirement benefits that occurred during the year.

The total liability has been adjusted to include an estimate of the increased liability resulting from a Supreme Court ruling to refuse permission for the Government to appeal the Court of Appeals December 2018 judgment in the case of McCloud, which found that protections provided to those within 10 years of retirement as part of transition regulations when the scheme was changed constituted discrimination on age grounds. Although the case is not directly related to the Local Government Pension Scheme (LGPS), similar protections were given when the LGPS moved to a new scheme in 2014. The pension fund actuary estimated the impact of this at the last accounting date and therefore it is already included in the starting position. This allowance is therefore incorporated in the roll forward approach and is remeasured at the accounting date along with the normal LGPS liabilities.

<b>2018/2019</b>		<b>2019/2020</b>
<b>£ millions</b>		<b>£ millions</b>
107.326	Current service cost	118.814
95.425	Interest cost	93.137
192.656	Change in financial assumptions	-451.719
-222.639	Change in demographic assumptions	2.810
0.000	Experience loss/(gain) on defined benefit obligations	63.652
0.000	Liabilities assumed/(extinguished) on settlements	0.000
-96.212	Estimated benefits paid net of transfers in	-92.766
39.666	Past service costs, including curtailments	7.057
18.064	Contributions by scheme members	19.550
<b>134.286</b>		<b>-239.465</b>

## Note 15: Other investment balances

31 March 2019 £ millions		31 March 2020 £ millions
<b>Assets</b>		
4.714	- Accrued income	4.173
0.546	- Payments due on investments sold	1.184
0.716	- Cash collateral provided	0.945
<b>5.976</b>		<b>6.302</b>
<b>Liabilities</b>		
-1.285	- Payments not made on purchases and losses due on sales	-2.345
-0.010	- Cash collateral held	-0.197
<b>-1.295</b>		<b>-2.542</b>
<b>4.681</b>		<b>3.760</b>



## Note 16: Management structure

31 March 2019		Manager	Asset class	31 March 2020	
£ millions	%			£ millions	%
32.830	2	Somerset County Council	Passive global equity	28.552	1
9.499	0	Aberdeen Standard	UK equity	7.995	0
114.684	5	Somerset County Council	Passive US equity	73.111	4
151.282	7	Jupiter	European equity	0.000	0
63.140	3	Nomura	Japanese equity	31.933	2
62.022	3	Maple-Brown Abbott	Far East equity	25.342	1
81.518	4	Amundi	Emerging market equity	0.000	0
321.298	15	Aberdeen Standard	Bonds	340.405	17
184.350	9	LaSalle	Property	194.065	9
47.513	2	Neuberger Berman	Global private equity	57.461	3
1.640	0	Technology Venture Partners	UK venture capital	1.640	0
0.840	0	Brunel	UK venture capital	0.840	0
138.943	6	Somerset County Council	Cash	132.942	7
<b>1,209.559</b>	<b>56</b>	<b>Not-pooled sub total</b>		<b>894.286</b>	<b>44</b>
441.543	20	Brunel	UK Equity	353.367	17
517.100	24	Brunel	Passive global equity	489.305	24
0.000	0	Brunel	Global high alpha equity	240.564	12
0.000	0	Brunel	Emerging market equity	69.184	3
<b>958.643</b>	<b>44</b>	<b>Pooled sub total</b>		<b>1,152.420</b>	<b>56</b>
<b>2,168.202</b>	<b>100</b>	<b>Net investment assets</b>		<b>2,046.706</b>	<b>100</b>

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.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2019 was £1,152,420,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 30 and a written disclosure is made in note 24 with regard to related parties.

## Note 17: Classification of financial instruments

31 March 2019 £ millions			31 March 2020 £ millions		
Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost	Fair value through profit & loss	Assets at amortised cost	Liabilities at amortised cost
<b>Investment assets and liabilities</b>					
2,168.578			2,046.977		
-0.376			-0.271		
	4.681			3.760	
<b>Current assets</b>					
	5.609			5.865	
	0.489			0.254	
	2.657			1.152	
<b>Current liabilities</b>					
		0.000			0.000
		0.000			0.000
		-2.262			-1.927
<b>Net assets of the scheme available to fund benefits at end of year</b>					
<u>2,168.202</u>	<u>13.436</u>	<u>-2.262</u>	<u>2,046.706</u>	<u>11.031</u>	<u>-1.927</u>

## Note 18: Net gains and losses on financial instruments

2018/2019 £ millions		2019/2020 £ millions
70.521	Fair value through profit and loss	-159.714
0.000	Amortised cost - realised gains (losses) on derecognition	0.000
0.000	Amortised cost - unrealised gains (losses)	0.000
<b><u>70.521</u></b>		<b><u>-159.714</u></b>

## Note 19: Major holdings

31 March 2019				31 March 2020		
Rank	£ millions	Stock	Description	Rank	£ millions	% of net investments
1	517.100	Brunel passive global equity fund	Pooled fund of developed market equities	1	489.305	23.9
2	441.543	Brunel UK equity fund	Pooled fund of UK equities	2	353.367	17.2
-	0.000	Brunel global high alpha equity fund	Pooled fund of developed market equities	3	240.564	11.7
-	0.000	Brunel emerging market equity fund	Pooled fund of emerging market equities	4	69.184	3.4
4	63.140	Nomura Japan fund	Pooled fund of Japanese equities	5	31.933	1.6
10	15.409	Neuberger Berman Crossroads XXI fund	Private equity fund	6	22.145	1.1
5	22.927	Schroders UK PUT	Pooled fund of UK property	7	22.116	1.1
6	21.539	CBRE UK Property Fund	Pooled fund of UK property	8	20.696	1.0
7	20.294	Nuveen UK Property Fund	Pooled fund of UK property	9	19.865	1.0
8	18.810	Blackrock UK PUT	Pooled fund of UK property	10	17.943	0.9
9	16.110	IPIF	Pooled fund of UK property	11	16.583	0.8
11	15.362	Nuveen Central London Office fund	Pooled fund of UK property	12	16.085	0.8
20	10.144	AEW Real Return Fund	Pooled fund of UK property	13	15.781	0.8
12	13.347	Neuberger Berman Crossroads XX fund	Private equity fund	14	15.483	0.7
-	0.000	Octopus Healthcare fund	Pooled fund of UK property	15	14.593	0.7
-	0.000	Neuberger Berman Crossroads XXII fund	Private equity fund	16	13.614	0.7
15	12.471	Lothbury	Pooled fund of UK property	17	12.366	0.6
21	10.070	UNITE UK Student Accommodation fund	Pooled fund of UK property	18	10.004	0.5
28	8.721	Hermes Property fund	Pooled fund of UK property	19	8.591	0.4
24	9.499	Standard Life smaller companies fund	Pooled fund of UK equities	20	7.995	0.4

The largest three 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 20: 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 used forward foreign exchange contracts, bond futures, interest rate swaps and inflation rate swaps.

The year end value of derivatives is as follows:

31 March 2019 £ millions				31 March 2020 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
<b>Forward foreign-exchange contracts</b>						
0.011	-0.376	-0.365	Aberdeen Standard fixed Interest	1.415	-0.271	1.144
0.003	0.000	0.003	LaSalle	0.000	0.000	0.000
<b>0.014</b>	<b>-0.376</b>	<b>-0.362</b>		<b>1.415</b>	<b>-0.271</b>	<b>1.144</b>
<b>Government bond futures</b>						
0.000	0.000	0.000	UK gilt future	0.000	0.000	0.000
0.000	0.000	0.000	European bond future	0.000	0.000	0.000
0.000	0.000	0.000	Australian bond future	0.000	0.000	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
0.000	0.000	0.000	US treasury future	0.000	0.000	0.000
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>Swaps</b>						
0.000	0.000	0.000	Inflation swaps	0.000	0.000	0.000
0.000	0.000	0.000	Interest rate swaps	0.000	0.000	0.000
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>0.014</b>	<b>-0.376</b>	<b>-0.362</b>		<b>1.415</b>	<b>-0.271</b>	<b>1.144</b>

Aberdeen Standard hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their fixed income portfolio. The non-sterling bonds are either government bonds or corporate bonds. Typically Aberdeen Standard chose to hedge 100% of their currency risk.

LaSalle ceased to use forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio during the year.

The fair value of these contracts at year end is based on market foreign exchange rates at the year end date. All forward foreign exchange contracts are over the counter trades.

The bond futures are used by Aberdeen Standard to gain exposure to overseas government bonds with lower trading costs and better liquidity than trading the underlying bonds themselves. There are significant restrictions in how Aberdeen Standard may use bond futures to ensure they do not increase the overall risk of the portfolio they are managing. The bond futures are exchange traded contracts.

Swaps are used by Aberdeen Standard to gain exposure to various interest rates and inflation exposures with lower trading costs and better liquidity than trading bonds with similar exposures. There are significant restrictions in how Aberdeen Standard may use swaps to ensure they do not increase the overall risk of the portfolio they are managing. The swaps are over the counter trades.

The gross exposure values (the value of the assets bought and sold within the derivatives contracts) are shown in the following table.

31 March 2019 £ millions				31 March 2020 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
<b>Forward foreign-exchange contracts</b>						
37.860	-38.225	-0.365	Aberdeen Standard fixed Interest	59.534	-58.390	1.144
0.081	-0.078	0.003	LaSalle	0.000	0.000	0.000
<b>37.941</b>	<b>-38.303</b>	<b>-0.362</b>		<b>59.534</b>	<b>-58.390</b>	<b>1.144</b>
<b>Government bond futures</b>						
2.017	-2.017	0.000	UK gilt future	1.226	-1.226	0.000
9.634	-9.634	0.000	European bond future	0.000	0.000	0.000
0.603	-0.603	0.000	Australian bond future	0.668	-0.668	0.000
0.560	-0.560	0.000	Canadian bond future	0.250	-0.250	0.000
7.122	-7.122	0.000	US treasury future	6.904	-6.904	0.000
<b>19.936</b>	<b>-19.936</b>	<b>0.000</b>		<b>9.048</b>	<b>-9.048</b>	<b>0.000</b>
<b>Swaps</b>						
0.000	0.000	0.000	Inflation swaps	0.212	-0.212	0.000
0.000	0.000	0.000	Interest rate swaps	0.450	-0.450	0.000
<b>0.000</b>	<b>0.000</b>	<b>0.000</b>		<b>0.662</b>	<b>-0.662</b>	<b>0.000</b>
<b>57.877</b>	<b>-58.239</b>	<b>-0.362</b>		<b>69.244</b>	<b>-68.100</b>	<b>1.144</b>

The exposure currencies of the forward foreign exchange contracts held by Aberdeen Standard and LaSalle are shown in the table below.

31 March 2019 £ millions				31 March 2020 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
<b>Aberdeen Standard fixed Interest</b>						
36.453	-1.398	35.055	GB Pound	49.702	-10.007	39.695
0.000	0.000	0.000	Australia Dollar	0.290	-2.419	-2.129
0.947	-29.402	-28.455	Euro	7.904	-37.630	-29.726
0.460	-7.425	-6.965	US Dollar	1.638	-8.334	-6.696
<b>37.860</b>	<b>-38.225</b>	<b>-0.365</b>		<b>59.534</b>	<b>-58.390</b>	<b>1.144</b>
<b>LaSalle</b>						
0.081	0.000	0.081	GB Pound	0.000	0.000	0.000
0.000	-0.078	-0.078	Euro	0.000	0.000	0.000
<b>0.081</b>	<b>-0.078</b>	<b>0.003</b>		<b>0.000</b>	<b>0.000</b>	<b>0.000</b>
<b>37.941</b>	<b>-38.303</b>	<b>-0.362</b>		<b>59.534</b>	<b>-58.390</b>	<b>1.144</b>



## Note 21: Stock lending

The fund's investment strategy sets the parameters for its stock-lending programme. The value of investments on loan as at 31 March 2020 is shown in the table below. These assets continue to be recognised in the fund's financial statements. No liabilities are associated with the loaned assets.

Counterparty risk is managed through holding collateral at the fund's custodian bank. Collateral consists of acceptable securities and government debt. Stock-lending commissions are remitted to the fund via the custodian. The value and type of collateral held at year end is shown in the table below.

During the period the stock is on loan, the voting rights of the loaned stock pass to the borrower.

31 March 2019 £ millions		31 March 2020 £ millions	
43.280	Value of stock on loan		34.058
47.620	Value of collateral held against loaned stock		35.949

31 March 2019 %		31 March 2020 %	
Form of collateral provided			
13.6	UK Government debt		46.5
11.0	US Government debt		10.6
24.5	Euro area Governments debt		27.1
0.0	US\$ denominated corporate debt		0.0
0.0	€ denominated corporate debt		0.0
9.1	UK equities		0.3
41.8	Overseas equities		15.5
0.0	Other		0.0
100.0		100.0	

## Note 22: Membership statistics

As at 31 March	2014	2015	2016	2017	2018	2019	2020
<b>Active scheme members</b>	<b>21,057</b>	<b>22,020</b>	<b>22,649</b>	<b>21,550</b>	<b>21,151</b>	<b>20,485</b>	<b>20,877</b>
<b>Pensioners</b>							
Current (in payment)	12,460	13,871	14,779	15,421	16,322	17,326	18,289
Deferred (future liability)	17,006	17,280	20,452	22,268	25,119	26,741	26,449
Undecided leavers	3,147	3,754	2,507	3,778	2,617	2,337	1,808
<b>Total (active plus pensioners)</b>	<b>53,670</b>	<b>56,925</b>	<b>60,387</b>	<b>63,017</b>	<b>65,209</b>	<b>66,889</b>	<b>67,423</b>
Active members for each current pensioner	1.69	1.59	1.53	1.40	1.30	1.18	1.14

### Note 23: 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.

<b>31 March 2019</b> <b>£ millions</b>	<b>31 March 2020</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>	
4.405 Prudential	4.074
0.201 Utmost (formally Equitable Life)	0.218
<b><u>4.606</u></b>	<b><u>4.292</u></b>

<b>2018/2019</b> <b>£ millions</b>	<b>2019/2020</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>	
0.396 Prudential	0.388
0.000 Utmost (formally Equitable Life)	0.000
<b><u>0.396</u></b>	<b><u>0.388</u></b>

## **Note 24: Related parties**

Committee members Gordon Bryant and Mark Simmonds were active members of the scheme during the year and Committee member Sarah Payne was a deferred member of the scheme during the year.

Pensions Committee member Sarah Payne has personal investments that are managed by Jupiter Asset Management.

Pension Board members Paul Deal and Nigel Behan were active members of the scheme during the year.

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 taken by Aberdeen Standard, Jupiter Asset Management, Nomura Asset Management, Amundi Asset Management and LaSalle for their parts of the fund, without referring to the county council, its officers or other member bodies. This is also the case for the fund managers that Brunel employee within the pooled funds we invest in. Decisions about suitable investments for the in-house funds are made based only on the recommendations of a quantitative analysis system, so officers do not have the power to include or exclude specific companies.

Payments made to Somerset County Council by the fund for administration and related services are disclosed in notes 7, 8 and 9.

### Brunel Pension Partnership Ltd (Company number 10429110)

Brunel Pensions Partnership Ltd (BPP Ltd) was formed on the 14th October 2016 and will oversee 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 £979,000 in fees for services in the 2019-2020 financial year as disclosed in note 8. The fund paid for fees in the 2020-2021 financial year before the end of the current year and as such £203,000 is within the other debtors amount of £1,152,000 shown on the Net Asset Statement.

During the year the fund did not add to the £840,000 paid for its shares in BPP Ltd during the 2017-2018 financial year. These accounts show this investment valued at cost and is disclosed separately from any other investment in note 11, note 13, note 16 and note 30.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 4 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

## Note 25: 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 7, 8 and 9 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2020 of any officer who undertake work for the fund and receives salary of greater than £50,000 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 2020						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2019/20 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2019/20 £
Director of Finance and Performance	9,200	-	-	9,200	1,400	10,600
Interim Finance Director	176,400	-	-	176,400	-	176,400

The Director of Finance and Performance was appointed as a permanent post with effect from 1<sup>st</sup> March 2020. The annualised salary for this post is £110,000. Somerset County Council appointed an Interim Director of Finance on a consultancy basis for the period April 2019 to February 2020. The amount shown was the full cost for 2019/20

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2019 is shown in the table below.

Year to 31 March 2019						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2018/19 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2018/19 £
Director of Finance and Performance						
- officer employed	33,400	-	-	33,400	4,600	38,000
- provided through consultancy	178,800	-	-	178,800	-	178,800

The member of staff employed as Director of Finance and Performance left the authority part way through the year. The annualised cost of the post (including employers pension) is £120,100. The post was filled through consultancy staff for the remainder of the year.

## **Note 26: 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 County Council website.

## **Note 27: Contingent liabilities**

There were no contingent liabilities as at 31 March 2020.

## **Note 28: Post balance sheet events**

Since 31 December 2019, the spread of the COVID-19 virus has severely impacted many local economies around the globe. In many countries, organisations are being forced to cease or limit operations for long or indefinite periods of time. Measures taken to contain the spread of the virus, including travel bans, quarantines, social distancing and closure of non-essential services, have triggered significant disruptions to organisations worldwide, resulting in an economic slowdown. Global stock markets have also experienced great volatility.

The duration and impact of the COVID-19 pandemic, as well as the effectiveness of government and central bank responses, remain unclear at this time. It is not possible to reliably estimate the duration and severity of these consequences, as well as their impact on the financial position and performance of the Fund for future periods.

The Fund has determined that these events are non-adjusting subsequent events. Accordingly, the financial position and performance of operations as of and for the year ended 31 March 2020 have not been adjusted to reflect their impact beyond where this was already encompassed in asset prices at the year end date.

## **Note 29: 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 11 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2020 being £2,047m.

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 16 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 unit trusts 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 fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 20 of these accounts.

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 2020 by the amounts shown below.

<b>Asset class</b>	<b>Value of Assets £ millions</b>	<b>Volatility</b>	<b>Increase in Assets £ millions</b>	<b>Decrease in Assets £ millions</b>
UK equities	362.852	17.90%	64.951	-64.951
Overseas equities	956.501	15.30%	146.345	-146.345
UK bonds	155.733	7.70%	11.991	-11.991
Overseas bonds	112.703	13.20%	14.877	-14.877
UK index-linked bonds	70.825	7.20%	5.099	-5.099
Property	194.065	6.20%	12.032	-12.032
Private equity*	59.941	15.30%	9.171	-9.171
Derivatives	1.144	7.50%	0.086	-0.086
Cash	132.942	0.00%	0.000	0.000
<b>Net investment assets</b>	<b><u>2,046.706</u></b>		<b><u>264.552</u></b>	<b><u>-264.552</u></b>

\* Includes level 3 assets, further details can be found in note 30 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 the 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 the custodian.

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 £133.2m is subject to credit risk.

Through its securities lending activities, the fund is exposed to the counterparty risk of the collateral provided by borrowers against the securities lent. This risk is managed by restricting the collateral permitted to high grade sovereign debt and baskets of liquid equities. Details of the collateral held are provided within note 21 of these accounts.

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 the forward foreign exchange contracts held are provided in note 20 of these accounts. During the year the exposure on some forward foreign exchange contracts moved to having collateral provided against this exposure. As at 31 March 2020 we held £197,000 of cash collateral and £945,000 has been provided to counterparties as collateral by the fund and these are included within the investment balances in note 11. As it is collateral we have a liability to pay this sum back unless the counterparty fails or receive it back where we have provided the collateral, as a result we have declared an equal liability or asset in other investment balances in note 15.

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. 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, in particular equities and fixed income investments that are listed on exchanges. This gives the fund access to in excess of £450m of assets which could be realistically liquidated into cash in less than a week.

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.

The forward foreign exchange contracts held by the fund do give rise to a liquidity risk as they must be settled at a prescribed date agreed at the time of placing the contract. The exact size of this liability varies in line with foreign exchange prices on an on-going basis. The furthest date at which some of these contracts expire is never more than 6 months and the cash flows involved are regularly monitored to ensure we can meet these liabilities as they fall due. The fair value and full exposure levels of the forward foreign exchange contracts held are provided in note 20 of these accounts.

The bond futures and swaps have daily margin calls and no cash liability beyond these. The size of the daily margin calls are typically around £20,000 and on occasion as large as £75,000 and therefore do not pose a significant liquidity risk to the fund.

### Note 30: 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.

<b>Description of Asset</b>	<b>Fair Value Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuation provided</b>
Market quoted equities and bonds	Level 1	Published closing bid prices ruling at year end	Not required	Not required
Pooled equity funds	Level 1	Published single price ruling at year end	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

<b>Description of Asset</b>	<b>Fair Value Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and unobservable inputs</b>	<b>Key sensitivities affecting the valuation provided</b>
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	Brunel share capital is valued at book cost	Earnings and revenue multiples, discount for lack of marketability, control premium	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

It should be noted that due to the economic uncertainty caused by the restrictions imposed by central Governments in response to the COVID-19 pandemic the independent valuers used by pooled property funds have added a material uncertainty clause to their 31 March 2020 valuations. A typical example of the wording used by valuers is provided below.

“Market activity is being impacted in many sectors. As at the valuation date, we consider that we can attach less weight to previous market evidence for comparison purposes, to inform opinions of value. Indeed, the current response to COVID-19 means that we are faced with an unprecedented set of circumstances on which to base a judgement.

Our valuations are therefore reported on the basis of ‘material valuation uncertainty’ as per VPS 3 and VPGA 10 of the RICS Red Book Global. Consequently, less certainty – and a higher degree of caution – should be attached to our valuation than would normally be the case. Given the unknown future impact that COVID-19 might have on the real estate market, we recommend that you keep the valuation of these properties under frequent review.”

The table below analyses the fund’s investment assets at 31 March 2020 into the 3 levels of the fair value hierarchy.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities	9.485			9.485
Overseas equities	157.448			157.448
Brunel pooled equity funds		1152.420		1152.420
Bonds	339.261			339.261
Property funds		194.065		194.065
Private Equity funds			59.941	59.941
Derivatives	1.144			1.144
Cash	132.942			132.942
<b>Net investment assets</b>	<b><u>640.280</u></b>	<b><u>1,346.485</u></b>	<b><u>59.941</u></b>	<b><u>2,046.706</u></b>

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2019 is shown in the table below.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities	11.472			11.472
Overseas equities	503.503			503.503
Brunel pooled equity funds		958.643		958.643
Bonds	321.663			321.663
Property funds		184.347		184.347
Private Equity funds			49.993	49.993
Derivatives	-0.362			-0.362
Cash	138.943			138.943
<b>Net investment assets</b>	<b><u>975.219</u></b>	<b><u>1,142.990</u></b>	<b><u>49.993</u></b>	<b><u>2,168.202</u></b>

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2020.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2020.

Asset class	Fair Value as at 31 March 2019 £ 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 2020 £ millions
Global private equity	47.513	0.000	0.000	8.991	-4.673	0.466	5.164	57.461
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
<b>Total</b>	<b>49.993</b>	<b>0.000</b>	<b>0.000</b>	<b>8.991</b>	<b>-4.673</b>	<b>0.466</b>	<b>5.164</b>	<b>59.941</b>

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.). As disclosed in the accounting policies section of these accounts this investment is valued at cost. This value is not the value of assets managed by BPP Ltd, which as at 31 March 2020 was £1,152,420,000. This investment is also disclosed separately from any other investment in note 11, note 13 and note 16 and a written disclosure is made in note 24 with regard to related parties.



### **Note 31: 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. For the 2019-20 accounts the Fund has yet to adopt the following accounting standards.

#### Amendments to IAS 28 Investments in Associates and Joint Ventures: Long-term Interests in Associates and Joint Ventures

These amendments clarify that an entity applies IFRS 9 Financial Instruments including its impairment requirements, to long-term interests in an associate or joint venture that form part of the net investment in the associate or joint venture but to which the equity method is not applied. We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2020.

#### Annual Improvements to IFRS Standards 2015–2017 Cycle

The primary objective of these improvements is to enhance the quality of standards, by amending existing International Financial Reporting Standards and International Accounting Standards to clarify guidance and wording. We do not expect any of these improvements to have a material impact on our accounts when they are applied from 1st April 2020.

#### Amendments to IAS 19 Employee Benefits: Plan Amendment, Curtailment or Settlement.

These amendments clarify that if a plan amendment, curtailment or settlement occurs, it is now mandatory that the current service cost and the net interest for the period after the remeasurement are determined using the assumptions used for the remeasurement.

This amendment does not need to be applied where its application is immaterial, and if material will only affect the amounts reported in the Comprehensive Income & Expenditure account, the Balance Sheet entries are unaffected by the amendment.

The updating of these assumptions only applies to changes from 1st April 2020 and, since this could result in positive, negative or no movement in the net pension liability, no prediction can be made of the possible accounting impact.

## IFRS16 Leases

This standard will require local authorities that are lessees to recognise most leases on their balance sheets as right-of-use assets with corresponding lease liabilities rather than expense the rental charge through the Comprehensive Income and Expenditure Statement. CIPFA/LASAAC have deferred implementation of IFRS16 for local government to 1 April 2021.

We do not expect these amendments to have a material impact on our accounts when they are applied from 1st April 2021.

A handwritten signature in black ink that reads "J. C. Vaughan". The signature is written in a cursive, slightly slanted style.

**Jason Vaughan**  
**Director of Finance and Performance**  
**24 September 2020**

# **Actuary's statement as at 31 March 2020**

## **Introduction**

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

## **Asset value and funding level**

The results for the Fund at 31 March 2019 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2019 for valuation purposes was £2,167m.
- The Fund had a funding level of 86% i.e. the assets were 86% 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 £362m.

## **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 17.8% 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 2020.

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 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.6% p.a.
Salary increases	3.6% p.a.
Discount rate	4.9% 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
<i>Member base tables</i>	S3PA
<i>Member mortality multiplier</i>	90% / 100%
<i>Dependant base tables</i>	S3DA
<i>Dependant mortality multiplier</i>	95% / 85%
<i>Projection model</i>	CMI 2018
<i>Long-term rate of improvement</i>	1.25% p.a.
<i>Smoothing parameter</i>	7.5
<i>Initial addition to improvements</i>	0.5% p.a.

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	23.2 years
Average life expectancy for current pensioners - women currently age 65	24.7 years
Average life expectancy for future pensioners - men currently age 45	24.6 years
Average life expectancy for future pensioners - women currently age 45	26.1 years

Further details of assumptions used can be found in the relevant actuarial valuation report.

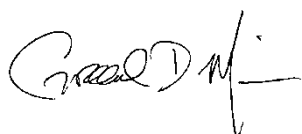
### **Updated position since the 2019 valuation**

Returns were strong for the first two quarters following the valuation date, however, recent market movements have seen significant falls in equity values. As at 31 March 2020, in market value terms, the Fund assets were less than where they were projected to be based on the previous valuation assumptions. The value placed on the liabilities will have increased due to the accrual of new benefits and a lower discount rate underlying the valuation, however this increase will have been largely offset by lower projected future inflation.

Overall, we estimate that the funding position will have fallen slightly when compared on a consistent funding basis to 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equities due to actual and potential reductions and suspensions of dividends. There are also uncertainties around future benefits, relating to the McCloud & Sargeant cases and the ongoing cost cap management process.

Somerset County Council have requested that we monitor this funding level on a quarterly basis so we will estimate the funding level again at 30 June 2020 and review the appropriateness of the assumptions used in our funding model.



Graeme D Muir FFA  
Partner, Barnett Waddingham LLP  
15 June 2019

# **Independent auditor's report to the members of Somerset County Council on the pension fund financial statements**

## **Opinion**

We have audited the financial statements of Somerset Pension Fund (the 'pension fund') administered by Somerset County Council (the 'Authority') for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2020 and of the amount and disposition at that date of the fund's assets and liabilities;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

## **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the pension fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

## **The impact of macro-economic uncertainties on our audit**

Our audit of the pension fund financial statements requires us to obtain an understanding of all relevant uncertainties, including those arising as a consequence of the effects of macro-economic uncertainties such as Covid-19 and Brexit. All audits assess and challenge the reasonableness of estimates made by the Director of Finance and the related disclosures and the appropriateness of the going concern basis of preparation of the financial statements. All of these depend on assessments of the future economic environment.

Covid-19 and Brexit are amongst the most significant economic events currently faced by the UK, and at the date of this report their effects are subject to unprecedented levels of uncertainty, with the full range of possible outcomes and their impacts unknown. We applied a standardised firm-wide approach in response to these uncertainties. However, no audit should be expected to predict the unknowable factors or all possible future implications for a fund associated with these particular events.

## **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Director of Finance's use of the going concern basis of accounting in the preparation of the pension fund's financial statements is not appropriate; or
- the Director of Finance has not disclosed in the pension fund's financial statements any identified material uncertainties that may cast significant doubt about the Authority's ability to continue to adopt the going concern basis of accounting for the pension fund for a period of at least twelve months from the date when the pension fund's financial statements are authorised for issue.

In our evaluation of the Director of Finance's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 that the pension fund financial statements shall be prepared on a going concern basis, we considered the risks associated with the fund's operating model, including effects arising from macroeconomic uncertainties such as Covid-19 and Brexit, and analysed how those risks might affect the fund's financial resources or ability to continue operations over the period of at least twelve months from the date when the financial statements are authorised for issue. In accordance with the above, we have nothing to report in these respects.

However, as we cannot predict all future events or conditions and as subsequent events may result in outcomes that are inconsistent with judgements that were reasonable at the time they were made, the absence of reference to a material uncertainty in this auditor's report is not a guarantee that the fund will continue in operation.

## **Emphasis of Matter - effects of Covid-19 on the valuation of property investments**

We draw attention to Note 28 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As disclosed in note 28 to the financial statements, due to the economic uncertainty caused by the restrictions imposed by central Government in response to the COVID-19 pandemic the independent valuers used by pooled property funds have added a material uncertainty to the 31 March 2020 valuation. Our opinion is not modified in respect of this matter.

## **Other information**

The Director of Finance is responsible for the other information. The other information comprises the information included in the Statement of Accounts other than the pension fund's financial statements, our auditor's report thereon and our auditor's report on the Authority's financial statements. Our opinion on the pension fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the pension fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the pension fund's financial statements or our knowledge of the pension fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the pension fund's financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

**Opinion on other matter required by the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)**

In our opinion, based on the work undertaken in the course of the audit of the pension fund's financial statements and our knowledge of the pension fund the other information published together with the pension fund's financial statements in the Statement of Accounts for the financial year for which the financial statements are prepared is consistent with the pension fund's financial statements.

**Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters.



## **Responsibilities of the Authority, the Director of Finance and Those Charged with Governance for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 10, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Director of Finance. The Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the pension fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20, for being satisfied that they give a true and fair view, and for such internal control as the Director of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the pension fund's financial statements, the Director of Finance is responsible for assessing the pension fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the pension fund will no longer be provided.

The Audit Committee is Those Charged with Governance. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the pension fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities) . This description forms part of our auditor's report.

## Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Barrie Morris*

Barrie Morris, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Bristol  
30 March 2021

# **Independent auditor's report to the members of Somerset County Council on the consistency of the Somerset County Council Pension Fund financial statements included in the Pension Fund annual report**

## **Opinion**

The pension fund financial statements of Somerset Pension Fund (the 'pension fund') administered by Somerset County Council (the "Authority") for the year ended 31 March 2020 which comprise the Fund Account, the Net Assets Statement and the notes to the pension fund financial statements, including a summary of significant accounting policies are derived from the audited pension fund financial statements for the year ended 31 March 2020 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20 and applicable law.

## **Pension Fund Annual Report – Pension fund financial statements**

The Pension Fund Annual Report and the pension fund financial statements do not reflect the effects of events that occurred subsequent to the date of our report on the Statement of Accounts. Reading the pension fund financial statements and the auditor's report thereon is not a substitute for reading the audited Statement of Accounts and the auditor's report thereon.

## **The audited financial statements and our Report thereon**

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 30 March 2021.

That report also includes an Emphasis of Matter - effects of Covid-19 on the valuation of property investments section that draws attention to Note 28 in the audited pension fund financial statements, which is replicated in Note 28 of the pension fund financial statements. Note 28 describes the effects of the Covid-19 pandemic on the valuation of the pension fund's property investments as at 31 March 2020. As, disclosed in note 28 to the financial statements, due to the economic uncertainty caused by the restrictions imposed by central Government in response to the COVID-19 pandemic the independent valuers used by pooled property funds have added a material uncertainty to the 31 March 2020 valuation. As stated in our report 30 March 2021, our opinion is not modified in respect of this matter.

## **Director of Finance responsibilities for the pension fund financial statements in the Pension Fund Annual Report**

Under the Local Government Pension Scheme Regulations 2013 the Director of Finance of the Authority is responsible for the preparation of the pension fund financial statements, which must include the Fund Account, the Net Asset Statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the Pension Fund Annual Report are set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2019/20.

### **Auditor's responsibility**

Our responsibility is to express an opinion on whether the pension fund financial statements in the Pension Fund Annual Report are consistent, in all material respects, with the audited pension fund financial statements in the Statement of Accounts based on our procedures, which were conducted in accordance with International Standard on Auditing 810 (Revised), Engagements to Report on Summary Financial Statements.

### **Use of our report**

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

*Barrie Morris*

Barrie Morris, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor  
Bristol  
30 March 2021

## **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 weak 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  
E-mail: [pensions@devon.gov.uk](mailto:pensions@devon.gov.uk)
- About the investments or accounts  
Anton Sweet  
Funds and Investments Manager  
Somerset County Council Pension Fund  
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Phone: 01823 359584  
E-mail: [asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)
- The actuary  
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Phone: 0141 243 4400
- The auditor  
Barrie Morris  
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Phone: 01173 057600  
E-mail: [barrie.morris@uk.gt.com](mailto:barrie.morris@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](http://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.

<http://democracy.somerset.gov.uk/mgCommitteeDetails.aspx?ID=200>

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.

<http://democracy.somerset.gov.uk/mgCommitteeDetails.aspx?ID=226>

These accounts are also available on the internet at.

<https://www.somerset.gov.uk/our-information/pensions/>

These accounts are also available in Braille, in large print, on tape and on CD and we can translate them into different languages.