



SOMERSET COUNTY COUNCIL  
PENSION FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
2015/16



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# **Chairman's report**

This annual report sets out the activities of the pension fund for the year ending 31 March 2016. 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).**

We have had another very full year in terms of changes both in terms of the Local Government Pension Fund structures and working towards changes in the Somerset fund.

Peninsula Pensions, our shared pension administration service with Devon County Council, continues to evolve and improve its offering. The major milestone for the year was the transfer of the pension payroll of the Somerset Fund into Peninsula Pensions, this was a considerable project and was a complete success with the first payroll paid in October. The transfer of Payroll brings all of the administration of benefits within Peninsula Pensions making them a one stop shop with improved service for all of our members.

Last year I discussed the work that had led to the setting up of the Somerset pension board, the board has now reached its first anniversary and has done excellent work in supporting the committee in delivering the best fund possible for our stakeholders. The board has taken over responsibility for the audit coverage of the fund and undertaken a number of reviews of how the fund works and reports to the regulators and stakeholders.

In terms of the future structure of the LGPS and how it invests huge strides have been taken in the last year. Having made some brief statements at the time of the July 2015 budget the Government clarified its expectations in Guidance published in November that required us to collaborate with other LGPS funds to create pools of £25bn of assets in size, to put in place first class governance arrangements for the pool, use pooling to find cost savings and use pooling to improve the ability to invest in infrastructure. Our officers were very quick to respond to these challenges with meetings with other like-minded funds, broadly based in the South West that eventually led to what we now call the Brunel Pensions Partnership (BPP). As a committee we have just agreed a second response to government by BPP, the quality of which is a testament to the work put in by the 10 founding funds working in true partnership. We look forward to continuing this process over the next 2 years through to April 2108, when we hope to be in a position to move our first assets into the BPP pool.

Investment returns for the year, at -0.4%, were poor. We achieved positive returns on property, bonds, private equity, US equity and European equity. Negative returns resulted from our other equity investments including UK.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was -0.3% below the benchmark return of -0.1%. While we measure ourselves against our own benchmark, we are also aware of how other local-authority funds perform. A typical local-authority pension fund's return for the 2015-16 year was 0.2%.

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 £3.6m. We expect this figure to continue to be marginally positive for the current financial year.

I would like to thank my fellow committee and board members for their commitment and support over the last year and the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees.

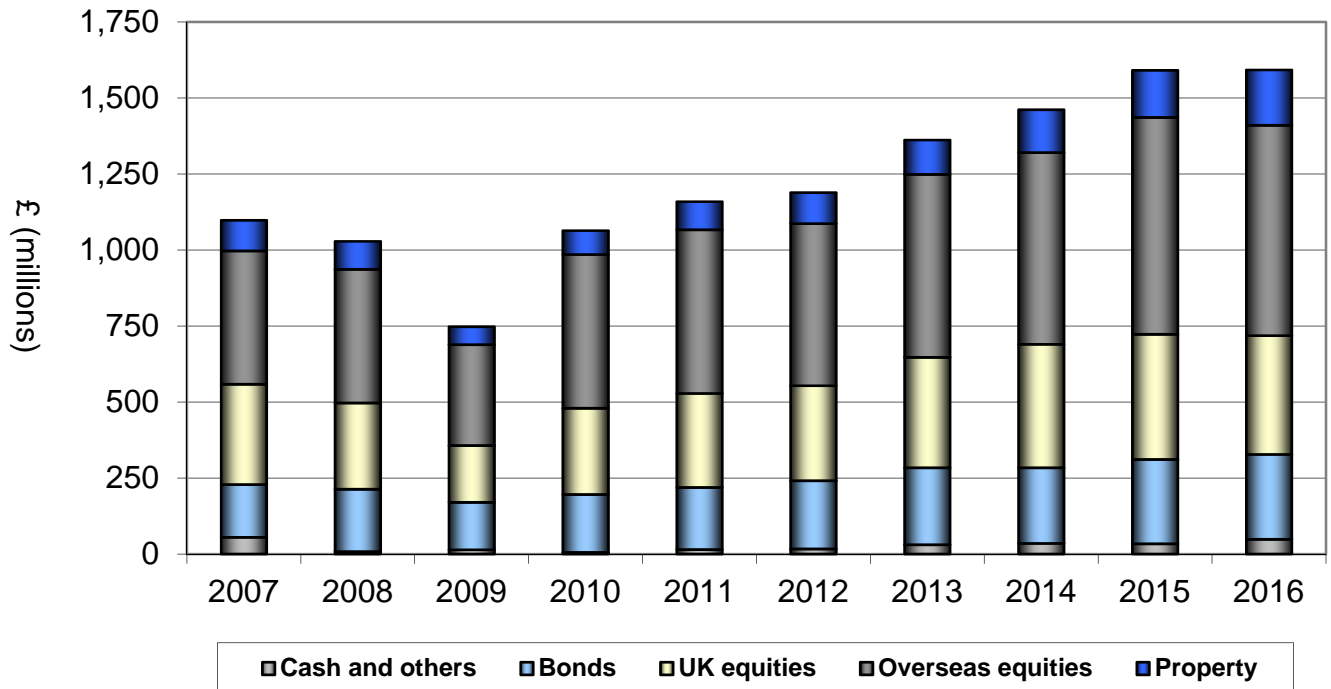
**Graham Noel**

Chairman of the pensions committee

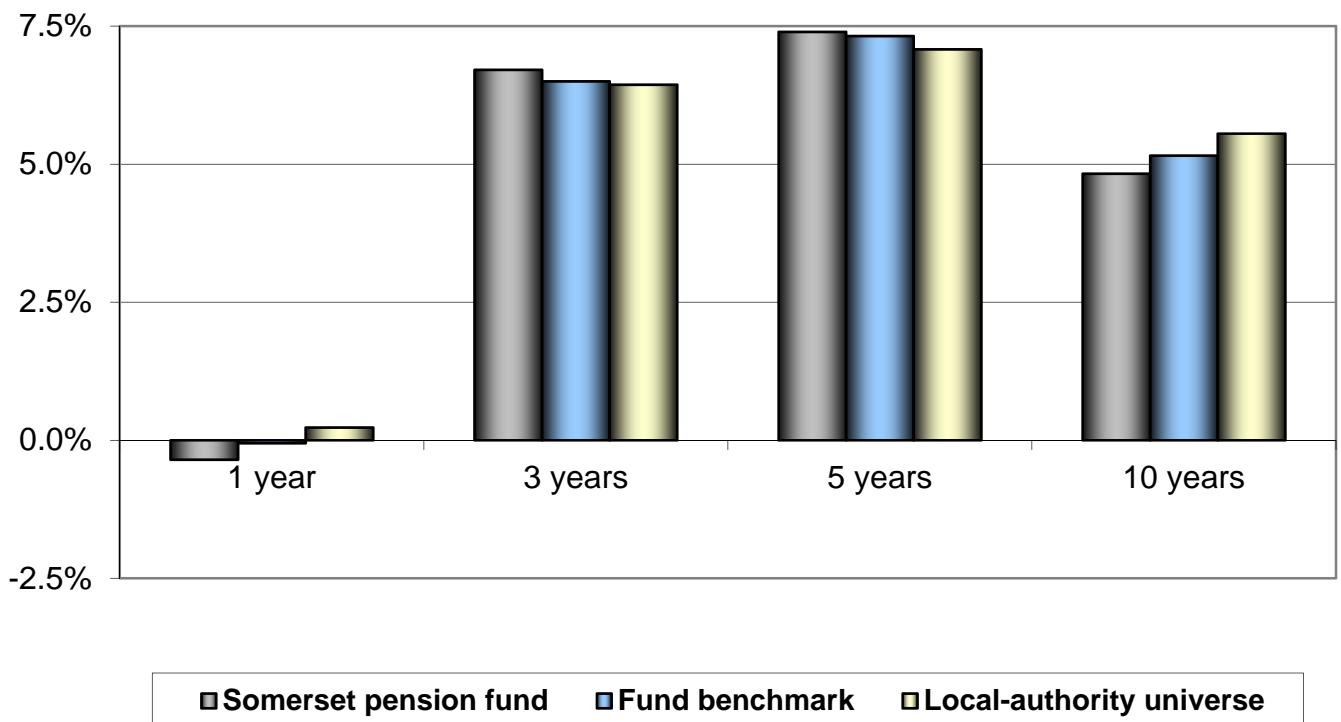
# Summary of the scheme

## Statistics

### Fund investment assets



### Annualised fund investment performance



Source: WM Company

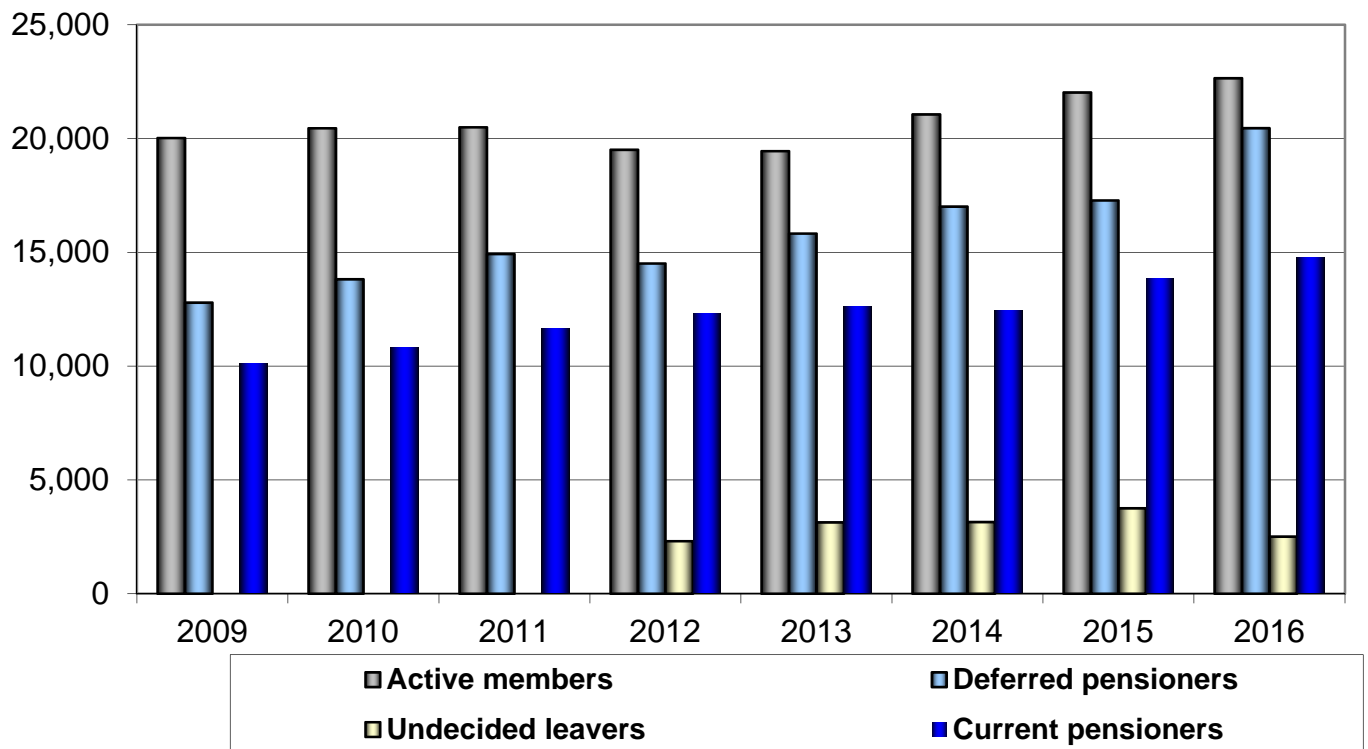
## Analysis of investment assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	363.467	335.889	383.102	1,082.458
Fixed Interest	186.316	93.019	0.000	279.335
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	180.835	3.093	20.795	204.723
Cash	25.238	0.469	0.000	25.707
Other	0.000	0.000	0.000	0.000
<b>Total</b>	<b>755.856</b>	<b>432.470</b>	<b>403.897</b>	<b>1,592.223</b>

## Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	12.833	4.785	9.326	26.944
Fixed Interest	6.409	4.376	0.000	10.785
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	6.729	0.457	0.000	7.186
Cash	0.171	0.000	0.000	0.171
Other	0.000	0.000	0.464	0.464
<b>Total</b>	<b>26.142</b>	<b>9.618</b>	<b>9.790</b>	<b>45.550</b>

## Fund membership statistics



## Employer statistics

	Active	Ceased	Total
Scheduled body	85	17	102
Admitted body	29	13	42
<b>Total</b>	<b>114</b>	<b>30</b>	<b>144</b>

## Financial Statistics – five-year trends

	2011/2012 £ millions	2012/2013 £ millions	2013/2014 £ millions	2014/2015 £ millions	2015/2016 £ millions
Income from contributions	82.370	79.234	79.350	83.588	87.578
Spending on benefits	-74.912	-77.719	-77.109	-147.041	-83.961
<b>Contributions less benefits</b>	<b>7.458</b>	<b>1.515</b>	<b>2.241</b>	<b>-63.453</b>	<b>3.617</b>
<b>Management Expenses</b>			<b>-6.175</b>	<b>-6.655</b>	<b>-6.257</b>
Investment income	34.888	35.076	50.732	52.221	44.794
Change in value of investments	-12.774	132.945	54.273	143.443	-39.348
<b>Net return on investments</b>	<b>22.114</b>	<b>168.021</b>	<b>105.005</b>	<b>195.664</b>	<b>5.446</b>
<b>Change in net assets</b>	<b>29.572</b>	<b>169.536</b>	<b>101.071</b>	<b>125.556</b>	<b>2.806</b>

## Value for money statistics

	2013/2014	2014/2015	2015/2016
Administration expenses (£m)	1.316	0.993	1.305
Investment management expenses (£m)	4.309	5.063	4.302
Oversight and governance expenses (£m)	0.550	0.599	0.650
<b>Total expenses</b>	<b>6.175</b>	<b>6.655</b>	<b>6.257</b>
Administration expenses per member	25.14	17.96	22.25
Total expenses per member	117.94	120.35	106.67
Investment expenses (p) per £ of assets	0.31	0.33	0.27
Total expenses (p) per £ of assets	0.44	0.44	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

	2011/2012	2012/2013	2013/2014	2014/2015	2015/2016
Income yield on average assets	3.30%	3.02%	3.65%	3.47%	2.86%
Average pension in payment (£)	4,358	4,531	4,736	4,693	4,495

# **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.

Richard Parrish joined the committee during the year, effective from February 2016. All other members sat on the committee for the full 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.

## **Sam Crabb**

Sam is one of the four county council representatives on the committee and is the councillor for Ilchester. Sam has been a member of the pensions committee since May 2008.

## **Dawn Hill**

Dawn is one of the four county council representatives on the committee and is the councillor for Cheddar. Dawn joined the committee in May 2009.

## **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.

## **Richard Parrish (district councils' representative)**

Richard represents the five district councils that are members of the fund. Richard is a district councillor and member of the Executive Committee of Taunton Deane Borough Council with responsibility for corporate resources. Richard joined the committee in February 2016.

## **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.

### **Caroline Moore (represents other employers)**

Caroline represents all of the employers except those specifically covered by another committee member. Caroline is Executive Director (Finance, Development and Corporate Services) for Yarlington Housing Group (YHG). She also acts as Company Secretary for YHG and its subsidiaries, and is a member of the National Housing Federation's Finance Policy Committee.

Caroline joined YHG in 2002, having previously spent eight years as Senior Manager (Public Services) at PricewaterhouseCoopers (PWC), where she was a national manager responsible for all services to housing clients. She spent the last three years at PWC advising on housing transfers (both on the council and housing association sides).

Caroline is an ACA-qualified accountant and has a degree in Business and Organisational Studies. Caroline has been a member of the pensions committee since 2005.

### **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 self-employed and 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. She is a member of the board of TR Property Investment Trust plc, a member of the management committee of Hermes Property Unit Trust and a non-executive director of LV= Insurance.

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

### **Officer – Kevin Nacey (Director of Finance and Performance)**

Kevin has been the lead officer for the pension fund since January 2011.

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

During the financial year 2015/2016, the committee formally met five times. At four of these meetings (quarterly) the committee received a report on the investment performance of the fund for the previous quarter and any related information, an update on the committee business plan and workplan, an update on the fund's risk register and an update on the budget and membership statistics of the fund. They also receive an update on the status of all outstanding matters relating to the employer bodies within the fund. At two meetings every year the committee receive a report covering the voting activity at company meetings for the previous six months. 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.

The committee also carried out a number of one-off reviews during the year. The committee reviewed some of the policies that help in the running of the fund as the documentation continues to be revised. 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. For the remaining managers committee agreed to review the managers again in the future. The asset allocation of the investments was reviewed and it has been agreed that this should be an annual item.

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. Specifically there was an extra meeting in February to specifically review and approve the Brunel Pension Partnership's (BPP) submission to Government as required by the Government guidance. 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 on its website via the following link:

<https://www.brunelpensionpartnership.org/>

As well as the formal meetings the committee have met informally at an internal training day. The committee also attend the annual meeting for employers every September, where they are available to answer any questions.

## 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	Annual meeting	Internal training days	Conference days
Number of meetings	5	1	1	
<b>Committee members</b>				
Graham Noel (Chairman)	5	1	1	2
Sam Crabb	4		1	2
Dawn Hill	4			
James Hunt	4	1		
Richard Parrish	2 (of 2)	NA	1	
Mark Simmonds	4			
Caroline Moore	3	1	1	
Sarah Payne	4		1	2
<b>Independent advisor</b>				
Caroline Burton	4	1		

## 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 2016 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 SouthWest One 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.

In addition to the risk register, how the fund manage and aim to mitigate the funding risk and investment risk are dealt with in more detail in the Funding Strategy Statement and the Statement of Investment Principles 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 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 including peer group data.

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.

Twice a year a summary of the fund's voting activity is reported to the pensions committee and these reports 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.

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. The Board came into existence part way through the financial year covered by this report with the first meeting held in July 2015.

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 a finance officer of Somerset County Council and the chief financial officer of Mendip District Council. Paul joined the Board in July 2015.

### **Tim O'Connor**

Tim is a Frome Town Councillor. Tim joined the Board in July 2015.

## **Member representatives**

### **James Gilbody**

James is a nominated union representative from UNISON. He is a licencing officer for Mendip District Council. James joined the Board in July 2015.

### **Mark Johnson**

Mark is a finance officer of Somerset County Council. Mark joined the Board in July 2015. Mark resigned from the Board as a result of leaving employment with Somerset County Council in January 2016.

### **Patricia Rowe**

Patricia is a nominated union representative from UNITE. She is a finance officer for Somerset County Council. Patricia joined the Board in July 2015.

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

During the financial year 2015/2016, the board formally met four times. At the first meeting of the board specific focus was given to the constitutional set up and running of the board and establishing what business would come to future meetings. It was agreed that standard items of business to be considered at all future meetings would include an update on the board business plan and workplan and a review of the most recent pensions committee meeting including a report on the investment performance of the fund for the previous quarter and any related information, an update on the fund's risk register, an update on the budget and membership statistics of the fund and an update on the status of all outstanding matters relating to the employer bodies within the fund.

The board has taken on responsibility for receiving the report of the external auditor and related matters. The board has considered a number of one of items around governance and reporting during the year.

In addition to the above, at each of its meetings the board has discussed the future investment arrangements of the LGPS and the Government's guidance that we Pool our investments with other LGPS Funds.

As well as the formal meetings the board have met informally at an internal training day.

## 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.

	Committee meetings	Annual meeting	Induction training	Internal training days	Conference days
Number of meetings	4	1	1	1	
<b>Committee members</b>					
Mark Healey (Chairman)	4		1		
Paul Deal	4	1	1	1	
Tim O'Connor	2				
James Gilbody	2		1		
Mark Johnson	2 (of 3)	1	1		
Patricia Rowe	4	1	1	1	

## **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.

### **Membership administration**

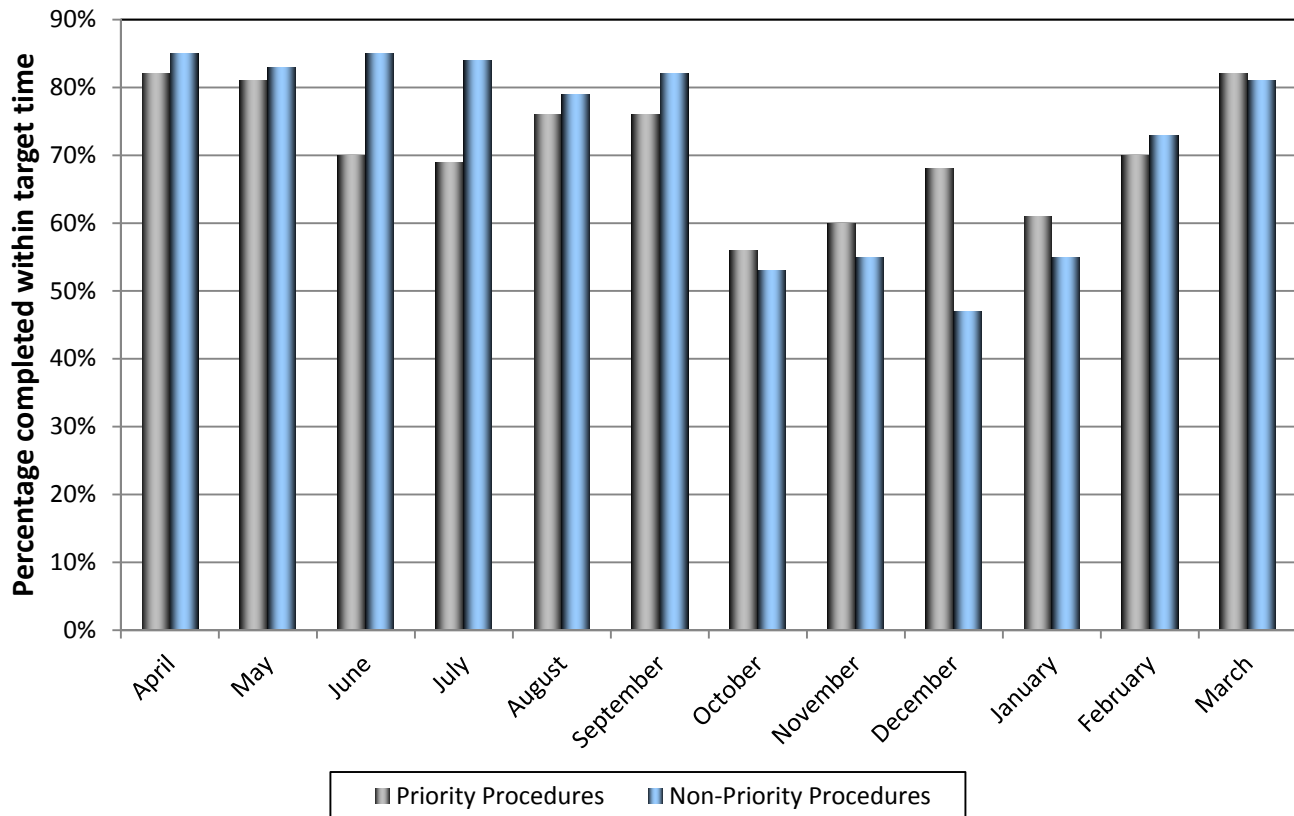
Membership administration involves all the tasks necessary to maintain the records of each of the members of the fund, be they active members (those currently paying in contributions), deferred (have paid into the fund in the past but are not currently contributing or drawing a pension) or pensioners.

From the 1<sup>st</sup> September 2013 this service is provided by Peninsula Pensions. The Somerset County Council pensions team merged with the equivalent team from Devon County Council to form Peninsular Pensions, a shared service that provides membership administration to both pension funds.

It is believed that by combining the teams, and sharing the investment costs in systems, Peninsular Pensions will provide a better service to members and employers at a lower long term cost to the two funds.

A key benefit of Peninsular Pensions is investment in better technology to help members. Peninsular Pensions' website contains information about all aspects of the LGPS for members, including generic advice, downloadable forms and contact details. A member self-service application within the website was rolled out during 2015. The website address is [www.peninsulapensions.org.uk](http://www.peninsulapensions.org.uk).

## Peninsula Pensions performance results 2015-16



In the graph above the Procedures are categorised as priority or non-priority along the following lines:

### Priority

- Includes all tasks relating to a death in service, death of a pensioner and/or the death of a deferred member.
- Actual retirements for staff. This covers all available forms of retirement; ill-health, redundancy/efficiency, early retirement, age retirement etc.
- Any query not covered by the other categories that requires a response from ourselves. For example; a query on an Admitted Body Status, re-employed pensioner calculations, general telephone queries etc.

### Non-Priority

- All tasks relating to the purchase and administration of Additional Pension or Additional Voluntary Contributions (AVC's).
- The process of making a scheme member a leaver before they reach retirement age (but only to include those members who opt-out of the scheme or leave the Somerset Pension Fund employer for employment elsewhere; not other reasons for leaving covered in the other categories).
- The production of cash equivalent transfer values (CETV's) for divorce proceedings, pension sharing and earmarking orders.
- 'Passive' notifications such as address changes, hour changes, marital status changes etc. Basically anything which doesn't require a direct response.
- The process of refunding a scheme members pension contributions (only available to members with less than 2 years total service).
- LGPS Retirement Estimates.
- The processing of all new starter forms for new employees (or 'opting-in' forms for existing staff) wishing to join the pension scheme.
- The transfer-in of a scheme members pension rights, accrued with a previous employer/pension provider.
- The transfer-out of pension benefits held in the Somerset Pension Fund to an external employer or pension provider (be it a new LGPS administering authority, personal pension plan or a private employer with its own pension arrangements).

With respect to staffing indicators Peninsula Pensions have undertaken the CIPFA benchmarking exercise for the 2015/16 though unfortunately the results were unavailable at time of writing. The results will provide the fund with information such as cost per member/pensioner and compare various performance indicators to other participating LGPS funds.

### **Pension payroll**

Pensioner payroll services were provided by SouthWest One, a joint venture company between Somerset County Council, Taunton Deane Borough Council, Avon & Somerset Police and IBM, up to 30<sup>th</sup> September 2015. From October 2015 the pension payroll function was transferred to Peninsula Pensions.

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.

### **Internal dispute resolution procedure**

The LGPS has a 2-stage dispute resolution procedure. For stage 1 appeals relating to a decision or action by the member's employer, the dispute is dealt with by the nominated person for that employer. All other disputes are dealt with by the Head of Peninsula Pensions. If the member is not happy with the decision made at Stage 1 then they can move to Stage 2 where the issue will be looked at afresh by The Director of Finance and Performance 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 2015/16 there were 4 Stage 1 appeals and 2 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.

## **Audit**

The internal audit work for Somerset County Council and SouthWest One 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.

# 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 12 sub-funds for investment-management purposes.

## In-house

### Background

Three sub-funds are managed under the direct control of the Director of Finance and Performance. The management is done in-house as it has proved over many years to be a cost-efficient way to invest.

### 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 23% of the whole fund.

#### 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

The target allocation is 5% of the whole fund.

### 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

7 day LIBID (London Interbank Bid 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

## Standard Life Investments

### Background

Standard Life Investments was established in 1998 and is a wholly owned subsidiary of Standard Life Investments (Holdings) Limited, which in turn is a wholly owned subsidiary of Standard Life plc. Standard Life Investments is a leading asset management company, with £253.2 billion of assets under management on behalf of clients worldwide (as at 31 December 2015) invested across a wide range of geographies and investment capabilities.

With headquarters in Edinburgh, Standard Life Investments employs approximately 1,500 professionals globally, maintaining offices in key locations around the world including London, Dublin, Paris, Frankfurt, Stockholm, Brussels, Milan, Zurich, Boston, New York, Los Angeles, Toronto, Sydney, Hong Kong, Beijing, Seoul and Tokyo.

Standard Life Investments is owned entirely by Standard Life plc, which is listed on the London Stock Exchange.

Standard Life Investments manage two sub-funds.

### UK equity portfolio

#### Aim

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

#### Benchmark

FTSE All-Share index.

#### Type of investments

UK equities

#### Allocation of the fund

The target allocation is 23% of the whole fund.

#### Appointed

July 2004

## Fixed-income portfolio

### Aim

To outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after Standard Life'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

## **Jupiter Asset Management**

### **Background**

Jupiter was founded in 1985 and has grown to become one of the most respected fund management groups in the UK, managing £36.2 billion (as at 31 March 2016) across equity and other asset classes. In 2007, Jupiter became majority owned by its employees. In June 2010, Jupiter's holding company, Jupiter Fund Management plc, was listed on the London Stock Exchange.

Jupiter is focused on generating investment outperformance across its diverse range of products, which include: UK, European and emerging markets equities, specialist equities (such as financial sector equities and environmental equities), multi-manager products, convertibles, fixed income and absolute return strategies. They are committed to active fund management, aiming to add value for clients by selecting shares and securities they believe are capable of producing superior returns over time without exposing clients to unnecessary levels of risk. Over time, the company has established relationships with banks, insurance companies and other financial institutions not just in the UK but throughout Europe and internationally.

### **Aim**

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

### **Benchmark**

FTSE World Europe ex-UK Index.

### **Type of investments**

European equities, not including UK equities

### **Allocation of the fund**

The target allocation is 5% of the whole fund.

### **Appointed**

April 1989 (revised mandate from July 2004).

## **Nomura Asset Management**

### **Background**

Owned by the Nomura Group, Nomura Asset Management was established in 1959 and has a major global presence with offices across Europe, the US and Asia. It has assets under management of over US\$380 billion, including over \$200 billion in equities (as at 30<sup>th</sup> June 2016). The firm employs over 1,200 people, including over 300 investment professionals.

Nomura Asset Management has investment capabilities across a range of asset classes, but is best known for its expertise in the management of Japanese and Far Eastern equity portfolios. Given the firm's leading position in Asia, it is well placed to understand factors influencing the region's markets and local business practices.

Nomura Asset Management counts among its clients many leading public and corporate pension funds, central banks, sovereign wealth funds and financial institutions.

Nomura Holdings Inc, the parent company of Nomura Asset Management, is listed on the Tokyo Stock Exchange.

### **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**

The target allocation is 3% of the whole fund.

### **Appointed**

March 2010

## **Maple-Brown Abbott**

### **Background**

Maple-Brown Abbott, based in Sydney, was established in 1984 and is independently owned by the Maple-Brown Family, Directors and Employees. The firm specialises in the management of investment portfolios across Australian equities, Asia Pacific ex-Japan equities and Global Listed Infrastructure securities. The cornerstone of their business has been built on a strong fundamental philosophy of bottom up, value investing which has remained consistent across their 32 year history. The foundation was originally in Australian equities broadening out to research and manage portfolios across and including Asian stocks since 2002 in a fully integrated sector research approach across the region. The firm of 50 people comprises 19 investment professionals, the senior members of whom have worked together for over 17 years. Maple-Brown Abbott's diversified business manages AUD\$ 9.9 billion as at 31st May 2016.

### **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**

The target allocation is 3% of the whole fund.

### **Appointed**

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

## **Pioneer Investments**

### **Background**

A global investment management firm, founded in 1928, Pioneer Investments offers a diverse range of products across both traditional and non-traditional asset classes to clients that include institutions, corporations, intermediaries and private investors around the world. Today, Pioneer Investments has a presence in 28 countries worldwide and an experienced team of over 2,000 employees globally, including more than 360 investment professionals. Assets under management total £183 billion managed from our global investment centres in Boston, Dublin and London; supported by a network of local investments centres across the world.

Pioneer Investments is a subsidiary of the Italian listed, UniCredit Group.

### **Aim**

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

### **Benchmark**

MSCI Emerging Markets Index

### **Type of investments**

Equities from emerging markets around the world

### **Allocation of the fund**

The target allocation is 5% of the whole fund.

### **Appointed**

March 2009

## **Aviva Investors**

### **Background**

Aviva Investors is a global asset management business dedicated to building and providing focused investment solutions for clients that include: insurance companies, charities, local government organisations, pension schemes, private wealth managers, financial advisers, private investors, banks and other global financial institutions. They manage approximately £305 billion of assets across real estate, fixed income, money market, equity, multi-asset and multi-strategy portfolios as at 31 March 2016. Aviva Investors employs over 400 investment professionals across 15 financial centres.

Aviva Investors is the asset management business of Aviva plc, which is listed on the London Stock Exchange.

### **Aim**

To outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after Aviva'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

## Neuberger Berman

### Background

Founded in 1939, Neuberger Berman is an independent, employee-controlled global asset-management company serving the financial needs of institutional investors, consultants and individuals worldwide. The company provides a broad range of global investment solutions to investors through customised separately managed accounts and mutual funds.

Neuberger Berman manage traditional assets and alternative investments, including private equity and hedge funds. They also give portfolio advice. Managing over \$243 billion of assets, Neuberger Berman is one of the world's largest independently controlled asset managers. They have more than 2,000 employees worldwide (including 522 investment professionals) in over 19 countries across the globe, as at 31 March 2016.

NB Alternatives, a specialist part of Neuberger Berman, is a significant investor in private equity, with over US\$47 billion of committed capital (capital that is promised but may not have been invested yet) across our private equity fund, secondary investments and direct co-investment areas.

### 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 3% of the whole fund.

### Appointed

March 2010

As well as the 11 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 12 of the accounts on page 137.

## 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.

J.P. Morgan's Corporate & Investment Bank is a global leader across banking, markets and investor services. The world's largest corporations, governments and institutions entrust their business to J.P. Morgan in more than 100 countries. With \$20.3 trillion of assets under custody the breadth of their expertise allows them to meet the complex and diverse requirements of pension plans and their sponsors, helping them reduce both cost and risk. J.P. Morgan provide tailor-made solutions in custody and administration, investment management and asset-liability risk management.

J.P. Morgan Chase & Co. is listed on the New York Stock Exchange.

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

### **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.

NatWest is part of the Royal Bank of Scotland Group plc, which is listed on the London Stock Exchange.

### **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 UK LLP is a leading financial and business adviser, operating out of offices across the UK. The firm also specialises in local government and the wider not for profit sector, including charity, education, social housing. Public Sector Audit Appointments Limited (PSAA) is an independent company limited by guarantee incorporated by the Local Government Association in August 2014. The company is responsible for appointing auditors to local government, police and local NHS bodies and for setting audit fees. Before 1 April 2015, these responsibilities were discharged by the Audit Commission. PSAA has been tasked with ensuring that public money continues to be properly accounted for and protected during the transition to the new local appointment regime to be established under the Local Audit and Accountability Act 2014 and overseeing the delivery of consistent high quality and effective audit services to relevant authorities. Following the outsourcing of the Audit Commission's in-house practice Grant Thornton is the largest external provider of audit services to local government.

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 LLP is the UK's largest independent provider of actuarial, administration and consultancy services. Founded in 1989, it is a limited liability partnership owned entirely by its 64 partners, with over 790 employees, including 128 actuaries, in seven offices across the UK.

Although mainly providing actuarial advice to defined benefit pension funds, they also provide other services which include:

- advice to defined-contribution pension schemes;
- accounting disclosures for UK and international companies;
- advice on business transactions;
- investment strategy reviews and advice on the funding strategy;
- pensions administration and management services, including pensioner payroll, preparing annual accounts and governance and secretarial services;
- tax-efficient retirement planning for executives, directors and wealthy individuals;
- actuarial advice to life, health and insurance markets in the UK and internationally;
- assistance to organisations on a wide range of their employee benefit package including pensions, wellbeing and retirement planning; and
- mortality investigations and analysis.

Barnett Waddingham has been providing actuarial advice to local authorities about funds set up under the Local Government Pensions Scheme Regulations and their predecessors for over 10 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 is an international business law firm with around 900 staff and partners working in offices in major financial and commercial centres in the UK and across Europe. The firm's main areas of expertise include corporate, finance and property transactions and the full range of business law services, including commercial contracts, employment, pensions and resolving disputes.

The lawyers in Osborne Clarke's pensions team have a wide range of experience in advising large occupational pension schemes, and provide a wide range of legal services. These include legal issues relating to how Local Government Pension Scheme (LGPS) regulations are interpreted and applied, drafting investment management and custody agreements, and advising on commercial contracts.

Osborne Clarke was appointed as legal advisor to the fund in October 2006 as part of a joint tender involving a number of other local-authority pension funds in the southwest of England.

**Performance measurement** – Global Services Performance Services (formerly The WM Company)

Global Services Performance Services (GSPS) is part of the State Street Global Services division of State Street Bank & Trust Company. GSPS has more than 30 years' experience of providing performance evaluation for a wide range of asset owners and managers.

GSPS has been providing the fund with performance measurement services since 1983.

**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.

PIRC was founded by local-authority funds in 1986 to provide high-quality research on the social responsibility that businesses have. It now provides voting and engagement services to around 60% of the local government pensions market and is now the largest proxy-voting adviser in Europe. PIRC also holds the UK's largest single shareholder to provide engagement services in its partnership agreement with the Local Authority Pension Fund Forum. In total, PIRC carries out research and gives advice on environmental, social and governance issues to investors with assets of over £1.5 trillion.

**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 70 local authority pension funds from across the country with combined assets of over £175 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 National Association of Pension Funds (NAPF)

## 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 to move new benefits to a Career Average Revalued Earnings (CARE) scheme 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. If there are a lot of early retirements, the contribution rate is increased immediately.

### 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 2014-2015	Salary range 2015-2016	Salary range 2016-2017
5.50%	£0 to £13,500	£0 to £13,600	£0 to £13,600
5.80%	£13,501 to £21,000	£13,601 to £21,200	£13,601 to £21,200
6.50%	£21,001 to £34,000	£21,201 to £34,400	£21,201 to £34,400
6.80%	£34,001 to £43,000	£34,401 to £43,500	£34,401 to £43,500
8.50%	£43,001 to £60,000	£43,501 to £60,700	£43,501 to £60,700
9.90%	£60,001 to £85,000	£60,701 to £86,000	£60,701 to £86,000
10.50%	£85,001 to £100,000	£86,001 to £101,200	£86,001 to £101,200
11.40%	£100,001 to £150,000	£101,201 to £151,800	£101,201 to £151,800
12.50%	More than £150,000	More than £151,801	More than £151,801

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.

	2013/2014		2014/2015		2015/2016		2016/2017	
	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m	% of Payroll	Cash payment £m
Common fund rate	17.9%	0.000	20.4%	0.000	20.4%	0.000	20.4%	0.000
Somerset County Council	13.5%	5.830	13.5%	7.173	13.5%	8.517	13.5%	9.860
Mendip District Council	13.0%	0.320	12.8%	0.410	12.8%	0.500	12.8%	0.590
Sedgemoor District Council	12.9%	0.520	13.0%	0.690	13.0%	0.860	13.0%	1.030
South Somerset District Council	18.4%	0.000	13.9%	0.640	13.9%	0.840	13.9%	1.040
Taunton Deane Borough Council	18.4%	0.000	13.5%	0.760	13.5%	0.990	13.5%	1.220
West Somerset District Council	13.2%	0.160	12.9%	0.210	12.9%	0.260	12.9%	0.310
Avon and Somerset Police	13.7%	0.000	11.0%	2.640	11.0%	2.760	11.0%	2.880
Avon and Somerset Probation	13.2%	0.220	13.2%	0.220	13.2%	0.220	13.2%	0.220
Further education colleges	13.0%	Variable	13.0%	Variable	13.0%	Variable	13.0%	Variable
Acadamies	15.1%	0.000	18.1%	0.000	18.1%	0.000	18.1%	0.000
Town councils	14.6%	Variable	14.9%	Variable	14.9%	Variable	14.9%	Variable
Admitted organisations	10.7% to 18.0%	Variable	11.0% to 25.1%	Variable	11.0% to 25.1%	Variable	11.0% to 25.1%	Variable

A full actuarial valuation of the fund was carried out as at 31 March 2013 and this showed a funding level of 75.3%. This was lower than the level at the 2010 valuation, principally because of a reduction in the discount rate used to calculate the liabilities, reflecting underlying market conditions. A fall in the funding level at the 2013 valuation inevitably saw 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 2016. 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  $1/80^{\text{th}}$  of final salary for each year of service for pre-April 2008 service;
- A pension calculated at  $1/60^{\text{th}}$  of final salary for each year of service for service between April 2008 and March 2014;
- A pension calculated on  $1/49^{\text{th}}$  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,  $3/80^{\text{th}}$  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 2015 was 1.2%.

For more details of the current benefits visit the LGPS members' website: [www.LGPS2014.org](http://www.LGPS2014.org)

# **Principles and policies**

The statements, policies and principles listed below are those that were in place at 31<sup>st</sup> March 2016.

## **Funding strategy statement**

### **1. Introduction**

- 1.1 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”).
- 1.2 In accordance with Regulation 58(3), all employers participating within the Somerset County Council Pension Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 1.3 The Fund Actuary, Barnett Waddingham LLP, has also been consulted on the contents of this Statement.

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

- 2.1 The purpose of this Funding Strategy Statement is to explain the funding objectives of the Fund and in particular:
- How the costs of the benefits provided under the Local Government Pension Scheme (the “Scheme”) are met through the Fund
  - The objectives in setting employer contribution rates; and
  - The funding strategy that is adopted to meet these objectives.

### **3. Purpose of the Fund**

- 3.1 The purpose of the Fund is to:
- Pay pensions, lump sums and other benefits provided under the Regulations;
  - Meet the costs associated in administering the Fund; and
  - Receive contributions, transfer values and investment income.

### **4. Funding Objectives**

- 4.1 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.
- 4.2 The funding objectives are to:
- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund.
  - Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

## **5. Key Parties**

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

### **5.2 The Administering Authority**

The Administering Authority for the Pension Fund is Somerset County Council. The main responsibilities of the Administering Authority are to:

- Collect employee and employer contributions;
- Invest the Fund's assets;
- Pay the benefits due to Scheme members;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the Statement of Investment Principles after consultation with other interested parties; and
- Monitor all aspects of the Fund's performance.

### **5.3 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;
- Exercise any discretions permitted under the Regulations; and
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures.

### **5.4 Fund Actuary**

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

- Advise interested parties on funding strategy and completion of actuarial valuations in accordance with the FSS and the Regulations; and
- Advise on other actuarial matters affecting the financial position of the Fund.

## **6. Funding Strategy**

6.1 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.

6.2 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.

## **7. Funding Method**

- 7.1 The key objective in determining employer's contribution rates is to establish a funding target and then set levels of employer contribution to meet that target over an agreed period.
- 7.2 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.
- 7.3 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 per cent indicates a surplus of assets over liabilities; while a funding level of less than 100 per cent indicates a deficit; and
  - The future service funding rate 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.
- 7.4 The key feature of this method is that, in assessing the future service cost, the contribution rate represents the cost of one year's benefit accrual.
- 7.5 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 the remaining expected working lifetime of active members.

## **8. Valuation Assumptions and Funding Model**

- 8.1 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.
- 8.2 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.
- 8.3 **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 (or "RPI").
- 8.4 **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.
- 8.5 **Future Pension Increases**  
Pension increases are linked to changes in the level of the Consumer Price Index (or "CPI"). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. An adjustment is therefore made to the RPI assumption to derive the CPI assumption.

## 8.6 **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 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.

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

The Fund Actuary will incorporate such an adjustment after consultation with the Administering Authority.

The adjustment to the discount rate for closed employers is 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. The aim is to minimise the risk of deficits arising after the termination date.

## 8.7 **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.

## 8.8 **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.

## **9. Deficit Recovery/Surplus Amortisation Periods**

- 9.1 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.
- 9.2 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.
- 9.3 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; and
  - The implications in terms of stability of future levels of employers' contribution.

## **10. Pooling of Individual Employers**

- 10.1 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.
- 10.2 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.
- 10.3 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.

## **11. Cessation Valuations**

- 11.1 On the cessation of an employer's participation in the Scheme, 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 a termination contribution, 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.
- 11.2 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.

## **12. Links with the Statement of Investment Principles (SIP)**

- 12.1 The main link between the Funding Strategy Statement (FSS) and the SIP 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 SIP.
- 12.2 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.

## **13. Risks and Counter Measures**

- 13.1 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.
- 13.2 The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

## **14. Financial Risks**

- 14.1 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.
- 14.2 The valuation results are most sensitive to the real discount rate. Broadly speaking an increase/decrease of 0.5 per cent per annum in the real discount rate will decrease/increase the valuation of the liabilities by 10 per cent, and decrease/increase the required employer contribution by around 2.5 per cent of payroll.
- 14.3 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.
- 14.4 The Committee may also seek advice from the Fund Actuary on valuation related matters.
- 14.5 In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

## **15. Demographic Risks**

- 15.1 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 between approximately 1%.
- 15.2 The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review.
- 15.3 The liabilities of the Fund can also increase by more than has been planned as a result of early retirements.
- 15.4 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.

## **16. Regulatory Risks**

- 16.1 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.
- 16.2 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.
- 16.3 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.

## **17. Governance**

- 17.1 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.
- 17.2 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.
- 17.3 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.

**18. Monitoring and Review**

- 18.1 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.
- 18.2 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  
March 2016**

# Statement of investment principles

## 1 Introduction

- a The Local Government Pension Scheme has existed for many years, and is based on primary legislation (The Superannuation Act 1972), and regulations approved as statutory instruments. These regulations can be revised or updated.
- b Somerset County Council are the statutory 'administering authority' for the Local Government Pension Scheme in the administrative county of Somerset (the 1974 boundaries). The pension fund provides a benefits package for local-authority employees who are not eligible to be members of other statutory schemes (for example, schemes for teachers, police officers and firefighters).
- c There are other public-sector employers in the county whose staff are entitled to belong to the pension fund (for example, further education colleges). Certain other organisations can apply to be included in the pension fund.
- d Because it is not a trust-based scheme, there is no group of trustees. In effect, Somerset County Council is 'the trustee'.
- e The responsibility for the fund is passed to the pensions committee. The committee is made up of:
  - four Somerset County Council members;
  - a district councillor representing the five district councils;
  - a representative of the Police and Crime Commissioner for Avon and Somerset;
  - a representative of all other participating employers;
  - a members representative;

In addition to the eight committee members an independent advisor and officers of the County Council will attend all meetings. All of the committee members may vote at meetings.

Through an adopted scheme of delegation the County Council's Chief Financial Officer (The Section 151 Officer) is responsible for putting the committee's decisions into practice, and for the day-to-day management of the pension fund.

- f As well as this statement, the committee maintains a range of specific policies and strategies, including:
  - a governance policy statement;
  - a communication policy statement;
  - a funding strategy statement; and
  - a forward-looking committee business plan.
- g The committee has adopted this statement of investment principles.

## **2 Pensions committee responsibilities**

- a The terms of reference for the committee, which form part of the governance policy for the fund, say the committee's main responsibilities are to:
- Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.
  - Ensure all contributions due are collected from employers.
  - Ensure that all benefits due are paid correctly and in a timely manner.
  - Decide the aims of the investment policy.
  - Make arrangements for managing the fund's investments.
  - Regularly monitor investment performance.
  - Make arrangements to publish the fund's annual report and accounts.
  - Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.
  - Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
  - 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.
  - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- b The committee meets at least quarterly to consider investment strategies and the performance of its managers. At these meetings, it takes advice from its officers, managers and independent advisors as necessary.

## **3 Investment policy**

### **3.1 Overview**

- a 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. As the scheme provides for the actuary to value assets and liabilities regularly and to adjust the employers' contributions, our aim is to make sure that investment returns are as high as possible for a given acceptable level of risk so the cost to the employers is reduced as far as possible.
- b Under the Local Government Pension Scheme Investment Regulations (the regulations), we must invest any income we have left after paying out pensions. The pension fund's income comes from contributions by employers and employees, together with interest and dividends on investments.
- c The regulations have developed over the years and provide a legal framework within which the fund's money is managed. We keep to the limits on the maximum investment that can be made in various types of approved investment, as set out in the regulations and changed from time to time.

### 3.2 The type of investments to be held

#### a For the investment of pension fund money, we take account of:

- investments permitted by LGPS regulations;
- the need to spread funds over a wide range of investments;
- how suitable investments are; and
- proper advice, received at reasonable intervals.

#### b The fund may invest in the following types of asset:

- listed stocks and shares;
- government and corporate bonds;
- futures, forward currency contracts and options;
- cash deposits with suitable banks and building societies;
- to enter into stock-lending arrangements;
- to invest in unlisted collective investment schemes such as unit trusts and open-ended investment companies (OEICs);
- to invest in limited liability partnerships (LLPs) ; and
- to invest in unlisted shares.

#### c 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.

### 3.3 The balance between different types of investment

#### a The fund will at all times hold a widely diversified portfolio of investments to reduce risk. Investments are spread over a range of asset classes (bonds, equities, property, cash and so on) and a number of different investment managers with varying investment styles.

#### b The committee will regularly review the balance between different types of investment to make sure that it continues to meet the needs of the fund.

### 3.4 Risk

#### a Investment by its very nature is a risk business and the returns achieved will to a considerable extent reflect the risks taken.

#### b Investment risk includes the absolute risk of reduction in the value of assets through negative returns. It cannot be entirely avoided (for instance if all major investment markets were to decline in unison) but it can be managed by making sure that the investments of the fund are invested across a number of different assets and markets. This is widely recognised as being an effective way of minimising the risk of reductions in the value of the fund's assets.

#### c Different types of investment have different risk characteristics and return potential. Historically the returns from equities have been higher than from bonds but they are more volatile and risky. In setting the investment strategy the fund looks at the expected risks and returns from various asset classes and the correlation between these returns to target an expected return within an acceptable level of risk.

- d Investment risk also includes the risk of under-performing the fund's benchmark. This is called relative risk. The adoption of a benchmark and the explicit monitoring of performance relative to that benchmark and a performance target, constrains the fund managers from deviating significantly from the intended approach, while permitting flexibility to manage the portfolio they have been given in such a way as to enhance returns.
- e The appointment of more than one fund manager introduces a meaningful level of diversification of manager risk. Although each fund manager typically only invests in a single asset class, they are expected to maintain a diversified portfolio of investments for their individual benchmarks.
- f The Committee does not impose specific portfolio risk limits on its investment managers, as it believes the out performance target set for each manager provides sufficient guidance as to the level of risk that each manager should be taking.
- g Continuous dialogue with, and monitoring of, fund managers by the fund aids the management of investment risk for each fund manager's portfolio and for the fund as a whole.
- h The most fundamental risk is that the fund's assets produce worse returns than those assumed by the Actuary, who values the assets and liabilities every three years, and that the solvency of the fund deteriorates.

### 3.5 The expected return on investments

- a Investment performance is measured independently from the managers of the funds. This measurement is compared with specific relevant indexes every three months.
- b Each manager has a specific target to outperform their relevant index. The targets are over a three-year period.
- c If a manager fails to achieve benchmark performance in four quarters in a row, or in six quarters out of eight quarters, a formal review will take place on their strategy and choice of stocks.
- d The committee has a performance target for the fund of beating its own benchmark every year. The benchmark is set by the committee and revised from time to time. The current benchmark was formally agreed in February 2009 and introduced on 1 April 2009.
- e Longer-term performance is measured against the assumptions made by the actuary as part of the three-yearly actuarial valuation process.

### 3.6 Security of investments

- a To make investments as secure as they can be, where possible, external investments are maintained under the control of a safe custodian.
- b Most of the investments are quoted on major stock markets and may be sold quickly if necessary. The committee consider the cash-flow needs of the fund as a whole, how easily investments can be sold and the effect on the whole fund of holding investments that cannot be sold quickly when judging the suitability of new investment classes. No more than 20% of the total investments will be put into assets that we consider could not be sold quickly.
- c Only cash holdings and a small number of unit trusts stay under the control of the Chief Finance Officer.
- d Stock certificates and cash holdings are never under the control of an external manager.

### 3.7 Social, environmental and ethically responsible investment

- a The pensions committee have considered the implications of investing on a defined ethical basis. Evidence on performance and the spread of investment has led the committee to decide not to allocate funds on a specific ethical basis. Performance of ethical investments will be reviewed regularly.
- b The most effective way of understanding and influencing the social, environmental and ethical policies of those companies is by reasonable discussion with the companies it invests in, through a third party, while at the same time achieving financial returns that are compatible with the fund's longer-term financial objectives.
- c The corporate performance of companies and their value as investments are increasingly affected by social, environmental and ethical factors. To help companies to invest carefully and responsibly, the committee will encourage and support companies that have a positive response to social, environmental and ethical concerns. The committee expects companies to do the following.
  - Make a commitment to achieving recognised social, environmental and ethical best practice.
  - Regularly monitor their policies and practices.
  - Set up procedures which will lead to gradual improvements in performance.
  - Follow all current environmental and other relevant legislation and work to anticipate future changes to legislation.
  - Make available to shareholders regular and detailed reports of progress made towards maintaining and, where necessary, improving standards.
  - Work to take all reasonable and practical steps to reduce or get rid of damage to the environment.
  - Work to take all reasonable and practical steps to reduce or eliminate the company's impact on climate change.
  - Make available to shareholders information about the company's environmental and climate change impact so they can properly assess the risks to shareholders.
  - Actively and openly discuss the social, environmental and ethical effects of their business.

### 3.8 Corporate governance

- a Holding shares in public limited companies gives the fund the right to vote at company meetings. We have accepted this, and vote in line with a policy agreed by the committee.
- b The policy adopted is:
- to give external managers the power to vote on our behalf in line with their own process within industry standards and the principles of this statement;
  - for the in-house managed funds, to receive the Voting Issues Service of the Pension Investment Research Consultants (PIRC) and follow their recommendations in voting on all resolutions where practically possible; and
  - to consider individual voting issues as they arise.
- c The committee 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.
- d To achieve this responsibility, the committee uses its voting rights attached to investments to support its corporate-governance policies. The committee's voting rights are an asset and will be used to further the long-term interests of the fund's beneficiaries. 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; and
  - encourage corporate social responsibility.
- e The fund is also a member of the Local Authority Pension Fund Forum. This forum promotes the investment interests of local-authority pension funds, and makes the most of their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies they invest in.
- f The fund is also a signatory to the Financial Reporting Council (FRC) Stewardship Code.

### 3.9 Stock lending

- a The fund has a stock lending program within the limits allowed by the LGPS regulations.
- b The fund derives a useful source of relative low risk return from stock lending.

#### **4 Accounts and audit**

- a The investments of the pension fund are audited by both the internal and external auditors.
- b As soon as possible after the end of the financial year and after the external audit of the pension fund has been finished, we send each employer an annual report which includes:
  - the revenue account and balance sheet of the pension fund; and
  - any report by the auditor.
- c We hold a meeting each year, and invite representatives of employers and employees to take part. We formally present the annual report, and those present may question the committee, officers, its managers and its advisors.

#### **5 Working in line with Myners**

- a 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.

- b 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.

c 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.

d 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.

e 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.

f 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.

g 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.

6.0 Arrangements for reviewing this statement

- 6.1 This Statement of Investment Principles will be regularly reviewed by the pensions committee, particularly to ensure it continues to meet all regulatory and statutory requirements and that the level of compliance with the Myner's principles reflects the current status of the fund. Where there is significant change to the Statement the pensions committee will consult relevant stakeholders prior to amending the policy.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
July 2013**

# Financial Reporting Council Stewardship Code Statement

## **Principle 1 – Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.**

The Somerset County Council Pension Fund takes its responsibilities as a shareholder seriously. It seeks to adhere to the Stewardship Code, and encourages its appointed asset managers to do so too. Stewardship is seen as part of the responsibilities of share ownership, and therefore an integral part of the investment strategy.

In practice the fund's policy is to apply the Code both through its arrangements with its asset managers, its specialist voting advisor and through membership of the Local Authority Pension Fund Forum. The fund believes that it is better to utilise these third parties to undertake its stewardship activities as they have significantly greater experience and resources with which to research stewardship issues and engage with companies.

## **Principle 2 - Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.**

The fund encourages the asset managers it employs to have effective policies addressing potential conflicts of interest. With respect to those equity managers whose own shares fall within the scope of their mandate each has an explicit policy not to invest in their own company's, or eventual parent's, shares.

In respect of conflicts of interest within the fund, pension committee members are required to make declarations of interest prior to committee meetings and a related parties disclosure is made annually in the fund's annual report.

## **Principle 3 - Institutional investors should monitor their investee companies.**

Day-to-day responsibility for managing our equity holdings is delegated to our appointed asset managers, and the fund expects them to monitor companies, intervene where necessary, and report back regularly on activity undertaken. For the in-house managed fund we would expect PIRC, as our specialist voting advisor to monitor companies and engage with them prior to advising us on voting. Reports from our asset managers on voting and engagement activity are received by the fund on a quarterly basis and are augmented by quarterly meetings with officers and regular discussions.

In addition the fund receives an 'Alerts' service from Local Authority Pension Fund Forum which highlights corporate governance issues of concern at investee companies.

## **Principle 4 - Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.**

As highlighted above, responsibility for day-to-day interaction with companies is delegated to the fund's asset managers and PIRC, including the escalation of engagement when necessary. Their guidelines for such activities are expected to be disclosed in their own statement of adherence to the Stewardship Code.

However on occasion, the fund may itself choose to escalate activity, principally through engagement activity through the Local Authority Pension Fund Forum.

**Principle 5 - Institutional investors should be willing to act collectively with other investors where appropriate.**

The fund seeks to work collaboratively with other institutional shareholders in order to maximise the influence that it can have on individual companies. The fund seeks to achieve this through membership of the Local Authority Pension Fund Forum, which engages with companies over environmental, social and governance issues on behalf of its members.

**Principle 6 - Institutional investors should have a clear policy on voting and disclosure of voting activity.**

In respect of shareholder voting, the fund exercises all votes attaching to its UK equity holdings, and seeks to vote where practical in overseas markets. Responsibility for the exercise of voting rights has been delegated to the fund's appointed asset managers and is undertaken by officers for the in-house managed fund following voting advice from PIRC. This includes consideration of company explanations of compliance with the Corporate Governance Code. Regular reports are received from the asset managers on how votes have been cast, and controversial issues are often discussed with fund managers as they arise.

The fund discloses a summary of voting activity of each of the segregated equity funds twice a year as a committee paper, all of the committee papers are published on the County Council's website. The fund is minded to disclose in full voting activity at a given company meeting on request. A number of our asset managers and PIRC publish their voting activity (advice).

**Principle 7 - Institutional investors should report periodically on their stewardship and voting activities.**

As noted above under principle 6 fund reports semi-annually on voting and stewardship activity through a report to the Pensions Committee. This includes both fund-specific information and an overview of activity undertaken through the Local Authority Pension Fund Forum.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
July 2013**

# 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 Board**

- 4.1 The Board shall consist of 8 members and be constituted as follows:
- (a) Seven employer representatives
- (i) Four employer representative will be county councillors who are not a member of the Pension Board or Cabinet and will be selected by the Administering Authority having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
  - (ii) One employer representative of the 5 district councils that are members of the Fund to be selected by the district councils collectively having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

- (iii) One employer representative of the Police and Crime Commissioner for Avon & Somerset to be selected by the Police and Crime Commissioner having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
- (iv) one employer representative to be nominated by the remaining employers within the Fund who are not represented by (i)-(iii) above having demonstrated their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will arrange for a voting process of the qualifying employers.

(b) One scheme member representative:

- (i) To be nominated by the Unions.

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

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

4.4 The committee will also be attended by:

- an officer; and
- a specialist independent adviser. In this respect the term independent means:
  - (i) having no current employment, contractual, financial or other material interest in either Somerset County Council or any scheme employer in the Fund; and
  - (ii) not being a member of the LGPS in the Fund.

The independent advisor will be a remunerated position.

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

### **5.1 The Chair is responsible for:**

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

## **6. Conflicts of interest**

- 6.1 All members of the Committee must declare on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Committee.
- 6.2 On appointment to the Committee and following any subsequent declaration of potential conflict the conflict must be managed in line with the, the internal procedures of Somerset County Council, the requirements of the Public Service Pensions Act 2013 and the requirements of the Pensions Regulator's codes of practice on conflict of interest for Committee members.
- 6.3 The Council's Monitoring Officer shall include interests registered by all members of the Committee in the published Members' and Co-opted Members' Register of Interests. All such interests are to be registered with the Monitoring Officer within 28 days of appointment to the Committee.

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

- 7.1 All new members must follow an induction training plan and all members of the Committee will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 The Committee has adopted a training policy and all members of the Committee are expected to meet the requirements of that policy.
- 7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

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

- 8.1 The members of the Committee serve for a four year term, subject to the following:
  - (a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
  - (b) the representatives of the district councils and the Police and Crime Commissioner for Avon and Somerset can be replaced by the relevant appointing group at their behest, but with a view to maintaining stability of membership;
  - (c) the members' representative may be replaced by the Unions, but with a view to maintaining stability of membership.
- 8.2 Members of the Committee will be expected to attend all meetings and training sessions. This will be recorded and published.
- 8.3 Other than by ceasing to be eligible for appointment to the Committee, Committee members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Committee at a meeting of the Committee where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.
- 8.4 Arrangements shall be made for the replacement of Committee members in line with the procedures for their original appointment.

## **9. Meetings**

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

## **10. Quorum**

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

## **11. Voting rights**

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

## **12. Code of Conduct**

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

### **13. Allowances and Expenses**

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

### **14. Budget**

- 14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Committee will be met by the Fund.
- 14.2 The Council's Community Governance Team will provide the secretariat services to the Committee, the cost of which will be met by the Fund.

### **15. Accountability and reporting**

- 15.1 The Committee is accountable solely to the County Council for the effective operation of its functions.
- 15.3 The Committee shall report annually to Full Council on its work.

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

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

## Compliance with the guidance

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

Statutory Guidance Governance Standards and Principles	Our compliance status	Evidence of compliance and justification for non-compliance
<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>	The Pensions Committee includes representation of all the participating employers.  Scheme Members (active, pensioner and deferred) are represented through a Unison nominated representative on the Pensions Committee.
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	<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>
<p><b>C – Role of members</b></p>		
<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>	<p><b>Compliant</b></p>	<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>

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.	<b>Compliant</b>	Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.
<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 2015**

# 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.

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, which form part of the fund's Governance Policy Statement.

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.

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.

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 statement of investment principles.

### Make arrangements for managing the fund's investments.

The Committee will decide the fund's asset allocation both in terms of asset classes and investment mandates that will be managed either internally or by external fund managers.

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.

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 and the management of this contract.

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.

The strategic asset allocation of the fund is set by the Committee. Once agreed by Committee the Chief Financial Officer is responsible for the monitoring of the investment assets against the strategic asset allocation and periodically rebalancing of the fund to optimise the balancing of risk and return. The Chief Financial Officer will report on all actions in this regard to the Committee at each formal meeting.

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

### Regularly monitor investment performance.

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

The Chief Financial Officer will review the performance of all fund managers monthly and officers will meet with external fund managers quarterly 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 receive the external auditor's report annually.

Consult stakeholders, and publish the funding strategy statement, statement of investment principles 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.

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 in consultation with the Committee and instigate the valuation process. The Committee will receive the actuary's draft valuation report and approve it. 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 Committee will be informed by the Chief Financial Officer of applications from organisations who wish to join the fund as admitted bodies and any requests to alter the terms of an existing admission agreement. Where the regulations allow it the committee will approve any such applications and also may set any pre-conditions on the acceptance of new admitted bodies.

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 he 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.

### **Section 24** – exempted in full

Replaced by:

No procurement process for requirements with a value of over £25,000 will commence before the requirement has been countersigned by the Chief Financial Officer

### **Section 29** – clarification

The relevant Senior Leadership Team officer for the fund is the Chief Financial Officer.

Use of a Waiver must be approved by the Chief Financial Officer.

### **Section 30** – exempted in full

Replaced by:

Approval to accept a proposal or tender can only be given by the Chief Financial Officer.

### **Section 31** – exempted in full

Replaced by:

Every contract shall be signed on behalf of the Council, acting in its capacity as the administering authority of the Pension Fund, by 2 officers who have been given authority to do so by the Chief Financial Officer.

### **Section 35** – partial exemption

Exempt from consulting with or obtaining the approval of the Business Development Director or Legal Services.

Replaced by:

Consult with specialist legal advisors.

**Section 37 & Section 38 – partial exemption**

Exempt from having to include SCC Terms and Conditions

**Section 39, 40 & 41 – exempted in full**

Replaced by:

A contract may only be signed after having been approved by specialist legal advisors.

**Section 43 – partial exemption**

Any variations or changes will need to be approved by the Chief Financial Officer and comply with Contract Standing Orders (as modified by this Pension's Committee Scheme of Delegation).

**Section 45 – exempt from 45.1 in full**

Replaced by:

Subject to the provisions of the contract, every extra or variation will be evidenced and authorised in writing by the Council Officer responsible for the contract or the agent acting on behalf of the Council.

All variations will be reported to the Chief Financial Officer.

**Section 46 – exempted in full**

Replaced by:

Approval of the Chief Financial Officer must be sought to terminate a contract.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
March 2014**

# **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  
July 2013**

# 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 2015**

# 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.

Peninsula Pensions Responsibility	Timescale
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</b> and forward to member's home address, together with information relating to the LGPS including how to request a transfer, inform us of previous service, and complete an expression of wish form.	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  
March 2015**

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

### **Investment activity**

During the 2015-2016 financial year, the planned-asset allocation of the fund was not changed. We have continued to gradually build up the private equity investment, which has risen from 1.2% to 1.5% of the fund as we move to ultimately having 3% of the fund invested in private equity.

There have been no changes in fund managers employed by the fund during the year.

# Investment market background

## Interest rates

With the economy being slow to recover from the financial crisis the Bank of England kept UK interest rates at 0.5% for the seventh full year. The Bank did not purchase any further UK gilts under the quantitative easing program during the year.

## Investment returns

Returns for the year were negative for the whole fund over the whole year. Returns were strongly negative for the first half of the financial year, with the fund down more than 6%, before recovering most but not all of this in the second half of the year. Returns from most of the equities were in high negative single figures and low teens with the US being the exception, overseas returns were slightly better when converted to Sterling as the currency got weaker during the year. Bond returns for the year were better than equities but still not high generally. Property returns were strong with returns above 10%.

## Key market indicators

	Start of year	End of year	Percentage change for the year
<b>Base rate</b>	0.50%	0.50%	
<b>Strength of sterling</b>			
against US dollars	1.48	1.44	-3%
euro	1.38	1.26	-9%
yen	178.00	161.66	-9%
<b>Stock markets (quoted in local currency)</b>			
FTSE 100 (UK)	6,773	6,175	-9%
FTSE All Share (UK)	3,664	3,395	-7%
Dow Jones (USA)	17,776	17,685	-1%
S&P 500 (USA)	2,068	2,060	0%
FTSE Eurofirst 300 ex UK (Europe)	1,799	1,517	-16%
Nikkei 225 (Japan)	19,207	16,759	-13%
MSCI Emerging Market	975	837	-14%

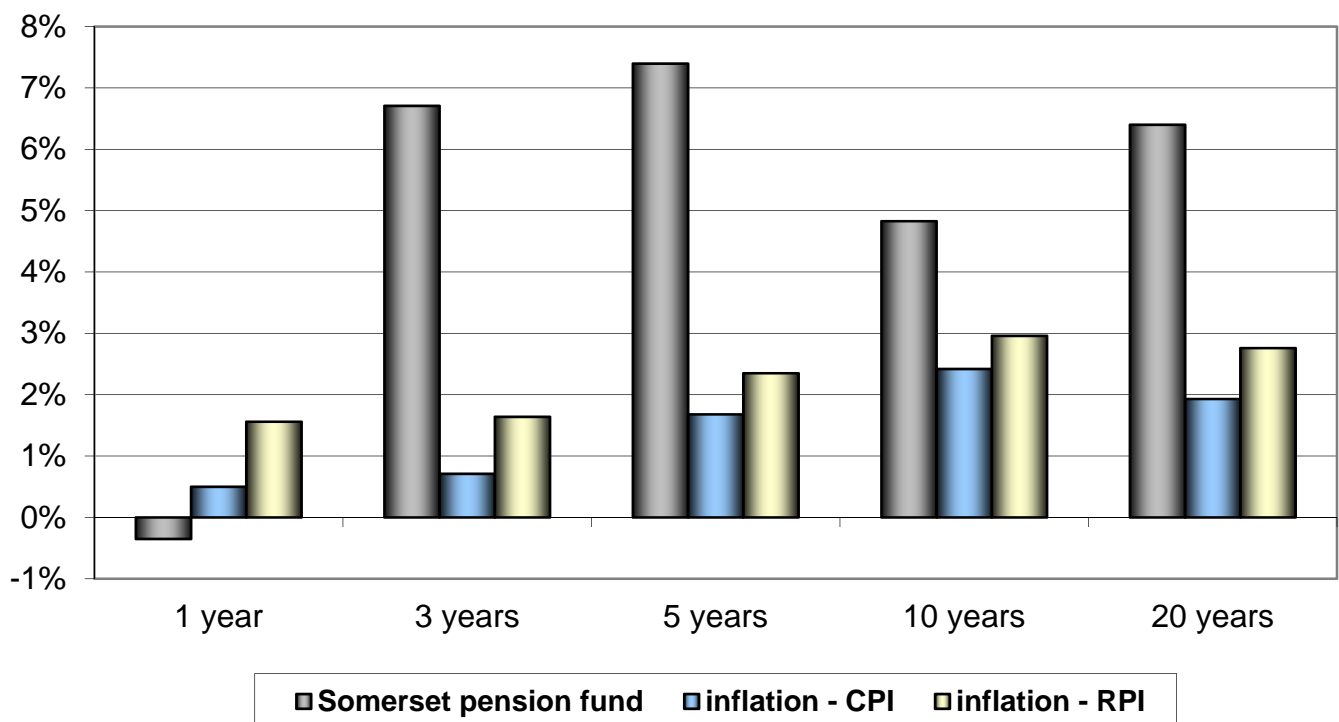
Source: Bank of England  
Bloomberg

# 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 2015/2016, the fund had a negative return and was significantly 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: WM Company  
Bloomberg

Another measure of performance is how the fund has performed against other funds with similar structures and aims (a 'peer group'). The WM Company provides us with statistics on the performance of a peer group of local-authority pension funds.

Against this peer group of local-authority funds, we are ranked 59th out of 88 funds for 2015/2016, compared with being 28th out of 84 in 2014/2015.

The aims of pension-fund management are long term so it is important to measure performance over, say, five-, 10- or 20-year periods. The WM Company statistics also give these figures for comparison.

For the five-year period, we are placed 30th out of 81 local-authority funds. Over the 10-year period, we are placed 57th out of 75 funds. Over 20 years, we are 46th out of 65 funds.

### Annualised time-weighted return

	One year %	Five years %	10 years %	20 years %
Best	4.5	11.4	9.2	8.4
Upper 25%	1.0	7.9	5.9	7.1
Weighted average	0.2	7.1	5.6	6.7
Lower 25%	-1.1	6.4	4.8	6.4
Worst	-4.7	1.7	2.6	5.2
Somerset	-0.4	7.4	4.8	6.4
Position out of 100	59	37	76	70
Ranked	52	30	57	46
out of	88	81	75	65

Source: WM Company

## Overall fund performance

The fund's total return was negative for the financial year at a return of -0.4%. 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 and is calculated for us by the WM Company. The return on our scheme-specific benchmark was -0.1% and the fund underperformed against this by 0.3%. The performance of each of the fund managers is shown in the table below.

## 1 year fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	-0.5%	0.3%	-0.8%
Standard Life	UK equity	-5.9%	-3.9%	-2.0%
Somerset County Council	Passive US equity	5.2%	5.1%	0.1%
Jupiter	European equity	9.0%	4.2%	4.8%
Nomura	Japanese equity	-4.7%	-1.7%	-3.0%
Maple-Brown Abbott	Far East equity	-9.5%	-5.4%	-4.1%
Pioneer	Emerging market equity	-4.3%	-9.1%	4.8%
Standard Life	Bonds	0.8%	1.0%	-0.2%
Aviva	Property	7.3%	10.6%	-3.3%
Neuberger Berman	Global private equity	8.3%	0.3%	8.0%
Technology Venture Partners	Venture capital	0.0%	0.3%	-0.3%
Somerset County Council	Cash	0.7%	0.3%	0.4%
<b>Whole Fund</b>		<b>-0.4%</b>	<b>-0.1%</b>	<b>-0.3%</b>

Source: WM Company

### 3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	9.2%	9.2%	0.0%
Standard Life	UK equity	3.6%	3.7%	-0.1%
Somerset County Council	Passive US equity	13.7%	13.8%	-0.1%
Jupiter	European equity	11.0%	6.5%	4.5%
Nomura	Japanese equity	6.0%	6.9%	-0.9%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	-2.6%	-2.7%	0.1%
Standard Life	Bonds	5.8%	5.7%	0.1%
Aviva	Property	10.7%	13.0%	-2.3%
Neuberger Berman	Global private equity	14.5%	0.3%	14.2%
Technology Venture Partners	Venture capital	0.0%	0.3%	-0.3%
Somerset County Council	Cash	0.7%	0.3%	0.4%
<b>Whole Fund</b>		<b>6.7%</b>	<b>6.5%</b>	<b>0.2%</b>

Source: WM Company

## 5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	9.3%	9.3%	0.0%
Standard Life	UK equity	5.9%	5.7%	0.2%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	11.1%	4.8%	6.3%
Nomura	Japanese equity	6.6%	7.2%	-0.6%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	-4.2%	-2.0%	-2.2%
Standard Life	Bonds	8.3%	8.3%	0.0%
Aviva	Property	7.4%	8.8%	-1.4%
Neuberger Berman	Global private equity	12.7%	0.4%	12.3%
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.9%	0.4%	0.5%
<b>Whole Fund</b>		<b>7.4%</b>	<b>7.3%</b>	<b>0.1%</b>

Source: WM Company

## 10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	7.8%	7.8%	0.0%
Standard Life	UK equity	2.3%	1.9%	0.4%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	9.1%	4.6%	4.5%
Nomura	Japanese equity	Initial investment in March 2010		
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	Initial investment in March 2009		
Standard Life	Bonds	Initial investment in February 2008		
Aviva	Property	2.3%	3.3%	-1.0%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Technology Venture Partners	Venture capital	0.0%	1.6%	-1.6%
Somerset County Council	Cash	Comparable data not available		
<b>Whole Fund</b>		<b>4.8%</b>	<b>5.2%</b>	<b>-0.4%</b>

Source: WM Company

# **Financial statements**

## **Our responsibilities**

**As the trustee 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 Performance; and
- manage the fund's affairs to protect its assets and make sure resources are used economically, efficiently and effectively.

### **Responsibilities of the Director of Finance and Performance**

The Director of Finance and Performance 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 2016.

In preparing this statement of accounts, the Director of Finance and Performance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and cautious; and
- followed the code.

The Director of Finance and Performance has also:

- kept proper accounting records which were up to date; and
- taken reasonable steps to prevent and detect fraud and other irregularities.

## Background

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 receives contributions and investment income to meet pension benefits and other liabilities related to a large number 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 1 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 his valuation of the fund. The rates for the 2015-2016 financial year were the second year covered by the valuation of the fund as at 31 March 2013. For Somerset County Council, for example, the employer's contribution rate for the three years covered by this valuation is 13.5% for each of the years from 2014 to 2017 plus a fixed sum of £7.17m for 2014/2015, £8.52m for 2015/2016 and £9.86m for 2016/2017. This compares with a rate of 13.5% and a lump sum of £5.83m for the 2013/2014 year set under the 2010 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 20.4% at the 2013 valuation (17.9% at the 2010 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 20.4% is made up of a rate of 13.4% for new service and 7.0% for deficit funding. As part of the 2013 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 75% 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.

## Fund Account

2014/2015		2015/2016	
£ millions   £ millions		£ millions   £ millions   Notes	
	<b>Contributions and other income</b>		
20.328	Contributions from employees	20.651	1
59.283	Contributions from employers	62.302	1
1.425	Recoveries from member organisations	1.387	1
2.552	Transfer values received	3.238	2
<b>83.588</b>		<b>87.578</b>	
	<b>Less benefits and other payments</b>		
-61.789	Recurring pensions	-64.395	1
-14.513	Lump sum on retirement	-12.323	1
-1.383	Lump sum on death	-2.070	1
-69.269	Transfer values paid	-4.755	2
-0.087	Refund of contributions to leavers	-0.418	3
<b>-147.041</b>		<b>-83.961</b>	
<b>-63.453</b>	<b>Net additions from dealings with members</b>	<b>3.617</b>	
	<b>Management Expenses</b>		
-0.993	Administrative expenses	-1.305	4
-5.063	Investment management expenses	-4.302	5
-0.599	Oversight and governance expenses	-0.650	6
<b>-6.655</b>		<b>-6.257</b>	
<b>-6.655</b>		<b>-6.257</b>	
	<b>Investment income</b>		
47.766	Investment income received	40.947	7
5.131	Investment income accrued	4.603	7
-0.679	Less irrecoverable tax	-0.756	
0.003	Other income (such as commission)	0.000	
<b>52.221</b>		<b>44.794</b>	
	<b>Change in market value of investments</b>		
69.068	Realised profit or loss	26.168	9
74.375	Unrealised profit or loss	-65.516	9
<b>143.443</b>		<b>-39.348</b>	
<b>195.664</b>	<b>Net return on investments</b>	<b>5.446</b>	
<b>125.556</b>	<b>Net increase in the net assets available for benefits during the year</b>	<b>2.806</b>	
	<b>Change in actuarial present value of promised retirement benefits</b>		
-723.812	Vested benefits	75.629	10
281.510	Non-vested benefits	21.444	10
<b>-442.302</b>	<b>Net change in present value of promised benefits</b>	<b>97.073</b>	
<b>-316.746</b>	<b>Net increase/(decrease) in the fund during the year</b>	<b>99.879</b>	
-1,117.239	Add net liabilities at beginning of year	-1,433.985	
<b>-1,433.985</b>	<b>Net liabilities at end of year</b>	<b>-1,334.106</b>	

# Net Asset Statement

On 31 March 2015 £ millions		On 31 March 2016 £ millions		Notes
	<b>Investment assets and liabilities</b>			
1,591.174	Investment assets	1,593.098		8
-0.324	Investment liabilities	-0.875		8
0.463	Other investment balances	1.772		11
	<b>Current assets</b>			
4.818	Contributions due from employers	4.920		
0.000	Cash at bank	0.002		
0.508	Other debtors	0.608		
	<b>Current liabilities</b>			
0.000	Unpaid benefits	0.000		
-0.004	Bank overdraft	0.000		
-1.423	Other creditors	-1.507		
<b>1,595.212</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>1,598.018</b>		
	<b>Actuarial present value of promised retirement benefits</b>			
-2,883.798	Vested benefits	-2,808.169		10
-145.399	Non-vested benefits	-123.955		10
<b>-1,433.985</b>	<b>Net liabilities at end of year</b>	<b>-1,334.106</b>		

## Accounting policies

The Pension Fund financial statements have also been prepared in line with the Code of Practice on Local Authority Accounting in the UK 2015/16, which is based upon the International Financial Reporting Standard (IFRS), as amended for the UK public sector.

The Fund account is prepared on a full accruals basis, with the exception of transfer values. As a result the following apply:

- investments are included at market 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;
- 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 and the Neuberger Berman Crossroads XXI fund are valued using data supplied by the funds quarterly;
- the South West Regional Venture Fund 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 8.

# Notes to the Accounts

## Note 1: Contributions and benefits

	<b>Somerset County Council £ millions</b>	<b>Other scheduled employers £ millions</b>	<b>Admitted employers £ millions</b>	<b>Total £ millions</b>
Employees' contributions				
- Normal	8.593	10.235	1.456	<b>20.284</b>
- Additional	0.178	0.171	0.018	<b>0.367</b>
Total	<u>8.771</u>	<u>10.406</u>	<u>1.474</u>	<b>20.651</b>
Employers' contributions				
- Normal	18.805	19.941	3.112	<b>41.858</b>
- Augmentation	0.718	0.389	0.203	<b>1.310</b>
- Deficit funding	8.517	9.426	1.191	<b>19.134</b>
Total	<u>28.040</u>	<u>29.756</u>	<u>4.506</u>	<b>62.302</b>
Recurring pension and lump sum payments	-39.699	-32.421	-6.668	<b>-78.788</b>
Money recovered from member organisations	0.060	1.305	0.022	<b>1.387</b>
	<u><b>-2.828</b></u>	<u><b>9.046</b></u>	<u><b>-0.666</b></u>	<u><b>5.552</b></u>

## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>County council</b>			
Somerset	8.771	28.040	36.811
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	4.534	10.472	15.006
<b>District councils</b>			
Mendip	0.284	1.071	1.355
Sedgemoor	0.548	1.992	2.540
South Somerset	0.715	2.319	3.034
Taunton Deane	0.878	2.799	3.677
West Somerset	0.000	0.260	0.260
<b>Parish and town councils</b>			
Axbridge Town Council	0.001	0.003	0.004
Berrow Parish Council	0.001	0.003	0.004
Burnham & Highbridge Town Council	0.005	0.013	0.018
Burnham & Highbridge Burial Board	0.006	0.017	0.023
Chard Town Council	0.010	0.035	0.045
Cheddar Parish Council	0.004	0.005	0.009
Crewkerne Town Council & Burial Board	0.006	0.021	0.027
Frome Town Council	0.024	0.067	0.091
Glastonbury Town Council	0.007	0.021	0.028
Ilminster Town Council	0.005	0.016	0.021
Langport Town Council	0.001	0.005	0.006
Lower Brue Drainage Board	0.032	0.085	0.117
Minehead Town Council	0.006	0.019	0.025
Nether Stowey Parish Council	0.001	0.003	0.004
Parret Drainage Board	0.001	0.003	0.004
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.004	0.010	0.014
Street Parish Council	0.003	0.009	0.012
Wellington Town Council	0.001	0.003	0.004
Wells Burial Board & Parish Council	0.023	0.034	0.057
Williton Parish Council	0.001	0.004	0.005
Wincanton Town Council	0.003	0.009	0.012
Yeovil Town Council	0.009	0.027	0.036
<b>Other bodies</b>			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.118	0.318	0.436
<b>Further-education colleges</b>			
Bridgwater College	0.606	1.462	2.068
Richard Huish Sixth Form College	0.110	0.265	0.375
Somerset College of Art and Technology	0.214	0.537	0.751
Strode College	0.134	0.349	0.483
Yeovil College	0.184	0.496	0.680

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## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Academies</b>			
Ansford Academy	0.028	0.085	0.113
Avishayes Academy	0.018	0.059	0.077
Axbridge Academy	0.011	0.035	0.046
Bath & Wells Academy Trust	0.139	0.439	0.578
Bishop Fox's Academy	0.045	0.137	0.182
Bridgwater College Academy	0.108	0.270	0.378
Brookside Academy	0.061	0.192	0.253
Bruton Sexey's School	0.047	0.129	0.176
Brymore Academy	0.052	0.154	0.206
Buckland St. Mary Church of England School	0.002	0.007	0.009
Buckler's Mead Academy	0.047	0.141	0.188
Buckler's Mead Leisure	0.003	0.009	0.012
Castle Academy	0.063	0.169	0.232
Castle Primary School	0.009	0.031	0.040
Courtfields Academy	0.041	0.124	0.165
Crispin Academy	0.050	0.186	0.236
Danesfield Academy	0.024	0.075	0.099
Enmore Academy	0.006	0.017	0.023
Hambridge Primary School	0.012	0.041	0.053
Hamp Academy	0.019	0.059	0.078
Hayesdown Academy	0.012	0.040	0.052
Haygrove Academy	0.051	0.154	0.205
Holyrood Academy	0.063	0.191	0.254
Horrington Primary School	0.006	0.019	0.025
Huish Academy	0.018	0.057	0.075
Huish Episcopi Academy	0.072	0.230	0.302
Huish Episcopi Primary Academy	0.008	0.025	0.033
King Ina C of E Academy	0.000	0.000	0.000
King Ina (Monteclefe)	0.017	0.056	0.073
Kings of Wessex Academy	0.046	0.133	0.179
Kings of Wessex Leisure	0.013	0.030	0.043
Kingsmead Academy	0.042	0.125	0.167
Maiden Beech Academy	0.028	0.083	0.111
Manor Court Primary School	0.022	0.071	0.093

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# Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Academies (continued)</b>			
Mendip School	0.002	0.007	0.009
Middlezoy Primary School	0.004	0.013	0.017
Minehead Middle School	0.039	0.116	0.155
North Town Academy	0.020	0.066	0.086
Oakfield Academy	0.031	0.097	0.128
Old Cleeve Academy	0.011	0.035	0.046
Othery Primary School	0.004	0.013	0.017
Pen Mill Academy	0.016	0.051	0.067
Preston Academy	0.048	0.145	0.193
Preston C of E Primary School	0.021	0.067	0.088
Priorswood Academy	0.015	0.049	0.064
Redstart Academy	0.025	0.073	0.098
Selwood Academy	0.037	0.114	0.151
St. Dunstan's Academy	0.023	0.074	0.097
St. Cuthbert's Academy	0.007	0.041	0.048
St. Michael's Academy	0.012	0.038	0.050
St. Peter's Academy	0.006	0.020	0.026
Stanchester Academy	0.031	0.096	0.127
Steiner Academy, Frome	0.015	0.044	0.059
Tatworth Academy	0.008	0.027	0.035
Taunton Academy	0.041	0.121	0.162
The Blue School, Wells	0.084	0.245	0.329
Weare Academy	0.008	0.026	0.034
Wedmore Academy	0.016	0.050	0.066
Wellesley Park Primary School	0.016	0.053	0.069
West Somerset Community College	0.097	0.301	0.398
Westfield Academy	0.053	0.157	0.210
Whitstone Academy	0.029	0.088	0.117
Willowdown Academy	0.012	0.039	0.051
Woolavington Academy	0.012	0.039	0.051
<b>Total other scheduled employers</b>	<b>10.406</b>	<b>29.756</b>	<b>40.162</b>

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## Note 1: Contributions and benefits (continued)

	Employees' contributions	Employers' contributions	Total
<b>Admitted bodies</b>			
Aster Communities Ltd	0.046	0.219	0.265
BAM FM	0.008	0.022	0.030
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.002	0.006	0.008
Edward and Ward Ltd	0.028	0.087	0.115
Glen Cleaning Company Ltd	0.000	0.002	0.002
Homes in Sedgemoor	0.094	0.214	0.308
ICM	0.011	0.036	0.047
Learning South West	0.013	0.049	0.062
Leisure East Devon	0.012	0.022	0.034
Magna West Somerset Housing Association	0.075	0.225	0.300
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.029	0.077	0.106
MD Building Services	0.033	0.084	0.117
MITIE	0.003	0.012	0.015
National Autistic Society	0.010	0.056	0.066
NSL Ltd	0.026	0.071	0.097
SHAL Housing Ltd	0.046	0.135	0.181
1610 Ltd	0.048	0.089	0.137
SASP	0.012	0.022	0.034
Society of Local Council Clerks	0.022	0.060	0.082
Somerset Care Ltd	0.046	0.310	0.356
Somerset Skills & Learning	0.070	0.159	0.229
Somerset Rural Youth Project	0.000	0.000	0.000
South West Audit Partnership	0.101	0.397	0.498
South West Heritage	0.079	0.191	0.270
South West Provincial Councils	0.041	0.184	0.225
Taylor Shaw Ltd	0.003	0.009	0.012
Tone Leisure Ltd	0.094	0.185	0.279
Wyvern Nursery Ltd	0.022	0.041	0.063
Yarlington Housing Group	0.494	1.526	2.020
<b>Total admitted employers</b>	<u>1.474</u>	<u>4.506</u>	<u>5.980</u>
<b>Total</b>	<u><b>20.651</b></u>	<u><b>62.302</b></u>	<u><b>82.953</b></u>

## Note 2: Transfer values

2014/2015 £ millions		2015/2016 £ millions
0.000	Group transfer values received	0.000
2.552	Individual transfer values received	3.238
<b>2.552</b>		<b>3.238</b>
-63.123	Group transfer values paid	-1.330
-6.146	Individual transfer values paid	-3.425
<b>-69.269</b>		<b>-4.755</b>

## Note 3: Refunds

2014/2015 £ millions		2015/2016 £ millions
-0.059	Contributions refunded to members who leave service	-0.222
-0.003	Interest accumulated on refunds agreed in the past	-0.001
<b>-0.062</b>		<b>-0.223</b>
-0.035	Deductions from contributions equivalent premium	-0.231
0.010	Less payments to Department for Work and Pensions contributions equivalent premium	0.036
<b>-0.087</b>		<b>-0.418</b>

#### Note 4: Administrative expenses

2014/2015 £ millions		2015/2016 £ millions
-0.216	Benefits administration costs charged by Somerset CC	-0.123
-0.749	Benefits administration costs charged by Devon CC	-1.168
<b>-0.965</b>		<b>-1.291</b>
0.000	Legal advice costs charged by Somerset CC	0.000
-0.028	External legal advice	-0.014
<b>-0.028</b>		<b>-0.014</b>
0.000	Other expenses	0.000
<b>-0.993</b>		<b>-1.305</b>

#### Note 5: Investment management expenses

2014/2015 £ millions		2015/2016 £ millions
	<b>Fund manager fees</b>	
-0.252	Aviva	-0.261
-0.689	Jupiter*	-0.574
-0.176	Maple-Brown Abbott*	-0.144
-0.191	Pioneer	-0.180
-0.042	Somerset County Council	-0.042
-1.566	Standard Life*	-1.155
-0.449	Other fund managers	-0.549
<b>-3.365</b>		<b>-2.905</b>
	<b>Other expenses</b>	
-1.246	Transaction costs	-0.886
-0.045	Custody fees	-0.043
-0.407	Property unit trust managers' fees	-0.468
<b>-1.698</b>		<b>-1.397</b>
<b>-5.063</b>		<b>-4.302</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 2015/2016 financial year are £166,000 (£781,000 in 2014/2015).

The transaction costs shown above are broken down as follows:

2014/2015		Manager	Asset Class	2015/2016	
£ millions	£ millions			£ millions	£ millions
Broker comm- issions	Taxes and Fees			Broker comm- issions	Taxes and Fees
<b>Purchase Costs</b>					
0.028	0.043	Somerset County Council	Passive global equity	0.014	0.026
0.173	0.558	Standard Life	UK equity	0.136	0.468
0.009	0.000	Somerset County Council	Passive US equity	0.004	0.000
0.012	0.002	Jupiter	European equity	0.023	0.011
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.067	0.014	Maple-Brown Abbott	Far East equity	0.021	0.002
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	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
0.289	0.617			0.198	0.507
<b>Sales Costs</b>					
0.031	0.018	Somerset County Council	Passive global equity	0.013	0.008
0.171	0.000	Standard Life	UK equity	0.112	0.000
0.010	0.001	Somerset County Council	Passive US equity	0.006	0.000
0.027	0.000	Jupiter	European equity	0.018	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.045	0.037	Maple-Brown Abbott	Far East equity	0.017	0.007
0.000	0.000	Pioneer	Emerging market equity	0.000	0.000
0.000	0.000	Standard Life	Bonds	0.000	0.000
0.000	0.000	Aviva	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
0.284	0.056			0.166	0.015
<b>0.573</b>	<b>0.673</b>			<b>0.364</b>	<b>0.522</b>
	<b>1.246</b>				<b>0.886</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.

## Note 6: Oversight and governance expenses

2014/2015 £ millions		2015/2016 £ millions
0.000	Committee services costs charged by Somerset CC	-0.010
-0.271	Investments administration costs charged by Somerset CC	-0.269
<b>-0.271</b>		<b>-0.279</b>
-0.112	Actuary's fees	-0.123
0.048	Recharge of Actuary's fees to employers	0.059
<b>-0.064</b>		<b>-0.064</b>
-0.024	External audit fees	-0.024
0.003	Fee rebate	0.000
<b>-0.021</b>		<b>-0.024</b>
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.057	Professional services and subscriptions	-0.065
-0.125	IT systems	-0.134
-0.022	Performance measurement fees	-0.023
-0.006	External legal advice	-0.015
-0.023	Voting advice fees	-0.023
0.000	Pooling costs	-0.013
-0.010	Other expenses	-0.010
<b>-0.599</b>		<b>-0.650</b>

## Note 7: Investment income

2014/2015 £ millions		2015/2016 £ millions
10.293	Fixed interest	10.209
0.672	Index linked	0.576
14.347	UK equities	14.245
13.344	Foreign equities	12.699
13.764	Property unit trusts	7.186
0.192	Cash invested internally	0.171
0.000	Venture capital	0.000
0.000	Commission recapture	0.000
0.285	Stock lending	0.464
<b>52.897</b>		<b>45.550</b>

## Note 8: Investment Assets & Liabilities

31 March 2015				31 March 2016			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>UK equities</b>							
403.005	25.3			382.638	24.0		
8.604	0.5			7.934	0.5		
<b>411.609</b>	<b>25.8</b>			<b>390.572</b>	<b>24.5</b>		
<b>Overseas equities</b>							
329.413	20.7			318.694	20.0		
161.615	10.2			164.866	10.4		
37.042	2.3			34.056	2.1		
69.320	4.4			63.182	4.0		
0.936	0.1			1.096	0.1		
3.556	0.2			3.343	0.2		
47.940	3.0			45.672	2.9		
63.497	4.0			60.977	3.8		
<b>713.319</b>	<b>44.9</b>			<b>691.886</b>	<b>43.5</b>		
<b>Bonds</b>							
41.535	2.6			42.801	2.7		
126.265	7.9			70.170	4.4		
8.915	0.6			9.366	0.6		
0.000	0.0			0.000	0.0		
5.608	0.4			62.806	4.0		
30.611	1.9			28.915	1.8		
64.468	4.0			63.979	4.0		
0.246	0.0			1.298	0.1		
<b>277.648</b>	<b>17.4</b>			<b>279.335</b>	<b>17.6</b>		
<b>Property</b>							
151.175	9.5			178.915	11.2		
3.451	0.2			3.093	0.2		
<b>154.626</b>	<b>9.7</b>			<b>182.008</b>	<b>11.4</b>		
<b>Private equity</b>							
14.031	0.9			14.252	0.9		
3.004	0.2			5.912	0.4		
0.000	0.0			1.461	0.1		
1.920	0.1			1.920	0.1		
<b>18.955</b>	<b>1.2</b>			<b>23.545</b>	<b>1.5</b>		
<b>Derivatives</b>							
1.276	0.1			0.045	0.0		
0.000	0.0			0.000	0.0		
<b>1.276</b>	<b>0.1</b>			<b>0.045</b>	<b>0.0</b>		
<b>Cash and others</b>							
13.741	0.9			25.707	1.6		
<b>13.741</b>	<b>0.9</b>			<b>25.707</b>	<b>1.6</b>		
<b>1,591.174</b>	<b>100.0</b>	<b>Investment assets</b>		<b>1,593.098</b>	<b>100.1</b>		

Table continued on next page

## Note 8: Investment Assets & Liabilities (continued)

31 March 2015				31 March 2016			
£ millions	£ millions	%	%	£ millions	£ millions	%	%
<b>Derivatives</b>							
-0.324		0.0		-0.875		-0.1	
0.000		0.0		0.000		0.0	
<b>-0.324</b>		<b>0.0</b>		<b>-0.875</b>		<b>-0.1</b>	
<u>-0.324</u>		<u>0.0</u>	<b>Investment liabilities</b>	<u>-0.875</u>		<u>-0.1</u>	
<u><b>1,590.850</b></u>		<u><b>100.0</b></u>	<b>Net investment assets</b>	<u><b>1,592.223</b></u>		<u><b>100.0</b></u>	
<b>Made up of</b>							
1,232.681			Historical cost	1,299.570			
358.169			Unrealised profit or loss	292.653			
<u><b>1,590.850</b></u>				<u><b>1,592.223</b></u>			

## Note 9: 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
2014/2015	Total	1,461.203	-33.340	1,231.301	-1,211.757	69.068	74.375	1,590.850
Somerset County Council	Global equity	404.465	0.000	47.334	-50.979	1.343	-19.061	383.102
Standard Life	UK equity	381.277	0.000	134.599	-108.328	12.362	-56.443	363.467
Somerset County Council	US equity	89.129	0.000	23.262	-26.175	-0.043	-0.614	85.559
Jupiter	European equity	92.358	0.000	27.428	-18.425	-5.009	5.091	101.443
Nomura	Japanese equity	47.940	0.000	0.000	0.000	0.000	-2.268	45.672
Maple-Brown Abbott	Far East equity	46.262	0.000	10.400	-8.110	-1.426	-4.888	42.238
Pioneer	Emerging Market equity	63.497	0.000	0.000	0.000	0.000	-2.520	60.977
Standard Life	Bonds	277.648	0.000	83.814	-74.596	-0.932	-6.599	279.335
Standard Life	Derivatives	0.705	0.000	889.761	-889.692	-0.070	-1.419	-0.715
Aviva	Property	154.626	0.000	34.142	-14.399	-14.258	21.897	182.008
Aviva	Currency	0.247	0.000	19.601	-19.601	0.000	-0.362	-0.115
Neuberger Berman	Global private equity	17.035	0.000	4.022	-0.941	0.037	1.472	21.625
TVP	UK venture capital	1.920	0.000	0.000	0.000	0.000	0.000	1.920
Somerset County Council	Cash	13.741	-22.396	0.000	0.000	34.164	0.198	25.707
<b>2015/2016</b>	<b>Total</b>	<b><u>1,590.850</u></b>	<b><u>-22.396</u></b>	<b><u>1,274.363</u></b>	<b><u>-1,211.246</u></b>	<b><u>26.168</u></b>	<b><u>-65.516</u></b>	<b><u>1,592.223</u></b>

## Note 10: 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 2016, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2013

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 2015		31 March 2016
<b>Financial assumptions</b>		
3.3%	RPI increases	3.3%
2.5%	CPI increases	2.4%
4.3%	Salary increases	4.2%
2.5%	Pension increases	2.4%
3.4%	Discount Rate	3.7%
<b>Life expectancy (from age 65)</b>		
23.7	Retiring today - Males	23.8
26.1	- Females	26.2
26.0	Retiring in 20 years - Males	26.1
28.4	- Females	28.5

The RPI increase assumption is set based on the difference between conventional gilt yields and index-linked gilt yields at the accounting date using data published by the Bank of England, specifically the 20 year point on the BoE spot inflation curve. 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.

Salary increases are assumed to increase at 1.8% per annum above CPI in addition to a promotional scale.

The discount rate is the annualised yield at the 20 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Fund's liabilities. This is consistent with the approach used at the last accounting date.

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

2014/2015 £ millions	2015/2016 £ millions
79.362 Current service cost	101.936
111.526 Interest cost	101.986
407.323 Change in financial assumptions	-241.303
0.000 Change in demographic assumptions	0.000
0.000 Experience loss/(gain) on defined benefit obligations	0.000
-95.516 Liabilities assumed/(extinguished) on settlements	-1.560
-84.602 Estimated benefits paid net of transfers in	-80.723
3.901 Past service costs, including curtailments	1.940
20.308 Contributions by scheme members	20.651
<b><u>442.302</u></b>	<b><u>-97.073</u></b>

## Note 11: Other investment balances

31 March 2015 £ millions		31 March 2016 £ millions	
<b>Assets</b>			
4.214	- Accrued income		4.577
0.917	- Accrued Recoverable tax		0.000
0.372	- Payments due on investments sold		2.044
<hr/> 5.503			<hr/> 6.621
<b>Liabilities</b>			
-5.040	- Payments not made on purchases and losses due on sales		-4.849
<hr/> 0.463			<hr/> 1.772

## Note 12: Management structure

31 March 2015 £ millions		%	Manager	Asset class	31 March 2016 £ millions	%
404.465	25		Somerset County Council	Passive global equity	383.102	24
381.277	24		Standard Life	UK equity	363.467	23
89.129	6		Somerset County Council	Passive US equity	85.559	5
92.358	6		Jupiter	European equity	101.443	6
47.940	3		Nomura	Japanese equity	45.672	3
46.262	3		Maple-Brown Abbott	Far East equity	42.238	3
63.497	4		Pioneer	Emerging market equity	60.977	4
278.353	17		Standard Life	Bonds	278.620	18
154.873	10		Aviva	Property	181.893	11
17.035	1		Neuberger Berman	Global private equity	21.625	1
1.920	0		Technology Venture Partners	UK venture capital	1.920	0
13.741	1		Somerset County Council	Cash	25.707	2
<b>1,590.850</b>	<b>100</b>		<b>Net investment assets</b>		<b>1,592.223</b>	<b>100</b>

## Note 13: Major holdings

31 March 2015				31 March 2016	
Rank	£ millions	Stock	Description	Rank	£ millions
1	63.497	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	60.977
2	47.940	Nomura Japan Fund	Pooled fund of Japanese equities	2	45.672
3	24.904	HSBC	UK bank	3	19.222
6	15.281	Schroders UK PUT	UK property unit trust	4	18.524
-	0.000	CBRE UK Property Fund	UK property unit trust	5	17.891
4	15.699	Aviva Pooled Pension PUT	UK property unit trust	6	17.215
19	11.281	IPIF	UK property unit trust	7	16.067
13	12.490	Glencore	UK mining company	8	16.000
7	15.267	Royal Dutch Shell	UK oil company	9	14.594
9	14.136	Vodafone	UK mobile phone company	10	14.423
10	14.031	Neuberger Berman Crossroads 2010 fund	Private equity fund	11	14.252
5	15.291	BP	UK oil company	12	13.277
18	11.305	BT	UK phone company	13	11.353
21	10.010	International Consolidated Airlines	UK airline company	14	11.078
11	13.619	Lloyds Bank	UK bank	15	11.024
20	10.594	Lendlease	UK property unit trust	16	11.002
22	9.836	Threadneedle Property Trust	UK property unit trust	17	10.977
44	6.361	WELPUT	UK property unit trust	18	10.504
25	9.043	Henderson UK Property Trust	UK property unit trust	19	10.049
12	12.950	Prudential	UK life insurance company	20	10.045

None of the holdings of the fund makes up more than 5% of the net investment assets. The largest holding (Pioneer Emerging Market Equity Fund) makes up 3.8% of the net investment assets.

## Note 14: 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 and bond futures.

The year end value of derivatives is as follows:

31 March 2015 £ millions				31 March 2016 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
			<b>Forward foreign-exchange contracts</b>			
1.029	-0.324	0.705	Standard Life fixed Interest	0.045	-0.760	-0.715
0.247	0.000	0.247	Aviva	0.000	-0.115	-0.115
<b>1.276</b>	<b>-0.324</b>	<b>0.952</b>		<b>0.045</b>	<b>-0.875</b>	<b>-0.830</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>1.276</b>	<b>-0.324</b>	<b>0.952</b>		<b>0.045</b>	<b>-0.875</b>	<b>-0.830</b>

Standard Life 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 Standard Life chose to hedge 100% of their currency risk.

Aviva also hold forward foreign exchange contracts to hedge the foreign exchange risk of holding investments that are not valued in sterling in their property portfolio. The non-sterling investments are 4 funds that invest in European property and are priced in euros. Typically Aviva chose to hedge 100% of their currency risk.

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 Standard Life 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 Standard Life 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.

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

31 March 2015 £ millions				31 March 2016 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
			<b>Forward foreign-exchange contracts</b>			
53.041	-52.336	0.705	Standard Life fixed Interest	43.833	-44.548	-0.715
4.304	-4.057	0.247	Aviva	2.947	-3.062	-0.115
<b>57.345</b>	<b>-56.393</b>	<b>0.952</b>		<b>46.780</b>	<b>-47.610</b>	<b>-0.830</b>
			<b>Government bond futures</b>			
4.095	-4.095	0.000	UK gilt future	1.818	-1.818	0.000
0.000	0.000	0.000	European bond future	3.396	-3.396	0.000
3.999	-3.999	0.000	Australian bond future	3.496	-3.496	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
11.084	-11.084	0.000	US treasury future	4.462	-4.462	0.000
<b>19.178</b>	<b>-19.178</b>	<b>0.000</b>		<b>13.172</b>	<b>-13.172</b>	<b>0.000</b>
<b>76.523</b>	<b>-75.571</b>	<b>0.952</b>		<b>59.952</b>	<b>-60.782</b>	<b>-0.830</b>

## Note 15: Stock Lending

31 March 2015 £ millions		31 March 2016 £ millions
117.118	Value of stock on loan	129.152
128.515	Value of collateral held against loaned stock	142.497

31 March 2015 %		31 March 2016 %
Form of collateral provided		
14.2	UK Government debt	5.5
5.6	US Government debt	3.0
25.2	Euro area Governments debt	21.3
0.0	US\$ denominated corporate debt	0.0
0.0	€ denominated corporate debt	0.0
1.9	UK equities	19.8
53.1	Overseas equities	50.4
0.0	Other	0.0
<b>100.0</b>		<b>100.0</b>

## Note 16: Membership Statistics

As at 31 March	2010	2011	2012	2013	2014	2015	2016
<b>Active scheme members</b>	<b>20,450</b>	<b>20,492</b>	<b>19,505</b>	<b>19,446</b>	<b>21,057</b>	<b>22,020</b>	<b>22,649</b>
<b>Pensioners</b>							
Current (in payment)	10,821	11,664	12,301	12,636	12,460	13,871	14,779
Deferred (future liability)	13,817	14,923	14,509	15,823	17,006	17,280	20,452
Undecided leavers *			2,307	3,135	3,147	3,754	2,507
<b>Total (active plus pensioners)</b>	<b>45,088</b>	<b>47,079</b>	<b>48,622</b>	<b>51,040</b>	<b>53,670</b>	<b>56,925</b>	<b>60,387</b>
Active members for each current pensioner	1.89	1.76	1.59	1.54	1.69	1.59	1.53

\* For 2010 to 2011 undecided leavers are included in deferred pensioners.

## Note 17: Additional voluntary contributions

During the year some members of the fund paid additional voluntary contributions (AVCs) to 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 2015</b> <b>£ millions</b>	<b>31 March 2016</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>	
4.499 Prudential	4.451
0.393 Equitable Life	0.306
<b><u>4.892</u></b>	<b><u>4.757</u></b>

<b>2014/2015</b> <b>£ millions</b>	<b>2015/2016</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>	
0.493 Prudential	0.502
0.000 Equitable Life	0.000
<b><u>0.493</u></b>	<b><u>0.502</u></b>

## **Note 18: Related Parties**

Pensions Committee members James Hunt and Sam Crabb were active members of the councillors' scheme, which is a part of the Somerset County Council Pension Scheme, during the year. Committee members Caroline Moore and Mark Simmonds were active members of the standard scheme during the year and Committee member Sarah Payne was a deferred member of the standard scheme during the year. Committee member Richard Parrish's wife is a member of the standard scheme.

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

Pension Board members Paul Deal, James Gilbody and Patricia Rowe were active members of the standard scheme during the year. Board member Mark Johnson was an active member of the standard scheme during his tenure on the Board but ceased to be a member of the standard scheme on leaving the employment of Somerset County Council and ceasing to be a Board member.

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 Standard Life, Jupiter Asset Management, Nomura Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, without referring to the county council, its officers or other member bodies. 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 4, 5 and 6.

No other related party transactions other than normal contributions, benefits and transfers occurred during the year. In note 1 we analyse the total contributions we were due to receive and benefits the fund paid for scheduled and admitted bodies.

## Note 19: 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 4, 5 and 6 of these accounts.

The total actual salary and benefits paid for the financial year ended 31 March 2016 of 2 officers who undertake work for the fund is greater than £50,000. The pay of these 2 officers 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 these 2 officers undertake for the pension fund.

Year to 31 March 2016				Total wages and benefits but not including pensions contributions 2015/16	Employer's pension contributions	Total wages and benefits including pensions contributions 2015/16
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	102,500.00	-	-	102,500.00	13,800.00	116,300.00
Strategic Manager - Finance Technical	64,400.00	-	-	64,400.00	8,700.00	73,100.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2015 is shown in the table below.

Year to 31 March 2015				Total wages and benefits but not including pensions contributions 2014/15	Employer's pension contributions	Total wages and benefits including pensions contributions 2014/15
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	£	£	£
Director of Finance and Performance	102,800.00	-	-	102,800.00	13,900.00	116,700.00
Strategic Manager - Finance Technical	63,500.00	-	-	63,500.00	8,600.00	72,100.00

## **Note 20: Statement of Investment Principles**

We have prepared a Statement of Investment Principles, 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 21: Contingent liabilities**

There were no contingent liabilities as at 31 March 2016.

## **Note 22: Post balance sheet events**

On 23 June the UK voted in a referendum to leave the European Union. At the time of publishing these Accounts the Fund believes that whilst the change in the value of the assets and assessment of liabilities since the Net Asset Statement date due to movement in financial markets is material, it is not outside the range of movement experienced in the past and it is not possible to attribute how much of this movement is due to the referendum result.

## **Note 23: 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 8 of these accounts, the approximation of the fair value of the net of these assets and liabilities at 31 March 2016 being £1,592m.

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 12 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 Sterling. The aim of the investment strategy is to manage and control market risk within acceptable parameters, while optimising the return from the investment portfolio.

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 14 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 has been provided by the WM Company, the fund's performance measurement advisor, and 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 2016 by the amounts shown below.

Asset class	Value of Assets £ millions	Volatility	Increase in Assets £ millions	Decrease in Assets £ millions
UK equities	390.572	17.90%	69.912	-69.912
Overseas equities	691.886	15.30%	105.859	-105.859
UK bonds	122.337	7.70%	9.420	-9.420
Overseas bonds	93.019	13.20%	12.279	-12.279
UK index-linked bonds	63.979	7.20%	4.606	-4.606
Property	182.008	6.20%	11.284	-11.284
Cash	25.707	0.00%	0.000	0.000
Others	22.715	7.50%	1.704	-1.704
<b>Net investment assets</b>	<b><u>1,592.223</u></b>		<b><u>215.064</u></b>	<b><u>-215.064</u></b>

## 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 £8m and all counterparties must be rated at least "BBB+" 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 £25.7m 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 15 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 14 of these accounts.

It is arguable that the fund has significant exposure to credit risk within its bond holdings, the reality is that as the perception of the credit quality of the bond issuer varies through time the market price of the bond varies accordingly, this means that the market risk of these holdings effectively encompasses the counterparty risk.

## Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. 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 £1bn 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 14 of these accounts.

The bond futures 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 24: 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 table below analyses the fund's investment assets at 31 March 2015 into the 3 levels of the fair value hierarchy.

Asset Class	Level 1 £ millions	Level 2 £ millions	Level 3 £ millions	Total £ millions
UK equities	390.572			390.572
Overseas equities	691.886			691.886
Bonds	279.335			279.335
Property funds		182.008		182.008
Private Equity funds			23.545	23.545
Forward foreign-exchange contracts	-0.830			-0.830
Government bond futures	0.000			0.000
Cash	25.707			25.707
<b>Net investment assets</b>	<b><u>1,386.670</u></b>	<b><u>182.008</u></b>	<b><u>23.545</u></b>	<b><u>1,592.223</u></b>

## **Note 25: Disclosures**

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2015-16 accounts the authority has yet to adopt the following accounting standards:

### Amendments to IAS 19 Employee Benefits (Defined Benefit Plans: Employee Contributions)

The objective of this amendment was to clarify the requirements of paragraph 93 of IAS19.

### Amendment to IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets

The objective of this amendment was to clarify the acceptable methods of depreciation and amortisation for Property, plant and equipment and Intangible assets.

### Amendments to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations)

The objective of these amendments was to provide guidance on how to account for the acquisition of an interest in a joint operation that constitutes a business. The amendments specify the appropriate accounting treatment for such acquisitions.

### Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative)

The objective of this initiative was to explore opportunities to see how those applying IFRS can improve and simplify disclosures within existing disclosure requirements. An example of some of the changes that will apply in our 2016/17 accounts are:

- Changes to the format of the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement and the introduction of the new Expenditure and Funding Analysis
- Changes to the format of the Pension Fund Account and the Net Assets Statement.

### Annual Improvements to International Financial Reporting Standards (IFRSs) 2010 – 2012 Cycle and 2012 – 2014 Cycle

The International Accounting Standards Boards (IASB) annual improvements project provides a streamlined process for dealing efficiently with a collection of amendments to IFRSs. The primary objective of the process is to enhance the quality of standards, by amending existing IFRSs to clarify guidance and wording, or to correct for relatively minor unintended consequences, conflicts or oversights. Amendments are made through the annual improvements process when the amendment is considered non-urgent but necessary.

We anticipate that none of these amendments or improvements will have a material impact on our accounts when they are applied prospectively from 1<sup>st</sup> April 2016.



**Kevin Nacey, Director of Finance and Performance**  
**July 2016**

# **Actuary's statement**

## **Introduction**

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2013 in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated March 2014.

## **2013 valuation results**

The results for the Fund at 31 March 2013 were as follows:

- the Fund had a funding level of 75% i.e. the assets were 75% 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 £445m; and
- the common contribution rate was 20.4% of pensionable pay.

## **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;
- plus an amount to reflect 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.

Details of each employer's contribution rate are contained in the Rates and Adjustment Certificate in the triennial valuation report.

## Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2013 are summarised below:

Assumption	31 March 2013
Discount rate	6.1% p.a.
Pension increases	2.7% p.a.
Salary increases	2.7% p.a. until 31 March 2015 and 4.5% p.a. thereafter
Mortality	S1PA tables with a multiplier of 90%, with projected improvements in line with the 2012 CMI model allowing for a long term rate of improvement of 1.5% p.a.
Retirement	Each member retires at a single age, weighted based on when each part of their pension is payable unreduced
Commutation	Members will convert 50% of the maximum possible amount of pension into cash

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the relevant actuarial valuation report.

The 2016 triennial valuation is currently underway and the assumptions to be adopted as at 31 March 2016 will be decided upon as part of the valuation process.

## Assets

The assumptions used to value the liabilities are smoothed based on market conditions around the valuation date, therefore the smoothed asset values are also measured in a consistent manner.

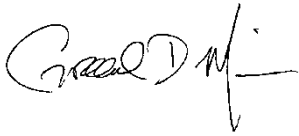
At 31 March 2013, the smoothed value of the assets used was £1,355m and this has increased to an estimated £1,567m as at 31 March 2016.

## **Updated position since the 2013 valuation**

Over the period from March 2013 to March 2016, investment returns have been slightly higher than what was assumed at the 2013 valuation. Payment of deficit contributions during the period in line with agreed contribution schedules will also have improved the funding position.

We estimate that the position at 31 March 2016 will have improved when compared on a consistent basis to 31 March 2013, but the final reported position will depend on the assumptions adopted as part of the 2016 valuation process.

The next formal valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017. The next formal triennial valuation will be carried out as at 31 March 2016 with new contribution rates set from 1 April 2017.

A handwritten signature in black ink, appearing to read 'Graeme Muir', with a stylized flourish at the end.

**Graeme Muir FFA**  
**Partner, Barnett Waddingham LLP**

# **Independent auditor's report to the Members of Somerset County Council Pension Fund**

We have audited the pension fund financial statements of Somerset County Council Pension Fund (the "Authority") for the year ended 31 March 2016 under the Local Audit and Accountability Act 2014 (the "Act"). The pension fund financial statements comprise the Fund Account, the Net Asset Statement and the related notes. 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 2015/16.

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Act 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 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.

## **Respective responsibilities of the Director of Finance and Performance and auditor**

As explained more fully in the Statement of the Director of Finance and Performance Responsibilities, the Director of Finance and Performance is responsible for the preparation of the Authority's Statement of Accounts, which includes the pension fund 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 2015/16, which give a true and fair view. Our responsibility is to audit and express an opinion on the pension fund financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

## **Scope of the audit of the pension fund financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the pension fund's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance and Performance; and the overall presentation of the pension fund financial statements. In addition, we read all the financial and non-financial information in the Authority's Statement of Accounts to identify material inconsistencies with the audited pension fund financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

## **Opinion on the pension fund financial statements**

In our opinion the pension fund financial statements:

- present a true and fair view of the financial transactions of the pension fund during the year ended 31 March 2016 and of the amount and disposition at that date of the fund's assets and liabilities and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

## **Opinion on other matters**

In our opinion, the other information published together with the audited pension fund financial statements in the Authority's Statement of Accounts is consistent with the audited pension fund financial statements.

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

July 2016

# **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 Somerset County Council Pension Fund annual report**

The accompanying Somerset County Council Pension Fund financial statements of Somerset County Council (the "Authority") for the year ended 31 March 2016 which comprise the fund account, the net asset statement and the related notes are derived from the audited pension fund financial statements for the year ended 31 March 2016 included in the Authority's Statement of Accounts. We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 28 July 2016. 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 is not a substitute for reading the audited Statement of Accounts of the Authority.

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 work has been undertaken so that we might state to the members of the Authority 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.

## **Director of Finance and Performance responsibilities for the pension fund financial statements in the pension fund annual report**

Under the Local Government Pension Scheme Regulations 2013 the Chief Financial Officer 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 Authority 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 2015/16.

## **Auditor's responsibility**

Our responsibility is to state to you whether the pension fund financial statements in the pension fund annual report are consistent with the pension fund financial statements in the Authority's Statement of Accounts in accordance with International Standard on Auditing 810, Engagements to Report on Summary Financial Statements.

In addition we read the other information contained in the Somerset County Council Pension Fund annual report and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Somerset County Council Pension Fund financial statements.

## Opinion

In our opinion, the Somerset County Council Pension Fund financial statements in the pension fund annual report derived from the audited pension fund financial statements in the Authority Statement of Accounts for the year ended 31 March 2016 are consistent, in all material respects, with those financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and applicable law.

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Grant Thornton UK LLP  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

18 October 2016

## **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  
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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://www1.somerset.gov.uk/council/boards.asp?boardnum=26>

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://www1.somerset.gov.uk/council/boards.asp?boardnum=54>

These accounts are also available on the internet at.

<http://www.somerset.gov.uk/irj/public/services/directory/service?rid=/wpccontent/Sites/SCC/Web%20Pages/Services/Services/Resources/Pensions%20-%20Pension%20Fund%20Accounts>

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