



SOMERSET COUNTY COUNCIL  
PENSION FUND  
ANNUAL REPORT AND FINANCIAL STATEMENTS  
2016/17



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# **Chairman's report**

This annual report sets out the activities of the pension fund for the year ending 31 March 2017. 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).**

In some respects it has been a relatively quiet year for the Fund. With Peninsula Pensions having taken on pension payroll last year there have been no major changes to the pension administration service this year. That is not to say Peninsula Pensions have stood still as they continue to evolve the service and improve it for our members and employers.

It has also been a relatively light year in terms of regulation with the only significant change being the introduction of new LGPS Management and investment of Funds regulations, replacing the 2009 regulations. In simple terms these regulations have removed a number of prescriptions on how we must invest the pension fund, however they also provide a mechanism for improved governance through the requirement for a new Investment Strategy Statement (ISS). The Pensions Committee approved Somerset's first ISS at our March 2017 meeting and a copy is included later in this annual report.

The final piece of the new investment regulations is the reserve powers that in effect require us to pool with other LGPS funds. As reported last year this is something we have been asked to work on by the Government ahead of the introduction of regulations and we have continued with our 9 partner funds to make excellent progress. In December the Pensions Committee approved the business case for the setting up of an FCA regulated company, owned by the ten funds, to deliver pooling. During July 2017 Brunel Pension Partnership Ltd (BPP) became a live company with a full board of directors marking a key staging point towards money being moved to being invested via BPP from April 2018.

Investment returns for the year, at 22.7%, were very strong and the best we have had for a financial year since 2009-2010. We achieved positive returns on all asset types with returns in US equity, Far East equity and emerging market equity particularly strong. UK property returns and cash returns were the weakest areas over the year.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was 0.5% above the benchmark return of 22.2%.

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 £8.3m. We expect this figure to continue to be 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. I would particularly like to thank Caroline Moore, Cllr Dawn Hill and Cllr Sam Crabb for their contributions to the committee as following the close of the year they have left the committee after many years of service. Finally I would like to thank the officers for their efforts throughout the year in providing an excellent fund for the employers and their employees.

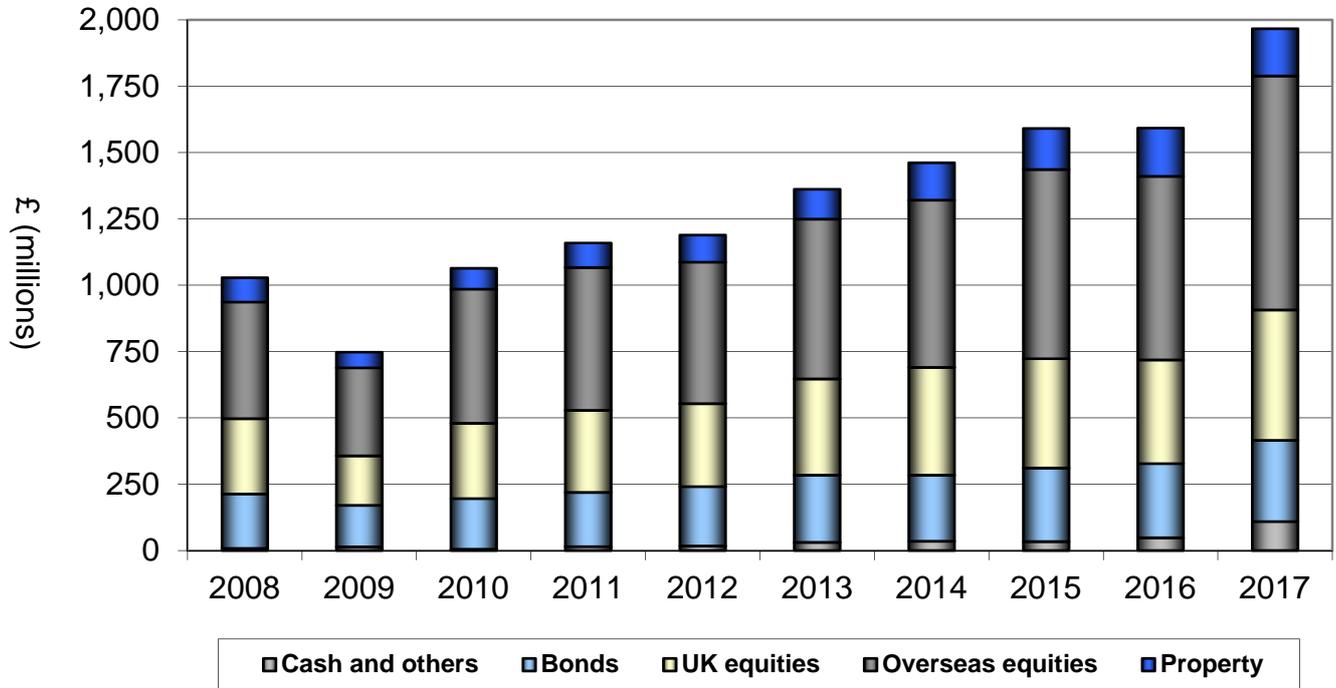
**Graham Noel**

Chairman of the pensions committee

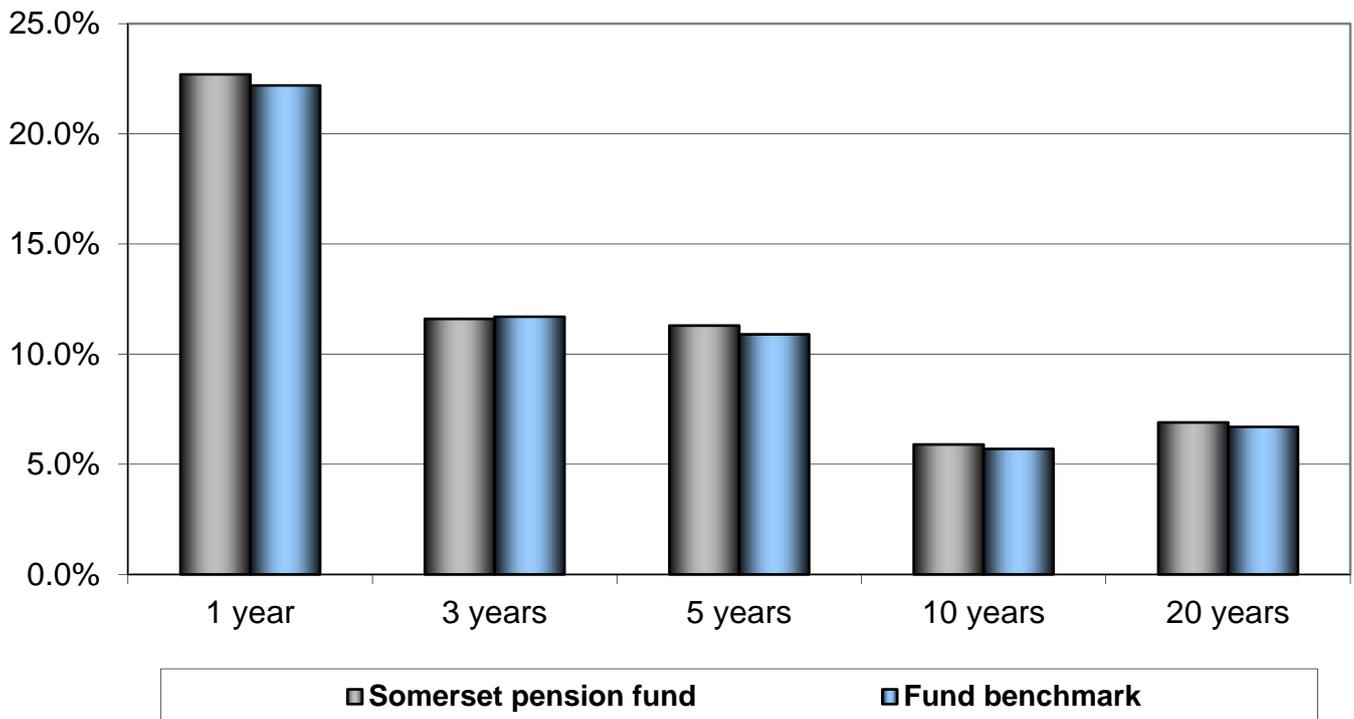
# Summary of the scheme

## Statistics

### Fund investment assets



### Annualised fund investment performance



Source: Somerset CC

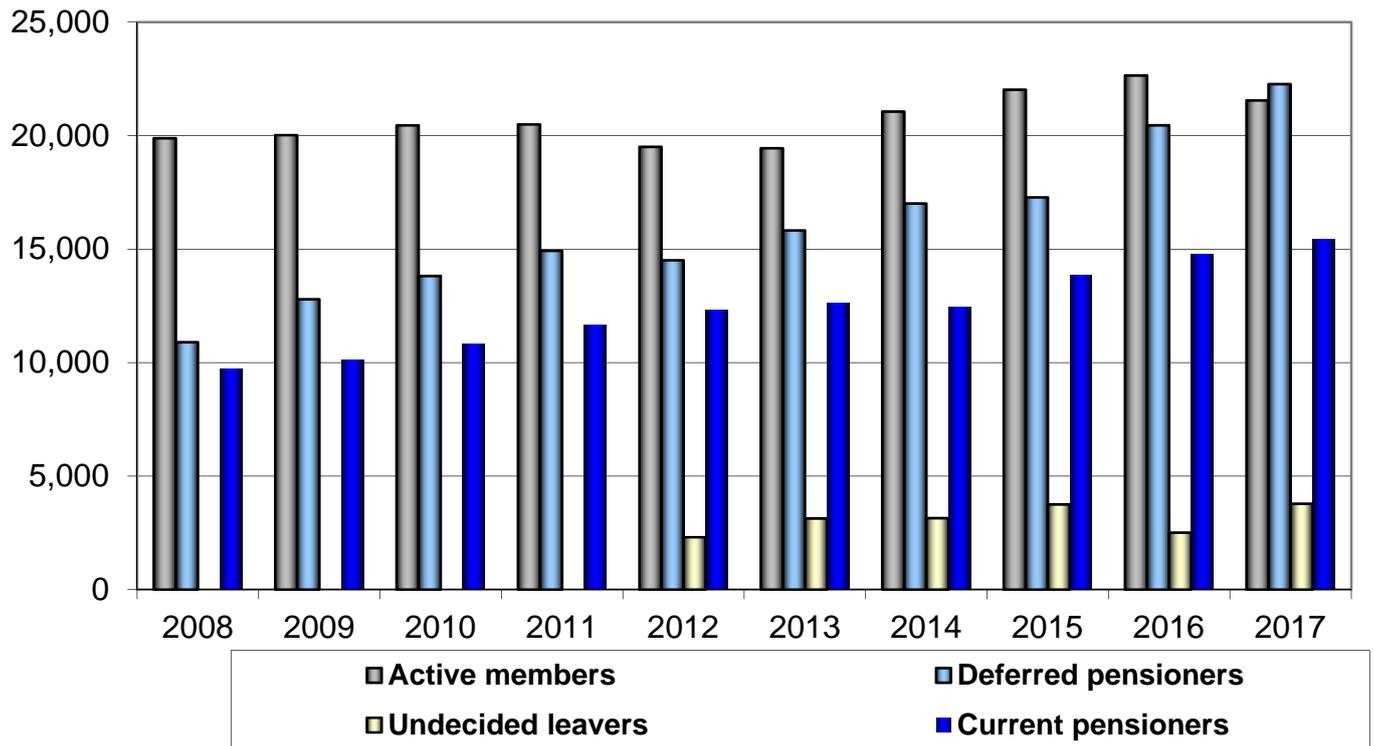
## Analysis of investment assets

	UK £m	Non-UK £m	Global £m	Total £m
Equities	459.104	420.258	493.761	1,373.123
Fixed Interest	203.008	102.970	0.000	305.978
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	177.831	2.012	28.691	208.534
Cash	78.142	0.695	0.000	78.837
Other	0.000	0.000	0.000	0.000
<b>Total</b>	<b>918.085</b>	<b>525.935</b>	<b>522.452</b>	<b>1,966.472</b>

## Analysis of investment income

	UK £m	Non-UK £m	Global £m	Total £m
Equities	13.414	6.039	10.724	30.177
Fixed Interest	5.829	4.674	0.000	10.503
Property (direct holdings)	0.000	0.000	0.000	0.000
Alternatives	10.296	1.119	0.000	11.415
Cash	0.347	0.000	0.000	0.347
Other	0.000	0.000	0.599	0.599
<b>Total</b>	<b>29.886</b>	<b>11.832</b>	<b>11.323</b>	<b>53.041</b>

## Fund membership statistics



## Employer statistics

	Active	Ceased	Total
Scheduled body	96	11	107
Resolution body	27	7	34
Admitted body	34	15	49
<b>Total</b>	<b>157</b>	<b>33</b>	<b>190</b>

## Financial Statistics – five-year trends

	2012/2013 £ millions	2013/2014 £ millions	2014/2015 £ millions	2015/2016 £ millions	2016/2017 £ millions
Income from contributions	79.234	79.350	83.588	87.578	95.316
Spending on benefits	-77.719	-77.109	-147.041	-83.961	-86.989
<b>Contributions less benefits</b>	<b>1.515</b>	<b>2.241</b>	<b>-63.453</b>	<b>3.617</b>	<b>8.327</b>
<b>Management Expenses</b>		<b>-6.175</b>	<b>-6.655</b>	<b>-6.257</b>	<b>-6.861</b>
Investment income	35.076	50.732	52.221	44.794	52.166
Change in value of investments	132.945	54.273	143.443	-39.348	318.549
<b>Net return on investments</b>	<b>168.021</b>	<b>105.005</b>	<b>195.664</b>	<b>5.446</b>	<b>370.715</b>
<b>Change in net assets</b>	<b>169.536</b>	<b>101.071</b>	<b>125.556</b>	<b>2.806</b>	<b>372.181</b>

## Value for money statistics

	2013/2014	2014/2015	2015/2016	2016/2017
Administration expenses (£m)	1.316	0.993	1.305	1.157
Investment management expenses (£m)	4.309	5.063	4.302	4.964
Oversight and governance expenses (£m)	0.550	0.599	0.650	0.740
<b>Total expenses</b>	<b>6.175</b>	<b>6.655</b>	<b>6.257</b>	<b>6.861</b>
Administration expenses per member	25.14	17.96	22.25	18.75
Total expenses per member	117.94	120.35	106.67	111.20
Investment expenses (p) per £ of assets	0.31	0.33	0.27	0.28
Total expenses (p) per £ of assets	0.44	0.44	0.39	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

	2012/2013	2013/2014	2014/2015	2015/2016	2016/2017
Income yield on average assets	3.02%	3.65%	3.47%	2.86%	2.98%
Average pension in payment (£)	4,531	4,736	4,693	4,495	4,514

# **Pensions committee**

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

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

The following committee was in place for the full financial year covered by this report.

## **Graham Noel (Chairman)**

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

## **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 2016/2017, the committee formally met four times. At each of these meetings (quarterly) the committee received a report on the investment performance of the fund for the previous quarter and any related information, an update on the committee business plan and workplan, an update on the fund's risk register and an update on the budget and membership statistics of the fund. They also receive an update on the status of all outstanding matters relating to the 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. The pool that the Somerset Fund has chosen to join is called the Brunel Pension Partnership's (BPP). The Somerset Fund is part of BPP along with 9 other like-minded LGPS Funds, loosely based in the South West of England. More detail on BPP and its progress towards pooling can be found on its website via the following link:

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

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	4	1	0	
<b>Committee members</b>				
Graham Noel (Chairman)	4	1		
Sam Crabb	3	1		2
Dawn Hill	2			
James Hunt	4	1		
Richard Parrish	2			
Mark Simmonds	2			
Caroline Moore	2	1		
Sarah Payne	3	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 2017 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 Investment Strategy Statement respectively. Copies of each of these statements can be found later in this annual report. These are supported by monthly monitoring of investment exposures, risk and performance by officers and quarterly reporting to committee.

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

## **Financial management**

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

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

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

Copies of the most recent investment returns and budget information can be found with all of the other committee papers on the Somerset County Council website, there is a link on the last page of this annual report.

## **Exercise of shareholder rights at company meetings**

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

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

For the in-house managed funds a specialist company is retained to provide analysis and advice on how we should vote our shares, the current provider is PIRC.

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.

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.

#### **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.

#### **Vacancy**

There is currently a vacancy for a member representative on the Board.

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

During the financial year 2016/2017, the board formally met twice. At each meeting the Board receives an update on the their business plan and workplan, an update on the fund's risk register and review of all of the papers presented to the Pensions Committee. At one of the meetings the Board also received an update on the performance of the administration of members and benefits.

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

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.

## 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.

	<b>Committee meetings</b>	<b>Annual meeting</b>	<b>Internal training days</b>	<b>Conference days</b>
Number of meetings	2	1	0	
<b>Committee members</b>				
Mark Healey (Chairman)	2			
Paul Deal	2	1		
Tim O'Connor	0			
James Gilbody	1			
Patricia Rowe	2	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**

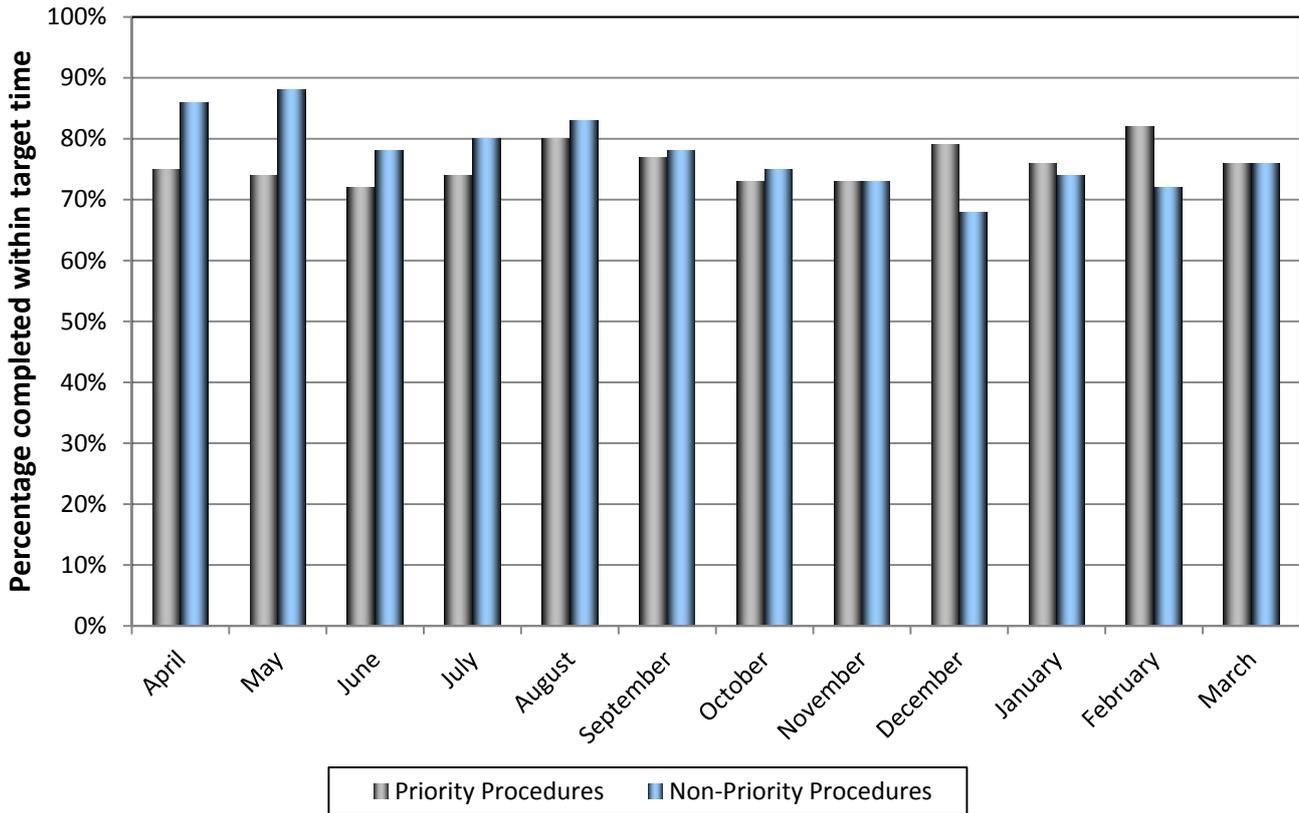
Membership administration involves all the tasks necessary to maintain the records of each of the members of the fund, be they active members (those currently paying in contributions), deferred (have paid into the fund in the past but are not currently contributing or drawing a pension) or pensioners.

Since September 2013 this service has been provided by Peninsula Pensions. Peninsular Pensions is a shared service with Devon County Council that provides membership administration to both pension 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 is also available. The website address is

[www.peninsulapensions.org.uk](http://www.peninsulapensions.org.uk).

## Peninsula Pensions performance results 2016-17



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 2016/17 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 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 2016/17 there were 5 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 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

Bank of England Base Rate

### Type of Investments

Cash deposits and Money Market Funds

### Allocation of the fund

The target allocation is 1% of the whole fund.

### Appointed

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

## 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 £277.9 billion of assets under management on behalf of clients worldwide (as at 31 December 2016) invested across a wide range of geographies and investment capabilities.

With headquarters in Edinburgh, Standard Life Investments employs approximately 1,700 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 £46.9 billion (as at 31 March 2017) 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**

Nomura Asset Management is a leading global investment manager with over US\$426 billion of assets under management (as of March 2017). Headquartered in Tokyo, Nomura has additional investment offices throughout the world including London, Singapore, Malaysia, Hong Kong, Shanghai, Taipei, Frankfurt and New York. With a global workforce of over 1,200 employees it has been operating in Europe for the past 30 years.

Today Nomura Asset Management provides its clients with a wide range of innovative investment strategies including global, regional and single country equities, high yield bonds, alternative investments and global fixed income strategies.

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 51 people comprises 24 investment professionals, the senior members of whom have worked together for over 18 years. Maple-Brown Abbott's diversified business manages AUD\$12.65 billion as at 31st May 2017.

### **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**

Pioneer Investments was acquired by Amundi Asset Management with effect from 3<sup>rd</sup> July 2017.

With over €1.3 trillion in assets under management as of December 2016, Amundi is Europe's largest asset manager by assets under management and ranks in the top 10 globally. Amundi offers its clients in Europe, Asia-Pacific, the Middle-East and the Americas a wealth of market expertise and a full range of capabilities across the active, passive and real assets investment universes. Leveraging the benefits of its increased scope and size, Amundi has the ability to offer new and enhanced services and tools to its clients.

Thanks to its unique research capabilities and the skills of 5,000 team members and market experts based in 37 countries, Amundi provides retail, institutional and corporate clients with innovative investment strategies and solutions tailored to their needs, targeted outcomes and risk profiles.

Amundi SA, the parent company of Amundi Asset Management, is listed on the Paris stock exchange.

### **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 £349 billion of assets across real estate, fixed income, money market, equity, multi-asset and multi-strategy portfolios as at 31 March 2017. Aviva Investors employs over 420 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

Neuberger Berman, founded in 1939, is a private, independent, employee-owned investment manager. The firm manages equities, fixed income, private equity and hedge fund portfolios for institutions and advisors worldwide through customised separately managed accounts and commingled vehicles. With offices in 19 countries, Neuberger Berman's team is approximately 1,900 professionals and manages US\$271 billion in client assets as of 30 June 2017. Tenured, stable and long-term in focus, the firm fosters an investment culture of fundamental research and independent thinking.

Neuberger Berman's Private Equity Platform is a significant investor in the asset class, with over US\$50 billion of commitments (capital that is promised but may not yet have been invested) managed for more than 600 institutional limited partners globally across primaries, secondaries, direct co-investments, private credit and other specialty strategies.

### 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 13 of the accounts on page 142.

## 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 \$22.1 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 is the UK's largest independent provider of actuarial, administration and consultancy services.

The firm comprises 68 partners and over 880 employees including more than 125 actuaries and over 50 Defined Contribution specialists, spread across seven offices throughout the UK. They were founded in 1989 and the business has grown predominantly through referrals from clients and professional contacts.

Although mainly providing actuarial advice to defined benefit pension funds including 25% of all Local Authority Pension Funds, they also provide other services which include:

- Investment consultancy
- Pension scheme administration
- Specialist defined contribution and investment consultancy
- Public sector benefits consultancy
- Insurance actuarial consultancy
- Longevity consultancy
- Pension and investment consultancy and products for individuals

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 more than 925 staff and partners working in 24 locations in major financial and commercial centres in the UK and internationally. 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.

## **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 72 local authority pension funds from across the country with combined assets of over £200 billion. It aims to bring about improvements in the way companies are run, such as improvements in corporate governance, of the companies in which member funds invest. LAPFF is also concerned with promoting corporate social responsibility on environmental issues and issues relating to overseas employment standards. It does this by working with company boards to encourage them to improve standards.

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

## Contributions and benefits

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

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

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

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

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

### Contributions

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

Contribution rate	Salary range 2015-2016	Salary range 2016-2017	Salary range 2017-2018
5.50%	£0 to £13,600	£0 to £13,600	£0 to £13,700
5.80%	£13,601 to £21,200	£13,601 to £21,200	£13,701 to £21,400
6.50%	£21,201 to £34,400	£21,201 to £34,400	£21,401 to £34,700
6.80%	£34,401 to £43,500	£34,401 to £43,500	£34,701 to £43,900
8.50%	£43,501 to £60,700	£43,501 to £60,700	£43,901 to £61,300
9.90%	£60,701 to £86,000	£60,701 to £86,000	£61,301 to £86,800
10.50%	£86,001 to £101,200	£86,001 to £101,200	£86,801 to £102,200
11.40%	£101,201 to £151,800	£101,201 to £151,800	£102,201 to £153,300
12.50%	More than £151,801	More than £151,801	More than £153,301

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.

	2016/2017		2017/2018		2018/2019		2019/2020	
	% of Payroll	Cash payment £m						
Common fund rate	20.4%	0.000	22.9%	0.000	22.9%	0.000	22.9%	0.000
Somerset County Council	13.5%	9.860	15.5%	12.215	15.5%	12.507	15.5%	12.806
Mendip District Council	12.8%	0.590	14.9%	0.815	14.9%	0.834	14.9%	0.854
Sedgemoor District Council	13.0%	1.030	14.9%	1.555	14.9%	1.592	14.9%	1.630
South Somerset District Council	13.9%	1.040	16.1%	1.240	16.1%	1.621	16.1%	1.659
Taunton Deane Borough Council	13.5%	1.220	15.4%	1.899	15.4%	1.944	15.4%	1.990
West Somerset District Council	12.9%	0.310	26.5%	0.504	26.5%	0.516	26.5%	0.528
Avon and Somerset Police	11.0%	2.880	13.2%	2.808	13.2%	2.875	13.2%	2.944
Further education colleges	13.0%	Variable	13.8% to 16.2%	Variable	13.8% to 16.2%	Variable	13.8% to 16.2%	Variable
Academies	18.1%	0.000	20.9%	0.000	20.9%	0.000	20.9%	0.000
Town councils	14.9%	Variable	17.8%	Variable	17.8%	Variable	17.8%	Variable
Admitted organisations	11.0% to 25.1%	Variable	9.3% to 24.4%	Variable	9.3% to 24.4%	Variable	9.3% to 24.4%	Variable

A full actuarial valuation of the fund was carried out as at 31 March 2016 and this showed a funding level of 77.4%. This was higher than the level at the 2013 valuation. Despite an increase in the funding level at the 2016 valuation there were increases in the contribution rates of most of the employers within the fund. Most employers have been asked to make payments towards the funding deficit as prescribed cash amounts rather than as a percentage of payroll. This approach has been taken to ensure the deficit reduction plan is not affected by changes in the size of the employee base as local government undergoes a period of considerable change.

A further valuation of the fund is due using data from 31 March 2019. This will set employers' contribution rates for the following three years and confirm the funding level.

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

### **Major benefits**

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

### **Other benefits**

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

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

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. The increase applied from April 2016 was 0.0%.

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

# **Principles and policies**

The statements, policies and principles listed below are those that were in place at 31<sup>st</sup> March 2017.

## **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**

# Investment strategy statement

## 1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The regulations provide a prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Somerset Fund as well as providing transparency in relation to how Fund investments are managed.

The Somerset CC Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

The Fund aims to be a long term investors, it seeks to invest in productive assets that contribute to economic activity, such as equities, bonds and real assets. The Fund diversifies its investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- The Somerset Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- The Somerset Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- The Somerset Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- The Somerset Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Somerset CC Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Pensions Committee at least triennially, or more frequently should any significant change occur.

## 2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

In line with the Fund's Funding Strategy Statement, the committee has set an objective of the fund being at or above a 100% funding level, as calculated by the fund's actuary at the triennial valuation, so that it can meet its current and future liabilities.

In order to meet these overriding objectives the Fund maintains an investment strategy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

The Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management can add value to returns, albeit with higher short-term volatility.

The Pensions Committee annually adopts a target return for the investment funds as a whole. This target return is set with specific reference to the investment return assumed by the actuary as part of the valuation process and therefore explicitly links the Fund's targeted level of return with achieving and maintaining a future funding level of 100%.

In order to translate the above objectives and beliefs into a set of investment mandates for practical management of the investments the Pension Committee have created a customised benchmark for the Fund. The customised benchmark is an amalgamation of specific benchmarks for each investment mandate, which is then given to an investment manager (internal or external) for day to day management.

The customised benchmark sets out the intended long term weighting to various types of investment (or asset classes), such as equities, bonds and property and reflects the Pension Fund's investment strategy. The customised benchmark seeks to balance the affordability of contributions with the risk of different types of investments.

The Investment strategy and customised benchmark are reviewed by the Pensions Committee annually to ensure they continue to meet the Fund's investment objectives.

The Actuary considers the Pension Fund's assets in broad terms – growth assets and stabilising assets. The table below splits the customised benchmark between these categories, along with an overview of the role each asset plays:

<b>Asset Class</b>	<b>Strategic Allocation</b>	<b>Role(s) within the strategy</b>	<b>Geography</b>	<b>Currency</b>
<b>Equities</b>				
Global Passive	23%	Growth Inflation protection	Diversified	Diversified
UK Active	23%	Growth Inflation protection	UK	GBP
US Passive	5%	Growth Inflation protection	US	USD
Europe Active	5%	Growth Inflation protection	Europe ex-UK	Diversified
Japan Active	3%	Growth Inflation protection	Japan	JPY
Far East Active	3%	Growth Inflation protection	Diversified	Diversified
Emerging Market Active	5%	Growth Inflation protection	Diversified	Diversified
<b>Total</b>	<b>67%</b>			
<b>Bonds</b>				
UK Gov't Bonds	4%	Stabilising	UK	GBP
UK Gov't Index linked bonds	4%	Stabilising Inflation protection	UK	GBP
Investment Grade corporate bonds	8%	Stabilising	Diversified	GBP
High yield bonds	3%	Stabilising	Diversified	Diversified
<b>Total</b>	<b>19%</b>			
<b>Other</b>				
Property	10%	Growth Inflation protection	UK	GBP
Private equity	3%	Growth	Diversified	Diversified
Cash	1%	Liquidity	UK	GBP
<b>Total</b>	<b>14%</b>			

The Fund's benchmark currently includes a significant holding in 'growth' assets, specifically equities, reflecting its need for higher returns than from government bonds in the long term. These long term returns form part of the Actuary's assumptions and mean that employer contributions can be kept lower.

Actual asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly by officers and they have delegated authority to rebalance the assets taking into account market conditions and other relevant factors. The actual asset allocation and the actions taken by officers are reported to the Pensions Committee regularly.

### 3. Risk measurement and management

Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The key investment risks that the Fund is exposed to are:

- The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.
- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by investment managers.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark.

The Fund is also exposed to operational risk; this is mitigated through:

- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

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

The Fund's Funding Strategy Statement specifically covers the risks with respect to Funding and how these are managed by the Fund.

#### **4. Approach to asset pooling**

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

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

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

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

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

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

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

## 5. Social, environmental and corporate governance policy

The Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Fund is also mindful of its responsibilities as a long term shareholder, and the Pensions Committee regularly considers the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:

- The Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- Social, environmental and ethical concerns will not inhibit the delivery of the Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Fund invests in. For example, the Fund will not require any form of dis-investment from fossil fuels, tobacco or such like.
- It is recognised, however, that the interests of investors on social etc. grounds may coincide with those solely on investment grounds in which case there will be no conflict of interest. Indeed, the Committee believes that in the long run, socially responsible and fiduciary investment will tend to come together since adverse performance on social, environmental or ethical issues will ultimately be reflected in share prices.
- The Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. In the example of fossil fuels, this will mean engaging with oil companies on how they are assessing their business strategy and capital expenditure plans to adapt to changes in cost base and regulation that will ensure the continued delivery of shareholder returns in the medium to long term. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Council's investment managers will vote in accordance with the Fund's interest on investment grounds.
- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund therefore expects its investment managers to monitor and manage the associated risks. As the Fund moves towards the new arrangements for the pooling of investments it will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.

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

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

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

<http://www.somerset.gov.uk/information-and-statistics/financial-information/budgets-and-accounts/>

The Funds policy on the exercise of voting rights is:

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

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

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

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

As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities. More information is on the BPP website:

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

## **7. Advice taken**

This Investment Strategy Statement has been put together by Somerset County Council's professional investment officers, supported by the Fund's Independent Investment Advisor.

The Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from the Brunel Client Officer Group project team has also been taken into account in shaping the Fund's response to the pooling initiative and building an investment strategy that can be implemented via BPP Ltd. once it becomes operational.

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire CC, Cornwall Council, Devon CC, Dorset CC, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

## **8. Arrangements for reviewing this statement**

The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.

This Investment Strategy Statement will be regularly reviewed by the pensions committee, particularly to ensure it continues to meet all regulatory and statutory requirements. Where there is significant change to the Statement the pensions committee will consult relevant stakeholders, particularly the Pension Board, prior to amending the policy.

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

## Annex 1

### Working in line with Myners

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

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

#### Principle 1: Effective Decision Making

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

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

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

#### Principle 2: Clear Objectives

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

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

### Principle 3: Risk and Liabilities

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

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

The fund is fully compliant with this principle.

### Principle 4: Performance Assessment

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

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

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

### Principle 5: Responsible Ownership

**Administering authorities should:**

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

The fund is fully compliant with this principle.

## Principle 6: Transparency and Reporting

### **Administering authorities should:**

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

The fund is fully compliant with this principle.

# 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>	Our in-house officer expert advisors attend all Pension Committee meetings, including the Chief Financial Officer, investments manager and fund administration manager.  The appointed actuary, external auditors and performance advisors also attend on an ad-hoc basis at least once per annum.

<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>
<p>b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.</p>	<p><b>Compliant</b></p>	<p>Since the inauguration of the Pension Committee the declaration of interests by members has been a standing item on the agenda.</p>

<b>D – Voting</b>		
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	<b>Compliant</b>	All members of the Pensions Committee have full voting rights.
<b>E – Training, facility time and expenses</b>		
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	<b>Compliant</b>	<p>A formal training policy for members has been adopted by the Pensions Committee.</p> <p>The Committee forward work plan provides for specifically tailored training days, together with access to, and support for, external training provision and attendance at appropriate seminars.</p> <p>All members are encouraged to undertake regular training including attendance at the specific training days.</p> <p>All costs in relation to training, including expenses are met from, and reimbursed by, the Pension Fund as appropriate.</p>

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	<b>Compliant</b>	All Pensions Committee members have equal access and rights to training and related support.
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken	<b>Compliant</b>	A training policy has been adopted by the Pensions Committee under which attendance at Committee meetings and training undertaken will be reported annually.
<b>F – Meetings (frequency/quorum)</b>		
a) That an administering authority's main committee or committees meet at least quarterly.	<b>Compliant</b>	The Pensions Committee meets on a quarterly basis and forward dates have been agreed for at least twelve months in advance. A forward meeting plan is also in place
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	<b>Not Applicable</b>	There are no secondary committees or panels in place.
c) That an administering authorities who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	<b>Compliant</b>	The Pensions Committee does include lay members and this allows for the representation of all key stakeholders.

<b>G – Access</b>		
a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	<b>Compliant</b>	All members of the Pensions Committee receive the same agenda and papers containing advice for each meeting. All our Pensions Committee members can ask questions of our professional advisors who attend the Pensions Committee meetings.
<b>H – Scope</b>		
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	<b>Compliant</b>	<p>Each meeting of the Pensions Committee receives a report on the performance of our pension fund, progress against the Forward Business Plan and key issues in respect of benefits administration.</p> <p>The Committee also receives regular reports and updates on approved policies including the communications policy statements.</p> <p>There are also annual reports from the appointed actuary, external auditor and performance advisors.</p>

## I – Publicity

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

### **Compliant**

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

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

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

## **Local Pensions Board**

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

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

#### **TERMS OF REFERENCE**

##### **1. Introduction**

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

##### **2. Definitions**

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

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

3.1 The regulations state that the role of the Board is to assist the Administration Authority to:

(a) secure compliance with:

- the LGPS Regulations;
- any other legislation relating to the governance and administration of the LGPS; and
- the requirements imposed by the Pensions Regulator in relation to the LGPS, and

(b) ensure the effective and efficient governance and administration of the LGPS.

3.2 The Board will assist the Administering Authority by making recommendations about compliance, process and governance. The Board does not have a decision making role with regard to strategy or policy and can only challenge decisions made by the Pensions Committee where the Board considers a decision to be in breach of the relevant Regulations (or overriding legislation). The Board's role is to have oversight of the governance process for making decisions and agreeing policy.

3.3 In discharging its role, the Board's remit shall cover all aspects of governance and administration of the LGPS, including funding and investments. The Board must have regard to advice issued by the Scheme Advisory Board in accordance with section 7(3) of the Public Service Pensions Act 2013.

3.4 The Board will exercise its duties in the following areas:

- (a) monitor compliance with the relevant legislation and Codes of Practice set by The Pensions Regulator;
- (b) review and ensure compliance of the Fund's:
  - (i) governance compliance statement
  - (ii) funding strategy statement
  - (iii) pension administration strategy statement
  - (iv) discretionary policy statement
  - (v) communications policy statement
  - (vi) statement of investment principles
  - (vii) annual report and accounts
- (c) review and scrutinise the performance of the Fund in relation to its governance and administration, policy objectives and performance targets;
- (d) ensure policies and processes are in place so that employers comply with their obligations under the regulations;
- (e) review the processes for setting strategy, policy and decision-making and ensure they are robust;
- (f) agree the annual internal audit plan for the Fund;
- (g) consider the output of any internal audit work carried out on the Fund;
- (h) consider the external audit report on the Fund's Annual Report and Statement of Accounts;
- (i) review the Fund's risk register;
- (j) monitor the Fund's Internal Dispute Resolution Procedures;
- (k) from time to time the administering authority may consult the Board or ask assistance on specific issues.

3.5 Under Regulation 106(8) the Board has the general power to do anything which is calculated to facilitate or is conducive or incidental to, the discharge of its functions.

3.6 The Board must always act within its Terms of Reference.

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

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

(a) Three employer representatives

- (i) one employer representative will be a county councillor who is not a member of the Pension Committee and will be selected by the Administering Authority having taken account of their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the Local Government Pension Scheme;
- (ii) two employer representatives to be nominated by the employers having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

(b) Three scheme member representatives

- i) two members representatives will be nominated by the recognised trade unions having demonstrated their capacity to represent other scheme employers, their relevant experience and their knowledge and understanding of the LGPS;
- ii) one members representative will be open to all scheme members. The administering authority shall contact scheme members advising them of the role and seeking nominations and asking them to demonstrate their capacity to represent other scheme members, their relevant experience and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will carry out a selection process.

4.2 Due to the specialist knowledge requirements of Board members, substitutes to the appointed members of the Board are not permitted.

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

5.1 The Chair is responsible for:

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

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

## **6. Conflicts of interest**

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

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

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

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

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

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

## **9. Meetings**

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

## **10. Quorum**

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

## **11. Voting rights**

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

## **12. Code of Conduct**

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

## **13. Allowances and Expenses**

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

## **14. Budget**

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

## **15. Accountability and reporting**

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

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

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

### **Arrangements for reviewing this policy**

This policy statement will be regularly reviewed by the pensions committee. If we need to make any significant changes, we will consult all employers whose employees are members of the fund and publish the amended policy.

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

Employer Responsibility	Timescale to inform Peninsula Pensions using Employer Self Service or other agreed methods
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.	<p><b>Retirees preferably at least 1 month before date of leaving..</b> All within 5 working days of final payday.</p> <p><b>Leavers under age 55</b> within 1 month from final payday.</p>
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 a <b>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.

<p>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.</p>	<p>Peninsula Pensions will maintain links to these discretions on their website.</p>
<p>Notification of Pension Fund Triennial Valuation results including contributions rates</p>	<p>Assuming information provided by Actuaries provisional results December following valuation, with final results the following March</p>

## 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 2016-2017 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 1.5% to 1.6% 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

Following on from the UK referendum on EU membership and the “leave” outcome of that referendum, in August the Bank of England lowered their base rate by 0.25% to 0.25%. The Bank of England also expanded their quantitative easing program by buying a further £75bn of UK government Gilts and £10bn of corporate bonds.

## Investment returns

Returns for the year were strongly positive for the whole fund over the whole year. Returns were consistently strong with specific bursts just after the Brexit vote in the UK and the presidential vote in the US. Returns from most of the equities were in the high teens in local currency terms with returns significantly higher for UK based investors due to the significant fall in the value of Sterling. Bond returns for the year were worse than equities but still produced double digit returns. UK property returns were significantly more modest in the 3% to 5% range.

## Key market indicators

	Start of year	End of year	Percentage change for the year
<b>Base rate</b>	0.50%	0.25%	
<b>Strength of sterling</b>			
against US dollars	1.44	1.26	-13%
euro	1.26	1.18	-7%
yen	161.66	139.81	-14%
<b>Stock markets (quoted in local currency)</b>			
FTSE 100 (UK)	6,175	7,323	19%
FTSE All Share (UK)	3,395	3,990	18%
Dow Jones (USA)	17,685	20,663	17%
S&P 500 (USA)	2,060	2,363	15%
FTSE Eurofirst 300 ex UK (Europe)	1,517	1,738	15%
Nikkei 225 (Japan)	16,759	18,909	13%
MSCI Emerging Market	837	958	15%

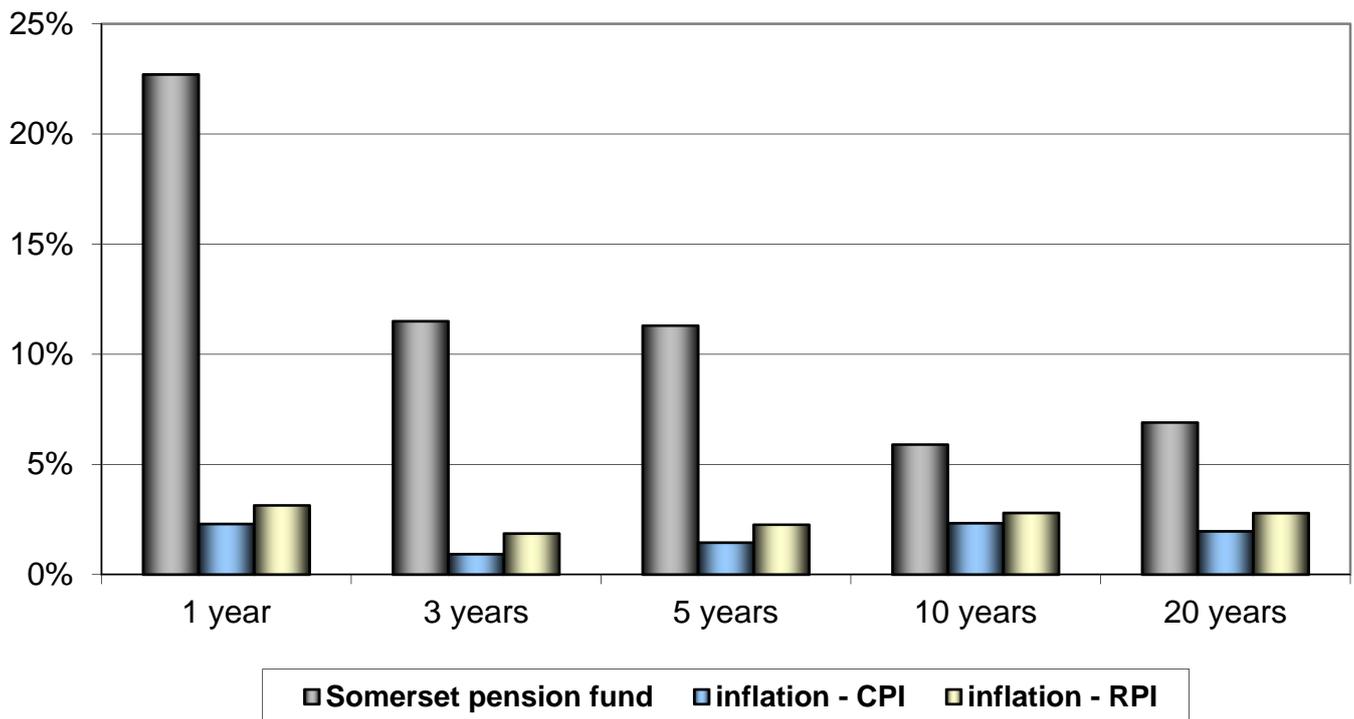
Source: Bank of England  
Bloomberg

# 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 2016/2017, the fund had a very strong return and was significantly above inflation. Looking back over five-, 10- and 20-year periods, we can see from the chart below that the fund has grown more strongly than inflation over the longer term.

## Annualised fund investment performance in relation to inflation



Source: Somerset CC  
Bloomberg

## Overall fund performance

The fund's total return was positive for the financial year at a return of 22.7%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers. The return on our scheme-specific benchmark was 22.2% and the fund outperformed against this by 0.5%. 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	33.4%	32.9%	0.5%
Standard Life	UK equity	25.6%	22.0%	3.6%
Somerset County Council	Passive US equity	35.8%	34.7%	1.1%
Jupiter	European equity	15.3%	27.9%	-12.6%
Nomura	Japanese equity	32.7%	33.0%	-0.3%
Maple-Brown Abbott	Far East equity	43.3%	37.4%	5.9%
Pioneer	Emerging market equity	34.0%	34.7%	-0.7%
Standard Life	Bonds	13.1%	13.1%	0.0%
Aviva	Property	2.6%	3.7%	-1.1%
Neuberger Berman	Global private equity	20.9%	0.3%	20.6%
Technology Venture Partners	Venture capital	0.0%	0.3%	-0.3%
Somerset County Council	Cash	0.5%	0.3%	0.2%
<b>Whole Fund</b>		<b>22.7%</b>	<b>22.2%</b>	<b>0.5%</b>

Source: Somerset CC

### 3 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	16.9%	16.8%	0.1%
Standard Life	UK equity	7.1%	7.7%	-0.6%
Somerset County Council	Passive US equity	21.6%	21.5%	0.1%
Jupiter	European equity	12.8%	9.6%	3.2%
Nomura	Japanese equity	16.8%	18.1%	-1.3%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	10.1%	11.4%	-1.3%
Standard Life	Bonds	9.7%	9.8%	-0.1%
Aviva	Property	8.3%	10.2%	-1.9%
Neuberger Berman	Global private equity	17.8%	0.3%	17.5%
Technology Venture Partners	Venture capital	0.0%	0.3%	-0.3%
Somerset County Council	Cash	0.6%	0.3%	0.3%
<b>Whole Fund</b>		<b>11.6%</b>	<b>11.7%</b>	<b>-0.1%</b>

Source: Somerset CC

## 5 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	15.5%	15.4%	0.1%
Standard Life	UK equity	10.2%	9.7%	0.5%
Somerset County Council	Passive US equity	18.9%	19.0%	-0.1%
Jupiter	European equity	15.1%	12.8%	2.3%
Nomura	Japanese equity	11.9%	13.1%	-1.2%
Maple-Brown Abbott	Far East equity	Initial investment in July 2014		
Pioneer	Emerging market equity	4.6%	5.9%	-1.3%
Standard Life	Bonds	8.6%	8.2%	0.4%
Aviva	Property	6.8%	8.6%	-1.8%
Neuberger Berman	Global private equity	16.7%	0.4%	16.3%
Technology Venture Partners	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.8%	0.4%	0.4%
<b>Whole Fund</b>		<b>11.3%</b>	<b>10.9%</b>	<b>0.4%</b>

Source: Somerset CC

## 10 year (annualised) fund performance

Manager	Asset class	Fund	Benchmark	Fund relative to benchmark
Somerset County Council	Passive global equity	10.7%	10.8%	-0.1%
Standard Life	UK equity	2.6%	2.0%	0.6%
Somerset County Council	Passive US equity	Initial investment in December 2011		
Jupiter	European equity	8.9%	5.6%	3.3%
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	0.8%	2.3%	-1.5%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Technology Venture Partners	Venture capital	0.0%	1.2%	-1.2%
Somerset County Council	Cash	1.7%	1.2%	0.5%
<b>Whole Fund</b>		<b>5.9%</b>	<b>5.7%</b>	<b>0.2%</b>

Source: Somerset CC

# **Financial statements**

## **Our responsibilities**

**As the administration authority of the fund, Somerset County Council must:**

- appoint an officer to manage the fund's financial affairs – for us, that officer is the Director of Finance and 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 2017.

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 2016-2017 financial year were the third 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 valuation as at 31 March 2016 showed that the funding position had improved with the fund's assets covering 77% of the fund's liabilities. The new common contribution rate to be paid from April 2017 is increased to 22.8% and is made up of 15.0% for future service and 7.8% for deficit funding.

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

2015/2016		2016/2017		Notes
£ millions	£ millions	£ millions	£ millions	
<b>Contributions and other income</b>				
20.651		Contributions from employees	20.892	1
62.302		Contributions from employers	69.123	1
1.387		Recoveries from member organisations	2.851	1
3.238		Transfer values received	2.450	2
<u>87.578</u>			<u>95.316</u>	
<b>Less benefits and other payments</b>				
-64.395		Recurring pensions	-68.168	1
-12.323		Lump sum on retirement	-13.429	1
-2.070		Lump sum on death	-1.568	1
-4.755		Transfer values paid	-3.423	2
-0.418		Refund of contributions to leavers	-0.401	3
<u>-83.961</u>			<u>-86.989</u>	
<b>3.617</b>	<b>Net additions from dealings with members</b>		<b>8.327</b>	
<b>Management Expenses</b>				
-1.305		Administrative expenses	-1.157	4
-4.302		Investment management expenses	-4.964	5
-0.650		Oversight and governance expenses	-0.740	6
<u>-6.257</u>	<b>-6.257</b>		<u>-6.861</u>	<b>-6.861</b>
<b>Investment income</b>				
40.947		Investment income received	48.677	7
4.603		Investment income accrued	4.364	7
-0.756		Less irrecoverable tax	-0.884	
0.000		Other income (such as commission)	0.009	
<u>44.794</u>			<u>52.166</u>	
<b>Change in market value of investments</b>				
26.168		Realised profit or loss	55.640	10
-65.516		Unrealised profit or loss	262.909	10
<u>-39.348</u>			<u>318.549</u>	
<b>5.446</b>	<b>Net return on investments</b>		<b>370.715</b>	
<b>2.806</b>	<b>Net increase in the net assets available for benefits during the year</b>		<b>372.181</b>	
<b>Change in actuarial present value of promised retirement benefits</b>				
75.629		Vested benefits	-773.469	11
21.444		Non-vested benefits	-29.076	11
<u>97.073</u>	<b>Net change in present value of promised benefits</b>		<u>-802.545</u>	
<b>99.879</b>	<b>Net increase/(decrease) in the fund during the year</b>		<b>-430.364</b>	
-1,433.985	Add net liabilities at beginning of year		-1,334.106	
<u><b>-1,334.106</b></u>	<b>Net liabilities at end of year</b>		<u><b>-1,764.470</b></u>	

# Net Asset Statement

On 31 March 2016 £ millions		On 31 March 2017 £ millions	Notes
	<b>Investment assets and liabilities</b>		
1,593.098	Investment assets	1,966.614	8
-0.875	Investment liabilities	-0.142	8
1.772	Other investment balances	0.048	12
	<b>Current assets</b>		
4.920	Contributions due from employers	4.803	
0.002	Cash at bank	0.009	
0.608	Other debtors	1.023	
	<b>Current liabilities</b>		
0.000	Unpaid benefits	0.000	
0.000	Bank overdraft	0.000	
-1.507	Other creditors	-2.156	
<b>1,598.018</b>	<b>Net assets of the scheme available to fund benefits at end of year</b>	<b>1,970.199</b>	
	<b>Actuarial present value of promised retirement benefits</b>		
-2,808.169	Vested benefits	-3,581.638	11
-123.955	Non-vested benefits	-153.031	11
<b><u>-1,334.106</u></b>	<b>Net liabilities at end of year</b>	<b><u>-1,764.470</u></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 2016/17, 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

	Somerset County Council £ millions	Other scheduled employers £ millions	Admitted employers £ millions	Total £ millions
Employees' contributions				
- Normal	8.783	10.300	1.337	<b>20.420</b>
- Additional	0.268	0.199	0.005	<b>0.472</b>
Total	<u>9.051</u>	<u>10.499</u>	<u>1.342</u>	<u><b>20.892</b></u>
Employers' contributions				
- Normal	19.098	20.107	2.824	<b>42.029</b>
- Augmentation	1.070	0.531	0.153	<b>1.754</b>
- Deficit funding	10.772	10.405	4.163	<b>25.340</b>
Total	<u>30.940</u>	<u>31.043</u>	<u>7.140</u>	<u><b>69.123</b></u>
Recurring pension and lump sum payments	-41.549	-34.345	-7.271	<b>-83.165</b>
Money recovered from member organisations	1.563	1.274	0.014	<b>2.851</b>
	<u><b>0.005</b></u>	<u><b>8.471</b></u>	<u><b>1.225</b></u>	<u><b>9.701</b></u>

**Note 1: Contributions and benefits (continued)**

	<b>Employees' contributions £ millions</b>	<b>Employers' contributions £ millions</b>	<b>Total £ millions</b>
<b>County council</b>			
Somerset	9.051	30.940	39.991
<b>Police &amp; Crime Commissioner</b>			
Avon & Somerset	4.510	10.550	15.060
<b>District councils</b>			
Mendip	0.267	1.099	1.366
Sedgemoor	0.576	2.134	2.710
South Somerset	0.725	2.607	3.332
Taunton Deane	0.888	3.047	3.935
West Somerset	0.000	0.310	0.310
<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	0.014	0.019
Burnham & Highbridge Burial Board	0.005	0.017	0.022
Castle Cary Town Council	0.004	0.005	0.009
Chard Town Council	0.012	0.040	0.052
Cheddar Parish Council	0.002	0.006	0.008
Creech St Michael Parish Council	0.001	0.002	0.003
Crewkerne Town Council & Burial Board	0.009	0.027	0.036
Frome Town Council	0.027	0.074	0.101
Glastonbury Town Council	0.009	0.025	0.034
Ilminster Town Council	0.005	0.017	0.022
Langport Town Council	0.001	0.005	0.006
Lower Brue Drainage Board	0.034	0.091	0.125
Minehead Town Council	0.005	0.017	0.022
Nether Stowey Parish Council	0.001	0.004	0.005
Parret Drainage Board	0.004	0.014	0.018
Shepton Mallet Town Council	0.001	0.003	0.004
Somerton Town Council	0.005	0.014	0.019
Street Parish Council	0.003	0.009	0.012
Watchet Town Council	0.001	0.003	0.004
Wellington Town Council	0.001	0.004	0.005
Wells Burial Board & Parish Council	0.024	0.037	0.061
Williton Parish Council	0.001	0.004	0.005
Wincanton Town Council	0.003	0.009	0.012
Yeovil Town Council	0.012	0.032	0.044
<b>Other bodies</b>			
Avon and Somerset Magistrates Courts	0.000	1.123	1.123
Exmoor National Park	0.121	0.318	0.439
<b>Further-education colleges</b>			
Bridgwater College	0.691	1.747	2.438
Richard Huish Sixth Form College	0.121	0.292	0.413
Somerset College of Art and Technology	0.061	0.221	0.282
Strode College	0.143	0.374	0.517
Yeovil College	0.176	0.505	0.681

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**Note 1: Contributions and benefits (continued)**

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies</b>			
Ansford Academy	0.028	0.120	0.148
Avishayes Academy	0.024	0.055	0.079
Axbridge Academy	0.011	0.036	0.047
Bath & Wells Academy Trust	0.169	0.534	0.703
Bishop Fox's Academy	0.050	0.149	0.199
Bridgwater College Academy	0.108	0.265	0.373
Brookside Academy	0.059	0.213	0.272
Bruton Sexey's School	0.048	0.135	0.183
Brymore Academy	0.054	0.166	0.220
Buckland St. Mary Church of England School	0.003	0.009	0.012
Buckler's Mead Academy	0.047	0.145	0.192
Buckler's Mead Leisure	0.002	0.008	0.010
Castle Academy	0.065	0.175	0.240
Castle Primary School	0.009	0.028	0.037
Courtfields Academy	0.043	0.132	0.175
Crispin Academy	0.046	0.138	0.184
Danesfield Academy	0.023	0.070	0.093
East Brent School	0.002	0.005	0.007
Enmore Academy	0.006	0.019	0.025
Hambridge Primary School	0.013	0.043	0.056
Hamp Academy	0.020	0.064	0.084
Hayesdown Academy	0.013	0.043	0.056
Haygrove Academy	0.063	0.161	0.224
Holyrood Academy	0.062	0.186	0.248
Horrington Primary School	0.007	0.021	0.028
Hugh Sexey's School	0.011	0.035	0.046
Huish Academy	0.021	0.067	0.088
Huish Episcopi Academy	0.072	0.216	0.288
Huish Episcopi Primary Academy	0.008	0.025	0.033
King Ina (Monteclefe)	0.018	0.058	0.076
Kings of Wessex Academy	0.049	0.139	0.188
Kings of Wessex Leisure	0.014	0.032	0.046
Kingsmead Academy	0.044	0.132	0.176
Lympsham School	0.005	0.012	0.017
Maiden Beech Academy	0.027	0.083	0.110
Manor Court Primary School	0.025	0.079	0.104
Mark Academy	0.005	0.015	0.020

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**Note 1: Contributions and benefits (continued)**

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Academies (continued)</b>			
Mendip School	0.009	0.034	0.043
Middlezoy Primary School	0.005	0.014	0.019
Minehead First School	0.021	0.041	0.062
Minehead Middle School	0.040	0.119	0.159
Minerva Primary School	0.006	0.019	0.025
North Town Academy	0.023	0.075	0.098
Nunney First School	0.003	0.008	0.011
Oakfield Academy	0.035	0.107	0.142
Old Cleeve Academy	0.010	0.032	0.042
Othery Primary School	0.004	0.012	0.016
Pen Mill Academy	0.018	0.058	0.076
Preston Academy	0.044	0.136	0.180
Preston C of E Primary School	0.023	0.073	0.096
Priorswood Academy	0.015	0.049	0.064
Redstart Academy	0.028	0.077	0.105
Selwood Academy	0.032	0.102	0.134
St. Dunstan's Academy	0.022	0.076	0.098
St. Cuthbert's Academy	0.008	0.027	0.035
St. Michael's Academy	0.016	0.050	0.066
St. Michael's Church of England School	0.006	0.019	0.025
St. Peter's Academy	0.008	0.026	0.034
Stanchester Academy	0.031	0.096	0.127
Steiner Academy, Frome	0.016	0.048	0.064
Tatworth Academy	0.007	0.022	0.029
Taunton Academy	0.031	0.112	0.143
The Blue School, Wells	0.088	0.258	0.346
Weare Academy	0.008	0.027	0.035
Wedmore Academy	0.017	0.051	0.068
Wellesley Park Primary School	0.016	0.054	0.070
West Somerset Community College	0.066	0.258	0.324
Westfield Academy	0.053	0.157	0.210
Whitstone Academy	0.031	0.095	0.126
Willowdown Academy	0.017	0.052	0.069
Woolavington Academy	0.012	0.040	0.052
<b>Total other scheduled employers</b>	10.499	31.043	41.542

Table continued on next page

## Note 1: Contributions and benefits (continued)

	Employees' contributions £ millions	Employers' contributions £ millions	Total £ millions
<b>Admitted bodies</b>			
Aster Communities Ltd	0.045	0.247	0.292
BAM FM	0.008	0.022	0.030
Care Focus Somerset Ltd	0.004	0.009	0.013
Churchill Contract Services	0.022	0.078	0.100
Edward and Ward Ltd	0.017	0.060	0.077
Glen Cleaning Company Ltd	0.001	0.002	0.003
Homes in Sedgemoor	0.090	0.241	0.331
ICM	0.009	0.030	0.039
Learning & Skills Network	0.000	0.784	0.784
Learning South West	0.000	0.001	0.001
Leisure East Devon	0.011	0.021	0.032
Magna West Somerset Housing Association	0.067	0.235	0.302
Mama Bear's	0.002	0.007	0.009
May Gurney Ltd	0.026	0.069	0.095
MD Building Services	0.031	0.081	0.112
MITIE	0.005	0.018	0.023
National Autistic Society	0.009	0.051	0.060
NSL Ltd	0.023	0.062	0.085
SHAL Housing Ltd	0.008	2.090	2.098
1610 Ltd	0.034	0.080	0.114
SASP	0.012	0.018	0.030
Society of Local Council Clerks	0.024	0.067	0.091
Somerset Care Ltd	0.043	0.341	0.384
Somerset Skills & Learning	0.108	0.249	0.357
South West Audit Partnership	0.104	0.319	0.423
South West Heritage	0.077	0.182	0.259
South West Provincial Councils	0.028	0.203	0.231
Taylor Shaw Ltd	0.005	0.016	0.021
Tone Leisure Ltd	0.075	0.144	0.219
Wyvern Nursery Ltd	0.017	0.031	0.048
Yarlington Housing Group	0.437	1.382	1.819
<b>Total admitted employers</b>	1.342	7.140	8.482
<b>Total</b>	<b>20.892</b>	<b>69.123</b>	<b>90.015</b>

## Note 2: Transfer values

2015/2016 £ millions		2016/2017 £ millions
0.000	Group transfer values received	0.000
3.238	Individual transfer values received	2.451
<u>3.238</u>		<u>2.451</u>
-1.330	Group transfer values paid	0.000
-3.425	Individual transfer values paid	-3.423
<u>-4.755</u>		<u>-3.423</u>

## Note 3: Refunds

2015/2016 £ millions		2016/2017 £ millions
-0.222	Contributions refunded to members who leave service	-0.278
-0.001	Interest accumulated on refunds agreed in the past	-0.004
<u>-0.223</u>		<u>-0.282</u>
-0.231	Deductions from contributions equivalent premium	-0.147
0.036	Less payments to Department for Work and Pensions contributions equivalent premium	0.028
<u>-0.418</u>		<u>-0.401</u>

#### Note 4: Administrative expenses

2015/2016 £ millions		2016/2017 £ millions
-0.123	Benefits administration costs charged by Somerset CC	-0.082
<u>-1.168</u>	Benefits administration costs charged by Devon CC	<u>-1.048</u>
<b>-1.291</b>		<b>-1.130</b>
0.000	Legal advice costs charged by Somerset CC	0.000
<u>-0.014</u>	External legal advice	<u>-0.027</u>
<b>-0.014</b>		<b>-0.027</b>
0.000	Other expenses	0.000
<u><b>-1.305</b></u>		<u><b>-1.157</b></u>

#### Note 5: Investment management expenses

2015/2016 £ millions		2016/2017 £ millions
	<b>Fund manager fees</b>	
-0.261	Aviva	-0.292
-0.574	Jupiter*	-0.821
-0.144	Maple-Brown Abbott*	-0.326
-0.180	Pioneer	-0.211
-0.042	Somerset County Council	-0.041
-1.155	Standard Life*	-1.317
<u>-0.549</u>	Other fund managers	<u>-0.664</u>
<b>-2.905</b>		<b>-3.672</b>
	<b>Other expenses</b>	
-0.886	Transaction costs	-0.971
-0.043	Custody fees	-0.049
<u>-0.468</u>	Property unit trust managers' fees	<u>-0.272</u>
<b>-1.397</b>		<b>-1.292</b>
<u><b>-4.302</b></u>		<u><b>-4.964</b></u>

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 2016/2017 financial year are £557,000 (£166,000 in 2015/2016).

The transaction costs shown above are broken down as follows:

2015/2016				2016/2017	
£ millions	£ millions			£ millions	£ millions
Broker	Taxes	Manager	Asset Class	Broker	Taxes
comm-	and Fees			comm-	and Fees
issions				issions	
<b>Purchase Costs</b>					
0.014	0.026	Somerset County Council	Passive global equity	0.012	0.022
0.136	0.468	Standard Life	UK equity	0.143	0.539
0.004	0.000	Somerset County Council	Passive US equity	0.004	0.000
0.023	0.011	Jupiter	European equity	0.017	0.019
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.021	0.002	Maple-Brown Abbott	Far East equity	0.015	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
<u>0.198</u>	<u>0.507</u>			<u>0.191</u>	<u>0.582</u>
<b>Sales Costs</b>					
0.013	0.008	Somerset County Council	Passive global equity	0.012	0.008
0.112	0.000	Standard Life	UK equity	0.129	0.001
0.006	0.000	Somerset County Council	Passive US equity	0.006	0.001
0.018	0.000	Jupiter	European equity	0.019	0.000
0.000	0.000	Nomura	Japanese equity	0.000	0.000
0.017	0.007	Maple-Brown Abbott	Far East equity	0.013	0.008
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
<u>0.166</u>	<u>0.015</u>			<u>0.179</u>	<u>0.018</u>
<u><b>0.364</b></u>	<u><b>0.522</b></u>			<u><b>0.370</b></u>	<u><b>0.600</b></u>
	<u><b>0.886</b></u>				<u><b>0.970</b></u>

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

2015/2016 £ millions		2016/2017 £ millions
-0.010	Committee services costs charged by Somerset CC	-0.010
<u>-0.269</u>	Investments administration costs charged by Somerset CC	<u>-0.267</u>
<b>-0.279</b>		<b>-0.277</b>
-0.123	Actuary's fees	-0.143
<u>0.059</u>	Recharge of Actuary's fees to employers	<u>0.045</u>
<b>-0.064</b>		<b>-0.098</b>
-0.024	External audit fees	-0.024
<u>0.000</u>	Fee rebate	<u>0.000</u>
<b>-0.024</b>		<b>-0.024</b>
0.000	Internal audit costs charged by South West Audit Partnership	0.000
-0.065	Professional services and subscriptions	-0.069
-0.134	IT systems	-0.145
-0.023	Performance measurement fees	0.000
-0.015	External legal advice	0.000
-0.023	Voting advice fees	-0.023
-0.013	Pooling costs	-0.077
-0.010	Other expenses	-0.027
<u><b>-0.650</b></u>		<u><b>-0.740</b></u>

## Note 7: Investment income

2015/2016 £ millions		2016/2017 £ millions
10.209	Fixed interest	9.993
0.576	Index linked	0.510
14.245	UK equities	14.940
12.699	Foreign equities	15.237
7.186	Property unit trusts	11.415
0.171	Cash invested internally	0.347
0.000	Private equity	0.000
0.000	Commission recapture	0.000
0.464	Stock lending	0.599
<u><b>45.550</b></u>		<u><b>53.041</b></u>





## Note 10: 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
2015/2016	Total	1,590.850	-22.396	1,274.363	-1,211.246	26.168	-65.516	1,592.223
Somerset County Council	Global equity	383.102	0.000	46.675	-45.405	5.748	103.641	493.761
Standard Life	UK equity	363.467	0.000	134.929	-112.089	13.678	59.119	459.104
Somerset County Council	US equity	85.559	0.000	16.116	-25.984	6.976	18.257	100.924
Jupiter	European equity	101.443	0.000	28.327	-21.362	2.109	6.227	116.744
Nomura	Japanese equity	45.672	0.000	0.000	0.000	0.000	14.911	60.583
Maple-Brown Abbott	Far East equity	42.238	0.000	7.624	-6.846	1.706	15.389	60.111
Pioneer	Emerging Market equity	60.977	0.000	0.000	0.000	0.000	20.919	81.896
Standard Life	Bonds	279.335	0.000	85.985	-87.985	5.174	23.469	305.978
Standard Life	Derivatives	-0.715	0.000	660.936	-660.708	-0.227	0.653	-0.061
Aviva	Property	182.008	0.000	22.273	-21.648	-0.838	-3.792	178.003
Aviva	Currency	-0.115	0.000	20.302	-20.303	0.000	0.182	0.066
Neuberger Berman	Global private equity	21.625	0.000	5.247	-2.810	0.531	4.093	28.686
TVP	UK venture capital	1.920	0.000	0.000	-0.080	0.000	0.000	1.840
Somerset County Council	Cash	25.707	32.506	0.000	0.000	20.783	-0.159	78.837
<b>2016/2017</b>	<b>Total</b>	<b><u>1,592.223</u></b>	<b><u>32.506</u></b>	<b><u>1,028.414</u></b>	<b><u>-1,005.220</u></b>	<b><u>55.640</u></b>	<b><u>262.909</u></b>	<b><u>1,966.472</u></b>

## Note 11: 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 2017, the actuary has rolled forward the value of the Fund's liabilities calculated for the funding valuation as at 31 March 2016

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 2016		31 March 2017
	<b>Financial assumptions</b>	
3.3%	RPI increases	3.6%
2.4%	CPI increases	2.7%
4.2%	Salary increases	4.2%
2.4%	Pension increases	2.7%
3.7%	Discount Rate	2.8%
	<b>Life expectancy (from age 65)</b>	
23.8	Retiring today - Males	23.9
26.2	- Females	25.0
26.1	Retiring in 20 years - Males	26.1
28.5	- Females	27.4

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 21 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 0.9% below RPI. This is a reasonable estimate for the future differences in the indices, based on the different calculation methods.

Salaries are assumed to increase at 1.5% p.a. above CPI in addition to a promotional scale. However, the actuary has allowed for a short-term overlay from 31 March 2016 to 31 March 2020 for salaries to rise in line with CPI. This has been updated since the previous accounting date. At the previous accounting date, salaries were assumed to increase at 1.8% p.a. above CPI in addition to a promotional scale.

The discount rate is the annualised yield at the 21 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.

<b>2015/2016</b> <b>£ millions</b>		<b>2016/2017</b> <b>£ millions</b>
101.936	Current service cost	90.939
101.986	Interest cost	107.406
-241.303	Change in financial assumptions	739.679
0.000	Change in demographic assumptions	-54.798
0.000	Experience loss/(gain) on defined benefit obligations	-21.677
-1.560	Liabilities assumed/(extinguished) on settlements	0.000
-80.723	Estimated benefits paid net of transfers in	-81.419
1.940	Past service costs, including curtailments	1.594
20.651	Contributions by scheme members	20.821
<b>-97.073</b>		<b>802.545</b>

## Note 12: Other investment balances

31 March 2016 £ millions			31 March 2017 £ millions	
<b>Assets</b>				
4.577	-	Accrued income		4.363
0.000	-	Accrued Recoverable tax		0.000
2.044	-	Payments due on investments sold		2.750
<u>6.621</u>				<u>7.113</u>
<b>Liabilities</b>				
-4.849	-	Payments not made on purchases and losses due on sales		-7.065
<u>1.772</u>				<u>0.048</u>

## Note 13: Management structure

31 March 2016 £ millions		%	Manager	Asset class	31 March 2017 £ millions		%
383.102	24	Somerset County Council	Passive global equity	493.761	25		
363.467	23	Standard Life	UK equity	459.104	23		
85.559	5	Somerset County Council	Passive US equity	100.924	5		
101.443	6	Jupiter	European equity	116.744	6		
45.672	3	Nomura	Japanese equity	60.583	3		
42.238	3	Maple-Brown Abbott	Far East equity	60.111	3		
60.977	4	Pioneer	Emerging market equity	81.896	4		
278.620	18	Standard Life	Bonds	305.917	16		
181.893	11	Aviva	Property	178.069	9		
21.625	1	Neuberger Berman	Global private equity	28.686	2		
1.920	0	Technology Venture Partners	UK venture capital	1.840	0		
25.707	2	Somerset County Council	Cash	78.837	4		
<u>1,592.223</u>	<u>100</u>	<b>Net investment assets</b>		<u>1,966.472</u>	<u>100</u>		

## Note 14: Major holdings

31 March 2016			Description	31 March 2017	
Rank	£ millions	Stock		Rank	£ millions
1	60.977	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	81.896
2	45.672	Nomura Japan Fund	Pooled fund of Japanese equities	2	60.583
3	19.222	HSBC	UK bank	3	26.222
8	16.000	Glencore	UK mining company	4	21.160
25	9.420	Barclays	UK bank	5	20.918
9	14.594	Royal Dutch Shell	UK oil company	6	19.678
12	13.277	BP	UK oil company	7	19.139
4	18.524	Schroders UK PUT	UK property unit trust	8	19.022
5	17.891	CBRE UK Property Fund	UK property unit trust	9	18.207
7	16.067	IPIF	UK property unit trust	10	17.146
10	14.423	Vodafone	UK mobile phone company	11	16.668
48	6.483	Blackrock UK PUT	UK property unit trust	12	15.755
20	10.045	Prudential	UK life insurance company	13	15.112
21	10.044	Apple	US consumer electronics company	14	14.219
11	14.252	Neuberger Berman Crossroads 2010 fund	Private equity fund	15	14.040
19	10.049	Henderson UK Property Trust	UK property unit trust	16	14.022
45	6.892	Rio Tinto	UK mining company	17	13.461
22	9.911	Glaxosmithkline	UK pharmaceutical company	18	12.777
24	9.513	RELX	UK publishing company	19	12.406
32	7.838	British American Tobacco	UK tobacco company	20	12.351

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 4.2% of the net investment assets.

## Note 15: 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 2016 £ millions				31 March 2017 £ millions		
Asset	Liability	Net value		Asset	Liability	Net value
<b>Forward foreign-exchange contracts</b>						
0.045	-0.760	-0.715	Standard Life fixed Interest	0.080	-0.141	-0.061
0.000	-0.115	-0.115	Aviva	0.066	0.000	0.066
<b>0.045</b>	<b>-0.875</b>	<b>-0.830</b>		<b>0.146</b>	<b>-0.141</b>	<b>0.005</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>0.045</b>	<b>-0.875</b>	<b>-0.830</b>		<b>0.146</b>	<b>-0.141</b>	<b>0.005</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 2 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 2016 £ millions				31 March 2017 £ millions		
Asset exposure value	Liability exposure value	Net value		Asset exposure value	Liability exposure value	Net value
			<b>Forward foreign-exchange contracts</b>			
43.833	-44.548	-0.715	Standard Life fixed Interest	45.353	-45.414	-0.061
2.947	-3.062	-0.115	Aviva	2.320	-2.254	0.066
<b>46.780</b>	<b>-47.610</b>	<b>-0.830</b>		<b>47.673</b>	<b>-47.668</b>	<b>0.005</b>
			<b>Government bond futures</b>			
1.818	-1.818	0.000	UK gilt future	1.013	-1.013	0.000
3.396	-3.396	0.000	European bond future	0.566	-0.566	0.000
3.496	-3.496	0.000	Australian bond future	3.253	-3.253	0.000
0.000	0.000	0.000	Canadian bond future	0.000	0.000	0.000
4.462	-4.462	0.000	US treasury future	3.854	-3.854	0.000
<b>13.172</b>	<b>-13.172</b>	<b>0.000</b>		<b>8.686</b>	<b>-8.686</b>	<b>0.000</b>
<b>59.952</b>	<b>-60.782</b>	<b>-0.830</b>		<b>56.359</b>	<b>-56.354</b>	<b>0.005</b>

## Note 16: Stock Lending

31 March 2016 £ millions		31 March 2017 £ millions	
129.152	Value of stock on loan	105.520	
142.497	Value of collateral held against loaned stock	116.918	

31 March 2016 %		31 March 2017 %	
<b>Form of collateral provided</b>			
5.5	UK Government debt	7.7	
3.0	US Government debt	7.9	
21.3	Euro area Governments debt	11.3	
0.0	US\$ denominated corporate debt	0.0	
0.0	€ denominated corporate debt	0.0	
19.8	UK equities	8.5	
50.4	Overseas equities	64.6	
0.0	Other	0.0	
<b>100.0</b>		<b>100.0</b>	

## Note 17: Membership Statistics

As at 31 March	2011	2012	2013	2014	2015	2016	2017
<b>Active scheme members</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>21,550</b>
<b>Pensioners</b>							
Current (in payment)	11,664	12,301	12,636	12,460	13,871	14,779	15,421
Deferred (future liability)	14,923	14,509	15,823	17,006	17,280	20,452	22,268
Undecided leavers *		2,307	3,135	3,147	3,754	2,507	3,778
<b>Total (active plus pensioners)</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>	<b>63,017</b>
Active members for each current pensioner	1.76	1.59	1.54	1.69	1.59	1.53	1.40

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

## Note 18: 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 2016</b> <b>£ millions</b>		<b>31 March 2017</b> <b>£ millions</b>
<b>Value of additional voluntary contributions</b>		
4.451 Prudential		4.549
0.306 Equitable Life		0.292
<u>4.757</u>		<u>4.841</u>

<b>2015/2016</b> <b>£ millions</b>		<b>31 March 2017</b> <b>£ millions</b>
<b>Additional voluntary contributions paid during the year</b>		
0.502 Prudential		0.387
0.000 Equitable Life		0.000
<u>0.502</u>		<u>0.387</u>

## **Note 19: 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.

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 20: 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 2017 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 2017						
Post title	Salary (including fees and allowances) £	Compensation for loss of office £	Benefits in kind £	Total wages and benefits but not including pensions contributions 2016/17 £	Employer's pension contributions £	Total wages and benefits including pensions contributions 2016/17 £
Director of Finance and Performance	103,700.00	-	-	103,700.00	13,900.00	117,600.00
Strategic Manager - Finance Technical	65,100.00	-	-	65,100.00	8,800.00	73,900.00

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2016 is shown in the table below.

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

## **Note 21: Investment Strategy Statement**

We have prepared an Investment Strategy Statement, which explains the strategies and policies that we use in the administration of the pension fund's investments. The full statement is published in the Pension Fund Annual Report and Financial Statement and is also available on the County Council website.

## **Note 22: Contingent liabilities**

There were no contingent liabilities as at 31 March 2017.

## **Note 23: Post balance sheet events**

There were no post balance sheet events as at 31 May 2017.

## **Note 24: 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 2017 being £1,966m.

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 over the long term.

The fund holds a diversified portfolio of different assets, which are managed by a variety of fund managers which have a variety of investment styles. This diversification is the most effective way of managing market risk.

The fund particularly manages the effect of market movements on exchange rates by hedging a portion of its foreign currency exposure using currency forwards. Details of this are given in note 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 used is broadly consistent with a one-standard deviation movement. The volatility is measured by the (annualised) estimated standard deviation of the returns of the assets relative to the liability returns. Such a measure is appropriate for measuring "typical" variations in the relative values of the assets and liabilities over short time periods. It is not appropriate for assessing longer term strategic issues.

Movements in market prices would have increased or decreased the investment assets valued at 31 March 2017 by the amounts shown below.

<b>Asset class</b>	<b>Value of Assets £ millions</b>	<b>Volatility</b>	<b>Increase in Assets £ millions</b>	<b>Decrease in Assets £ millions</b>
UK equities	491.289	17.90%	87.941	-87.941
Overseas equities	881.834	15.30%	134.921	-134.921
UK bonds	132.806	7.70%	10.226	-10.226
Overseas bonds	102.970	13.20%	13.592	-13.592
UK index-linked bonds	70.202	7.20%	5.055	-5.055
Property	178.003	6.20%	11.036	-11.036
Cash	78.837	0.00%	0.000	0.000
Others	30.531	7.50%	2.290	-2.290
<b>Net investment assets</b>	<b><u>1,966.472</u></b>		<b><u>265.060</u></b>	<b><u>-265.060</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 £78.8m 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 £1.5bn 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 25: 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 2017 into the 3 levels of the fair value hierarchy.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities	491.289			491.289
Overseas equities	881.834			881.834
Bonds	305.978			305.978
Property funds		178.003		178.003
Private Equity funds			30.526	30.526
Forward foreign-exchange contracts	0.005			0.005
Government bond futures	0.000			0.000
Cash	78.837			78.837
<b>Net investment assets</b>	<b><u>1,757.943</u></b>	<b><u>178.003</u></b>	<b><u>30.526</u></b>	<b><u>1,966.472</u></b>

For comparison purposes the equivalent disclosure for the financial year ended 31 March 2016 is shown in the table below.

<b>Asset Class</b>	<b>Level 1 £ millions</b>	<b>Level 2 £ millions</b>	<b>Level 3 £ millions</b>	<b>Total £ millions</b>
UK equities	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>

There have been no transfers of assets between levels within the fair value hierarchy during the financial year ended 31 March 2017.

The following table shows a reconciliation of the movement in level 3 investments during the financial year ended 31 March 2017.

Asset class	Fair Value as at 31 March 2016 £ millions	Transfers into Level 3 £ millions	Transfers out of Level 3 £ millions	Purchases £ millions	Sales proceeds £ millions	Realised profit or loss £ millions	Unrealised profit or loss £ millions	Fair Value as at 31 March 2017 £ millions
Global private equity	21.625	0.000	0.000	5.247	-2.810	0.531	4.093	28.686
UK venture capital	1.920	0.000	0.000	0.000	-0.080	0.000	0.000	1.840
<b>Total</b>	<b><u>23.545</u></b>	<b><u>0.000</u></b>	<b><u>0.000</u></b>	<b><u>5.247</u></b>	<b><u>-2.890</u></b>	<b><u>0.531</u></b>	<b><u>4.093</u></b>	<b><u>30.526</u></b>

## **Note 26: Disclosures**

Under IFRS the fund must disclose what consideration it has given to accounting standards that have not been adopted. For the 2016-17 accounts there are no current standards that the authority has yet to adopt.

A handwritten signature in black ink that reads "Kevin Nacey". The signature is written in a cursive style with a large, sweeping underline.

**Kevin Nacey, Director of Finance and Performance**  
**27 July 2017**

# **Actuary's statement**

## **Introduction**

The last full triennial valuation of the Somerset County Council Pension Fund was carried out as at 31 March 2016 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2017.

## **2016 valuation results**

### **Asset value and funding level**

The results for the Fund at 31 March 2016 were as follows:

- The smoothed market value of the Fund's assets as at 31 March 2016 for valuation purposes was £1,582m.
- The Fund had a funding level of 77% i.e. the assets were 77% 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 £461m.

### **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.

The primary rate of contribution on a whole Fund level was 15.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2017.

In addition each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

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

## Assumptions

The key assumptions used at whole Fund level to value the benefits at 31 March 2016 are summarised below:

Assumption	31 March 2013
Discount rate	5.4% p.a.
Pension increases	2.4% p.a.
Salary increases	In line with CPI until 31 March 2020 and 3.9% p.a. thereafter
Pension increases on GMP	Funds will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we have assumed that Funds will be required to pay the entire inflationary increases.
Mortality	S2PA tables with a multiplier of 85% for males and 95% for females, with projected improvements in line with the 2015 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.

### Updated position since the 2016 valuation

Since 31 March 2016, investment returns have been higher than assumed at the 2016 triennial valuation. The value placed on the liabilities will, however, have also increased due to the accrual of new benefits as well as a decrease in the real discount rate underlying the valuation funding model. Overall, we expect that the funding level should be slightly higher than at 31 March 2016 although the ongoing cost is likely to have increased due to lower real discount rates.

The next formal valuation will be carried out as at 31 March 2019 with new contribution rates set from 1 April 2020.



**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 (the "Authority") for the year ended 31 March 2017 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 2016/17.

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 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 2016/17, 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, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice") 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 2017 and of the amount and disposition at that date of the fund's assets and liabilities; and
- the pension fund financial statements have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 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

27 July 2017

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

## **Opinion**

The pension fund financial statements of Somerset County Council (the "Authority") for the year ended 31 March 2017 which comprise the fund account, the net assets statement and the related notes of Somerset County Council are derived from the audited pension fund financial statements for the year ended 31 March 2017 included in the Authority's Statement of Accounts (the "Statement of Accounts").

In our opinion, the accompanying pension fund financial statements are consistent, in all material respects, with the audited financial statements in accordance with proper practices as defined in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

## **Pension fund annual report - Pension fund financial statements**

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

## **Who we are reporting to**

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.

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

We expressed an unmodified audit opinion on the pension fund financial statements in the Statement of Accounts in our report dated 27 July 2017.

## **Director of Finance and Performance's 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 of the Authority is responsible for the preparation of the pension fund financial statements, which must include the fund account, the net asset statement and supporting notes and disclosures prepared in accordance with proper practices. Proper practices for the pension fund financial statements in both the Statement of Accounts and the pension fund annual report are set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

### **Auditor's responsibility**

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

*Peter Barber*

Peter Barber  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor  
Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

7 September 2017

## **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://democracy.somerset.gov.uk/mgCommitteeDetails.aspx?ID=200>

The pension board page of the Somerset County Council website is available using the following link. You will find all of the committee's papers and minutes on this page.

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

These accounts are also available on the internet at.

<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.