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The pensions committee page of the Somerset County Council website is available using the following link.
All of the committee's papers and minutes are available from this address.
www.somerset.gov.uk/council/boards.asp?boardnum=26

Equal opportunities

Somerset County Council positively values 'diversity' (people's differences), and celebrates cultural and social differences. Our equal opportunities promise is to provide all services of equal quality which meet your needs and fulfil your rights. You can expect to be treated fairly, with respect, dignity and understanding, whoever you are and whatever your background.



You can also get this document in Braille, in large print, on tape and on disc, and we can translate it into different languages. We can provide a member of staff to discuss the details.

PENSION FUND

Annual Report & Financial Statement
2009/2010



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Contents

	Page
Meanings of words and phrases	1-4
Chairman's report	5-8
Summary of the scheme	
- Pensions committee	9-12
- Fund managers	13-18
- Other experts	19-21
- Contributions, benefits and membership	22-23
Principles and policies	
- Funding strategy statement	24-28
- Statement of investment principles	29-36
- Governance policy statement	37-38
- Governance compliance statement	39-46
- Pensions committee scheme of delegation	47-48
- Pensions committee training policy	49-50
- Communication policy statement	51-52
Corporate Director's report	
- Investment activity	53-54
- Investment market background	55
- Investment performance	56-59
Financial statements	
- Our responsibilities	60
- Fund account	62
- Net asset statement	63
- Accounting policies	64
- Notes to the accounts	65-74
Actuary's report	75-76
Independent auditors' report	77-78
Contacts	Back Cover
Equal opportunities	Back Cover
Other formats	Back Cover



Meaning of words and phrases

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 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.

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.

Best practice

The best way of doing things.

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.

85-year rule

The 85-year rule allows members to retire before 65 without reduced benefits if their age and their service together add up to more than 85.

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 the retail price index.

Liquid assets

Assets that can be sold to provide cash very quickly.

Local Agenda 21

An action plan for lasting development to improve quality of life without damaging the environment.

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.

Meaning of words and phrases

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

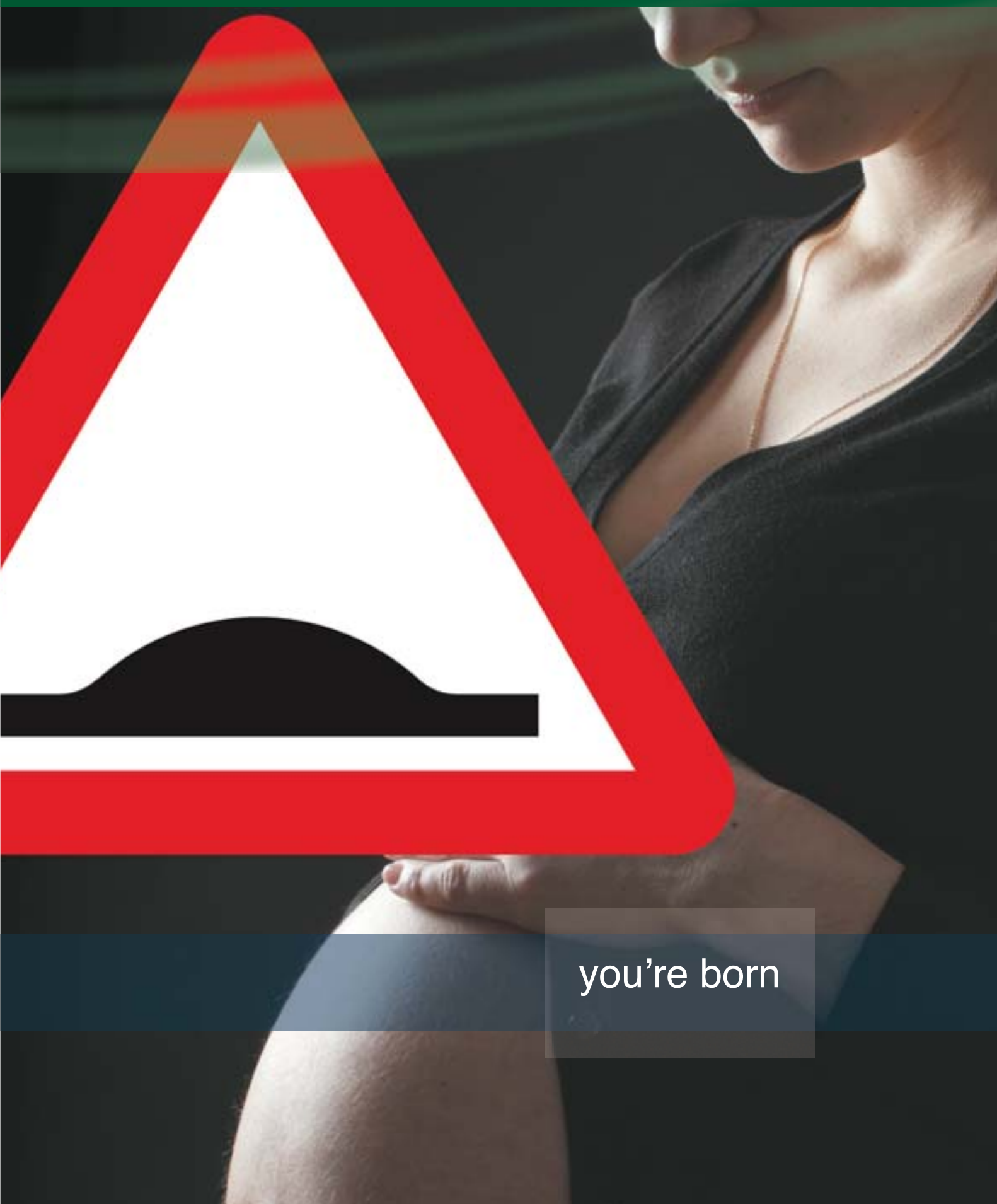
Investments in small companies that are not listed on a stock exchange.

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.



Chairman's report



This annual report sets out the activities of the pension fund for the year ending 31 March 2010. We have produced it 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 scheme members and employers).

The Government have not made any substantial changes to how the fund is run in the last year. However, we expect them to make changes this year. The new Government have set up a commission, led by John Hutton, to look at public-sector pensions, including the Local Government Pension Scheme. The commission is planning to publish some initial findings in September and its final report in time for the 2011 Budget. We look

forward to finding out about the commission's recommendations.

After receiving new guidance from CIPFA in a number of areas, we are looking at how we train members to make sure they can make informed decisions on behalf of the fund.

2010 is also valuation year, and we expect to receive the actuary's calculations and revised contribution rates for employers towards the end of 2010.

Investment returns for the year were very strong after two negative years. The return for the year was 39.9%. All asset classes and fund managers produced positive returns, except for the active currency fund.

Since 2004 the fund has had a customised benchmark. The fund's return for the year was better than this benchmark, which produced a return of 38.3%. While we measure ourselves against our own benchmark, we are still interested in how other local-authority funds perform. A typical local-authority pension fund's return in 2009/2010 was 35.2%.

During the year, contributions paid into the scheme were greater than the pensions paid out, and we expect this situation to continue into the medium term. We made this extra money available to investment managers. The end result can be seen in the revenue account, where an extra £20.6 million is shown at the end of the financial year.

As part of our ongoing search for excellent investment returns, the committee in 2008 agreed to tender for new fund managers to invest in private-equity and emerging-market equity on behalf of the fund. In March 2009, we appointed Pioneer Investment to be our emerging-market equity manager. In 2009, we appointed Neuberger Berman to be our private-equity manager. They received their first funds to manage in March 2010.

In 2008, the committee decided that UBS should lose the Japanese equity part of their portfolio. So in 2009/2010, this fund was managed by our in-house team while we tendered for a new permanent manager. In January, we appointed Nomura Asset Management to manage our Japanese equities, beginning late March 2010.

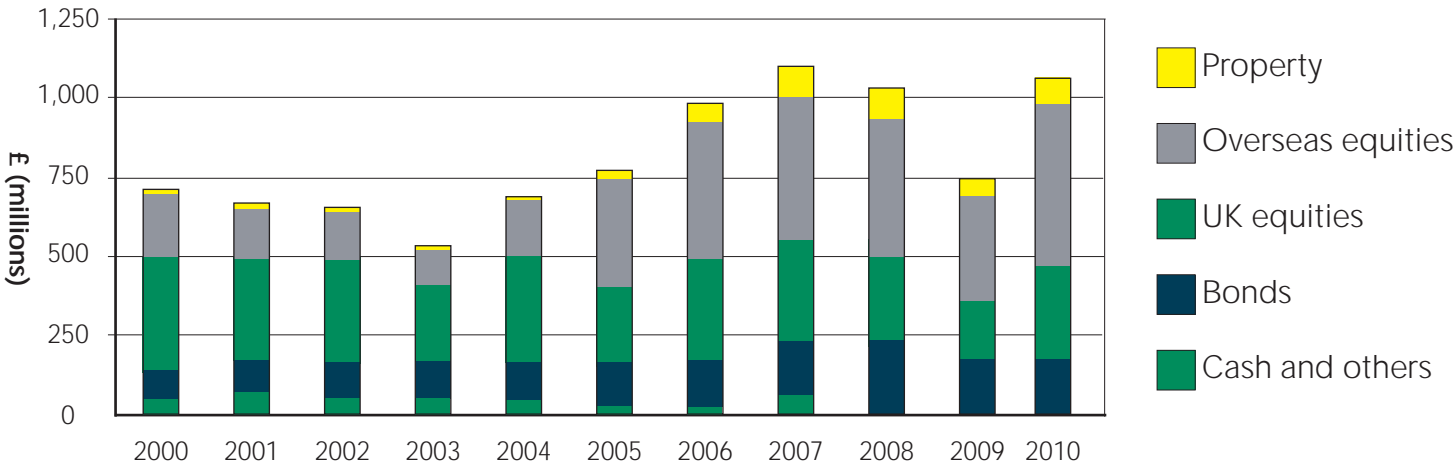
Chairman's report

I would like to thank my fellow committee members for their commitment and support over the last year and the officers involved with the fund for their efforts throughout the year in providing an excellent fund for the member organisations and their employees. I would particularly like to thank the previous Chairman, David Gladding, for his service to the pensions committee over the 10 years that he was a member. I would also like to thank Tim Carroll for his contribution since 1998, following his replacement as the district councils' representative in May

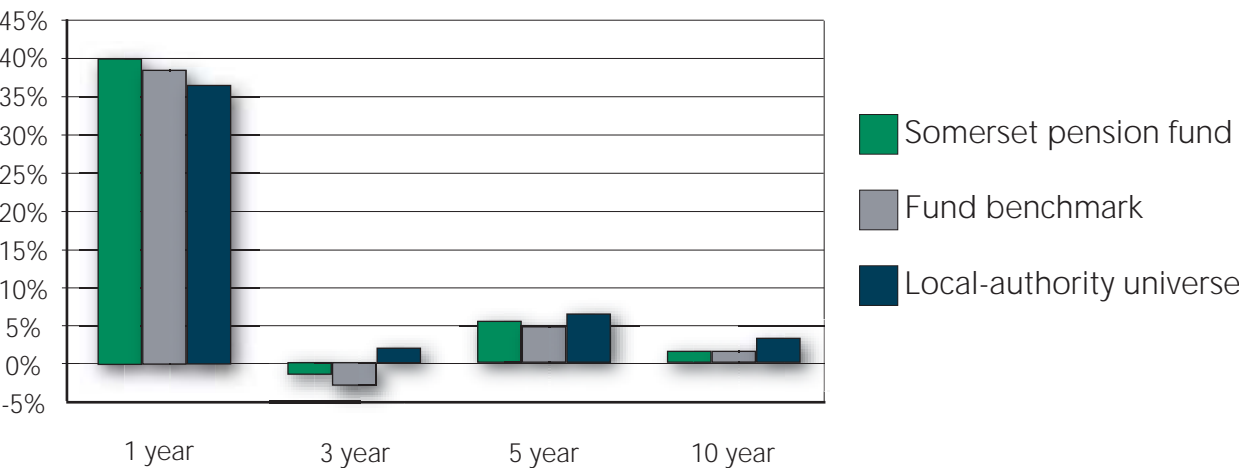
2010. Tim was our longest-serving member and his contribution will be missed. I would also like to welcome Tim's replacement, Councillor Duncan McGinty of Sedgemoor District Council.

Bob Little
Chairman of the pensions committee

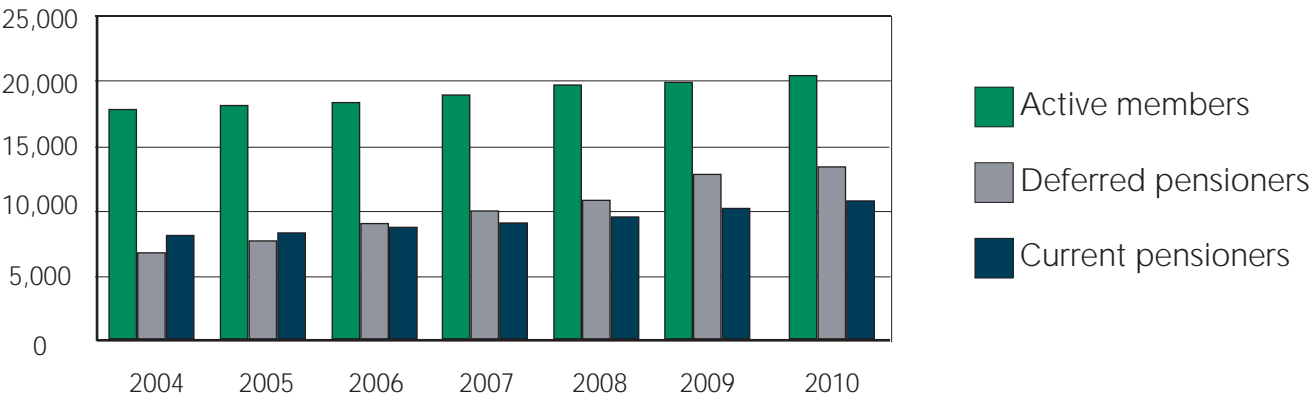
Fund Investment Assets



Annualised Fund Investment Performance



Fund Membership Statistics



Financial statistics - five-year trends

	2005/2006 £ (millions)	2006/2007 £ (millions)	2007/2008 £ (millions)	2008/2009 £ (millions)	2009/2010 £ (millions)
Income from contributions and money recovered	63.555	70.373	75.245	80.682	89.100
Spending on benefits	-48.350	-50.997	-56.673	-60.251	-68.524
Contributions less benefits	15.205	19.376	18.572	20.431	20.576
Investment income	22.396	26.673	33.248	34.230	30.308
Change in market value of investments	169.019	75.411	-120.631	-327.662	262.391
Net return on investments	191.415	102.084	-87.383	-293.432	292.699
Net increase in the fund during the year	206.620	121.460	-68.811	-273.001	313.275
Net assets at the end of the year	982.601	1,104.061	1,035.250	762.249	1,075.524
Market value of investments at the end of the year	983.242	1,097.674	1,028.464	747.453	1,063.654

Pensions committee

Somerset County Council, the administering authority for the pension fund, has passed on this responsibility 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 committee described below served throughout the year covered by this report.

Bob Little (Chairman)



Bob is one of the four county council representatives on the committee and is the councillor for Castle Cary. Bob joined the committee in May 2009.

Tim Carroll (district councils’ representative)



Tim represents the five district councils that are members of the fund. Tim is the leader of South Somerset District Council and the portfolio holder for strategy, policy and performance. Tim has been a member of the pensions committee since 1998.

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.

Ian Dewey (police authority representative)



Ian represents the Avon and Somerset Police Authority, where staff who are not eligible for the police officers' pension scheme are entitled to join the fund. Ian is a member of the police authority, is the chair of their human resources committee, and sits on the appointments committee and the remuneration subcommittee.

Ian is a member of Bath and North East Somerset Council, has also served on the former Bath City Council and the County of Avon Council and was a former manager with BP Oil. Ian has been a member of the pensions committee since 2005.

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 Miller (employees’ and members' representative)



Sarah is the employees' and members' representative on the pensions committee. She is employed by the county council as their Extended Schools Services Manager within the Children and Young Person's Directorate and during her career has worked in a variety of roles and directorates, giving her a wide range of experience of local-government services. Sarah is also the UNISON Branch Office Liaison Officer. 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 investment advisory committee of Cancer Research UK, a director of Rathbone Brothers plc and a member of the management committee of Hermes Property Unit Trust.

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

Officer – Roger Kershaw (Corporate Director – Resources)



Roger has been the lead officer for the pension fund since 2005.

The work the committee has done this year

During the financial year 2009/2010, the committee formally met four times. At every meeting the committee receives a report on the investment performance of the fund for the previous three months and any related information, and an update on the committee business plan and workplan. 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 the report from the external auditor and the auditor's opinion on the accounts of the fund, a report from the WM Company 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. As a number of the committee members were new to the committee after the county council elections in May 2009, they reviewed in full the fund's policies and statements at their first meeting. As well as approving revised versions of the Statement of Investment Principles, Governance Policy Statement, Governance Compliance Statement and Communication Policy Statement, the committee adopted, for the first time, a formal training policy for the committee members and a scheme of delegation. During the year, as part of an ongoing programme, the committee formally reviewed a number of the external fund managers, and decided to continue with those managers for the time being. They agreed to review the managers again in the future. The committee also received a report on how well the benefits were administrated and agreed a new policy for cash management after changes in the regulations covering this area.

As well as the formal meetings the committee have, they also meet with external fund managers. During the year, they have met with Standard Life, Aviva and Jupiter. The committee also attend the annual meeting for employers every September, where they are available to answer any questions.

Pensions committee

Committee training

As part of our new training policy, the committee members are committed to developing their skills and knowledge in relation to the pension fund. As part of this commitment, officers arranged a specific training day for the members. Because of the number of new committee members, the training focused on induction training and basic information about the fund. We have encouraged our members to attend appropriate outside training events and conferences.

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

	Committee meetings	Annual meeting	Internal training days	External training days	Conference days
Number of meetings	4	1	1		
Committee members					
Bob Little (Chairman)	4	1	1	2	2
Sam Crabb	4	1	1		2
Dawn Hill	3	1	1		
John Wilkins	4	1	1		
Tim Carroll	3	1	1		
Ian Dewey	1	1			
Caroline Moore	3	1	1		
Sarah Miller	4	1	1		2
Independent advisor					
Caroline Burton	4	1	1		

you grow a little



Fund managers

Under the regulations, we must consider:

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

The fund is divided into 14 parts for investment-management purposes.

In-house



Background
This part is managed under the direct control of the Head of Finance. The management is done in-house as it has proved over many years to be a cost-efficient way to invest.

Aims
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 to be held in the UK and overseas.

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

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

Standard Life Investments



Background
Standard Life Investments is a leading asset manager. They are committed to providing good long-term returns for investors. Based in Edinburgh with regional offices worldwide, a team of 325 investment professionals, backed by 460 support staff, manage assets worth £145.8 billion (as at 31 March 2010) on behalf of a wide range of clients.

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

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
43% 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

JP Morgan Asset Management



Background
JP Morgan Asset Management is one of the world’s largest asset-management companies with over US\$1,219 billion (£803 billion) of assets under management as at 31 March 2010. Worldwide, they employ 14,977 staff in 41 offices. They specialise in managing investments for large institutions and pension funds, and manage \$129.5 billion (£85.4 billion) of assets for clients investing in American equities. JP Morgan Asset Management is the asset management division of JP Morgan Chase & Co, which is listed on the New York, London and Tokyo stock exchanges.

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

Benchmark
S&P 500 index

Type of investments
US and Canadian equities

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

Appointed
February 1999

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 £21.1 billion across equity and other asset classes. In 2007, Jupiter became majority owned by its employees (this means more than 50% of the company is owned by people currently working for it). In June 2010, Jupiter’s holding company (the company that owns it and other businesses in their group), Jupiter Fund Management plc, was listed on the London Stock Exchange. When it was listed, most of its employees owned shares in Jupiter. Most of their fund managers invest their own money into their funds.

Jupiter acts on behalf of clients ranging from pension funds and larger charities to asset managers, government organisations, businesses, local authorities, and private individuals. Jupiter manages assets across a wide range of international and UK-based mutual funds, multi-manager products and hedge funds. These assets include portfolios that focus on specific markets such as the UK, Europe, Asia and emerging markets in Europe, as well as specialist asset classes such as socially responsible investments (SRI), financials and global equities.

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).

Fund managers

UBS Global Asset Management



UBS Global Asset Management

Background

UBS Global Asset Management is a large-scale asset manager with many different businesses across regions, different types of investors and assets types. It offers investment capabilities and investment styles across all major traditional and alternative asset classes. These include equity, fixed income, currency, hedge fund, real estate and infrastructure investment capabilities. With around 3,500 employees in 25 countries, UBS Global Asset Management is a truly global asset manager. Their invested assets totalled some £369 billion at 31 March 2010.

UBS Global Asset Management (UK) Ltd is a subsidiary of the Swiss listed company UBS AG.

Aim

To outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after UBS'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 2004

Nomura Asset Management

NOMURA

Background

Owned entirely by the Nomura Group and founded in 1873, Nomura Asset Management is one of the largest investment managers in the world. They have total group assets under management of over US\$250 billion, including US\$51 billion (£34 billion) in Japanese equities, as at 31 March 2010.

Nomura's specialist investment approach relies on being based in Asia and having local investment managers and research analysts. The company has their headquarters in Tokyo, but also have offices in the large financial centres around the world, including London, New York, Hong Kong and Singapore. They also have offices in Seoul and Kuala Lumpur.

Nomura Holdings Inc 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

Pioneer Investments



Background

Pioneer Investments is a leading asset manager with an 80-year history of providing investment management solutions to clients from institutions, corporations and private investors around the world. Pioneer is a worldwide organisation, employing around 2,100 people, including 364 investment professionals, in over 31 countries. Its main investment offices are based in Boston, Dublin and Singapore, and are supported by 12 local investment offices (including London) to manage £165 billion of total assets under management as at 31 March 2010.

Pioneer Investments is a subsidiary of the Italian listed company, Unicredit SpA.

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 3% of the whole fund.

Appointed

March 2009

you go to school

Fund managers

Aviva Investors



Background
Aviva Investors is owned entirely by Aviva plc, one of the world's largest insurance groups. Aviva Investors has assets under management of more than £249 billion, across a range of funds. Their clients range from large financial institutions to advisors, who provide investment solutions for individuals. Aviva Investors is a significant business in its own right. They employ almost 1300 people, including 429 investment professionals, in 16 countries around the world.

Aviva plc is listed on the London Stock Exchange.

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

Benchmark
IPD All Balanced Funds Index

Type of investments
Property unit trusts

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

Appointed
February 2004

Neuberger Berman



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

Neuberger Berman manage traditional assets and alternative investments, including private equity and hedge funds. They also give portfolio advice. Managing over \$180 billion of assets, Neuberger Berman is one of the world's largest independently owned asset managers. They have more than 1,600 employees worldwide (including over 400 investment professionals) in over 23 cities in eight countries across the globe, as at 31 March 2010.

NB Alternatives, a specialist part of Neuberger Berman, is a significant investor in private equity, with over \$10 billion of committed capital (capital that is promised but may not have been invested yet) across our private equity fund, secondary investments and direct co-investment areas.

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

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

Type of investments
Companies that are not listed on stock exchanges

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

Appointed
March 2010

Record Currency Management



Background
Record Currency Management is a leading currency overlay firm, managing £22.4 billion for pension fund and corporate clients in the UK, North America and Europe as at 31 March 2010. Record was founded in 1983 by Neil Record, a former Bank of England economist, to provide specialist currency management to institutions and corporations.

Record's earliest clients were European corporations who were gradually increasing the amount they invested in assets priced in foreign currency as foreign-exchange controls were being relaxed. In 1985, Record added its first pension fund client – the UK Water Authorities' Pension Funds. As at 31 March 2010, the company has 93 clients worldwide.

In December 2007, Record plc was listed on the London Stock Exchange. As at 31 March 2010, the staff and directors of Record still hold 53% of the equity.

Aim
On the currency hedging fund, the aim is to hedge 60% of the total fund's currency exposure. On the performance enhancing (active) fund, the aim is to produce an annualised return of 1.5% over continuous three-year periods after Record's fees have been deducted.

Benchmark
None

Type of investments
Currency forwards

Allocation of the fund
Record does not manage any underlying assets. The fund meets losses and takes profits as they fall due.

Appointed
October 2006

As well as the 12 funds mentioned previously, we also directly manage the cash holdings of the pension scheme and have a small interest in the South West Regional Venture Capital Fund, which is managed by Yorkshire Fund Managers Ltd. For a table showing the split of the assets by fund manager at the date of the net asset statement, see note 8 of the accounts on page 69.

Other experts

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



Custodian BNY Mellon

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. BNY Mellon is a specialist provider of custody and related services to pension funds in the UK. Among the services offered are:

- safe custody;
- managing cash;
- measuring investment performance;
- investment accounting;
- securities lending;
- transition management; and
- foreign-exchange facilities.

BNY Mellon is the corporate brand of The Bank of New York Mellon Corporation, which is listed on the New York Stock Exchange. The Bank of New York Mellon Corporation resulted from a merger, completed in late 2007, between The Bank of New York and the Mellon Financial Corporation, and does business in 34 countries. As at 31 December 2009, the company had total assets of \$212 billion and a market capitalisation (the current value on the stock market) of \$33.8 billion.

BNY Mellon has been the fund's custodian since February 2005.

Actuary – Barnett Waddingham



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

Barnett Waddingham LLP is the largest independent partnership of actuaries and consultants in the UK. The founding firm dates back to 1961. It is a limited liability partnership owned entirely by its 43 partners, with over 450 employees, including 36 associates, in seven offices across the UK.

Although they mainly provide actuarial advice, they do provide other services which include:

- scheme actuary and associated services to defined-benefit pension schemes;
- advice to defined-contribution pension schemes;
- accounting statistics for UK and international companies;
- advice on business transactions;
- independent advice to employers sponsoring pension arrangements;
- investment strategy reviews and advice on the funding strategy;
- communications programmes;
- administration and management services, including pensioner payroll, preparing annual accounts and secretarial services;
- managing closed schemes, wind-ups and reconstructions; and
- tax-efficient retirement planning for executives, directors and wealthy individuals.

Barnett Waddingham has been providing actuarial advice to local authorities about funds set up under the Local Government Pension Scheme Regulations and their predecessors for over 10 years

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

Auditors – Audit Commission



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.

The Audit Commission is the main auditor of local public services. It appoints auditors to provide assurance and promote value for taxpayers' money across local government, health, housing, community safety, fire and rescue and other public services. Auditors are appointed by the Audit Commission from its own staff and from professional audit firms, and are independent of the organisations they audit. Auditors' responsibilities are set out in the Audit Commission Act 1998.

The Audit Commission became the auditor for the fund in 2008.

Performance measurement – The WM Company



The role of the performance measurer is to independently work out the return on the assets managed by each of the investment managers. It will also compare these figures with the benchmark given to each manager and the overall fund against its own benchmark and other local authorities' funds.

WM Performance Services is part of State Street Investment Analytics (SSIA), the global performance division of State Street Bank & Trust Company.

SSIA provide customers with industry-leading performance, risk, compliance and consultancy services by using the wealth of experience and services from 15 offices around the world. SSIA currently analyse assets of more than \$7.7 trillion worldwide and have one of the largest databases of actual fund information.

WM Performance Services currently measures about 90% of UK local authority pensions funds, with a combined value of more than £133 billion as at 31 March 2010.

As well as producing the Local Authority Universe and CIPFA Statistics, SSIA is also responsible for working out the returns for the annual Local Government Conference Awards.

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

Legal advisor – Osborne Clarke



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

Osborne Clarke is an international business law firm with around 700 staff and partners working in offices in major financial and commercial centres in the UK and across Europe. The firm's main areas of expertise include corporate, finance and property transactions and the full range of business law services, including commercial contracts, employment, pensions and resolving disputes.

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

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

Other experts

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 fund uses the 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 an association of (currently) 51 local-authority pension funds, which together have assets of £80 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.

Contribution, benefits and membership

The Local Government Pension Scheme (LGPS) has been approved under the Local Government Superannuation Act 1972 and has been updated by the Pension Scheme Regulations 1997. The 'new-look' LGPS was introduced in April 2008 as a result of further laws.

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

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

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

Employees' contributions are fixed by government regulation. Employers' contributions are assessed by the fund's actuary every three years, but are reviewed every year to take account of early retirements. If there are a lot of early retirements, the contribution rate is increased immediately.

Employees' contributions as a percentage of pay

Salary Range	Contribution Rate
£0 to £12,600	5.50%
£12,601 to £14,700	5.80%
£14,701 to £18,900	5.90%
£18,901 to £31,500	6.50%
£31,501 to £42,000	6.80%
£42,001 to £78,700	7.20%
More than £78,700	7.50%

Contributions

Employees – Tiered contribution rates depending on annual salary, with seven contribution bands ranging from 5.5% to 7.5%.

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.

A full actuarial valuation of the fund was carried out as at 31 March 2007 and this showed a funding level of 95%. Although the valuation showed an improvement in the funding level, the employers' contribution rates did not reduce. This is because strong investment returns were offset by changes in the assumptions the actuary makes to value the liabilities and the cost of future pension benefits. A further valuation of the fund will be carried out as at 31 March 2010. This will set employers' contribution rates for the following three years and confirm the funding level.

Contribution, benefits and membership

The benefits structure of the fund is set by government laws and we cannot change this.

Major benefits

- A retirement pension at the rate of 1/60 of the final year's pensionable pay (or the highest three years' pay out of the last 10 years of employment) for each year the individual has been a member of the scheme.
- Up to 25% of the pension can be exchanged for a tax-free 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.
- A revised ill-health retirement package with two levels of benefits depending on the seriousness of the individual's illness.
- A nominated partner's pension and dependent children's pensions.
- 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 years' 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.

All local-government pensions are protected against inflation under the public-sector index-linking arrangement. With negative inflation for much of the year, there was no increase from 1 April 2010.

The fund continues to grow with over 20,000 active members. The media coverage of pensions issues has made sure that pensions have a much higher profile and this has helped our pensions staff to recruit more new scheme members.

Communication continues to play an increasingly important role. We issue regular newsletters and have produced annual benefit statements for all members of the scheme, including deferred members. We continue to provide information and guidance on the whole range of pension services available to both scheme members and employers. Also, the fund has held seminars for the benefit of the scheme's employer organisations during the year.

Employers' contributions as a percentage of employees' pay

	2007/2008	2008/2009	2009/2010	2010/2011
Somerset County Council	14.1%	14.3%	14.6%	15.1%
Mendip District Council	15.9%	16.4%	17.0%	17.6%
Sedgemoor District Council	13.8%	14.2%	14.8%	15.4%
South Somerset District Council	14.1%	14.5%	15.0%	15.5%
Taunton Deane Borough Council	14.7%	14.9%	14.9%	15.0%
West Somerset District Council	14.4%	14.9%	15.2%	15.4%
Avon and Somerset Police Authority	13.5%	13.5%	13.5%	13.5%
Avon and Somerset Probation Committee	13.5%	13.5%	13.5%	13.5%
Further education colleges	14.1%	14.1%	14.1%	14.1%
Foundation & voluntary aided schools	14.1%	14.3%	14.6%	15.1%
Small scheduled organisations	16.8%	17.0%	17.4%	17.7%

Admitted organisations	12.9% to 20.7%	12.9% to 19.6%	12.9% to 19.6%	12.9% to 19.6%
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Principles and Policies

The statements, policies and principles listed below are versions of the fund's actual statements, policies and principles that have been approved by Plain English Campaign and given their Crystal Mark for clarity. For a copy of the actual statements or current versions of the statements, policies and principles, please contact the Funds and Investments Manager (contact details are on the back cover).

Funding strategy statement

Introduction

This statement has been prepared in line with regulation 35 of the Local Government Pension Scheme (Administration) Regulations (the LGPS regulations). The statement describes Somerset County Council's strategy as administering authority for the Somerset County Council Pension Fund (the fund).

Under regulation 35(3a), this statement has considered guidance published by CIPFA in March 2004.

Consultation

In line with regulation 35(3b), we have consulted all employers whose employees are members of the fund on the contents of this statement, and we have taken their views into account. However, the statement describes a single strategy for the fund as a whole.

The administering authority has also considered the fund's statement of investment principles published under regulation 9A of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998 (the 'investment regulations').

We have also consulted the fund actuary, Barnett Waddingham LLP, on the contents of this statement.

Purpose of this statement

The three main purposes of this funding strategy statement are to:

- set out a clear and open strategy, specific to the fund, which will identify the best way to meet employers' pension liabilities in the future;

- support the regulatory requirement to keep employers' contribution rates as constant as possible; and
- take a sensible longer-term view of funding the fund's liabilities.

The aims of the fund

The aims of the fund are as follows.

1 To keep employers' contribution rates as constant as possible, and at reasonable cost to the scheduled organisations, admitted organisations and taxpayers.

The administering authority recognises that the requirement to keep employer contribution rates as constant as possible can go against the following requirements.

- The regulatory requirement to avoid becoming insolvent.
- The requirement to keep costs at a reasonable level.
- The requirement to bring in the highest possible amount of income from investments, within reasonable restrictions (see 4 below).

Employers' contributions are set every three years after the actuarial valuation. In the long term, the most important factor that influences levels of employers' contributions will be the investment strategy. The investment strategy will also have an effect on levels of employers' contributions in the short term. However, the funding model used to set levels of employers' contributions will also play an important part. The model the fund uses aims to produce stable levels of employers' contributions by using smoothing mechanisms.

The administering authority recognises that it needs to find a balance between the investment policy it uses, the smoothing mechanisms used at valuations, and the smoothness of employers' contribution rates from one valuation period to the next.

The administering authority also recognises that the position could be more unpredictable for admitted organisations with short-term contracts where it could be less appropriate for them to use smoothing mechanisms.

2 To make sure that enough resources are available to meet all liabilities as they become due.

The administering authority recognises the need to make sure that the fund always has enough liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. The administering authority's policy is to first meet this spending using employers' and employees' contributions, as this avoids the costs involved in selling assets. The administering authority monitors the position each month to make sure that all cash requirements can be met.

3 To manage employers' liabilities effectively.

The administering authority aims to make sure that all employers' liabilities are managed effectively. In relation to funding, it will achieve this by regularly taking advice from the fund's actuary – making sure that employers and committee members are properly informed – and regularly monitoring the funding position.

4 To bring in the highest possible amount of income from investments, within reasonable risk restrictions.

The administering authority recognises the need to bring in the highest possible amount of income, within reasonable risk restrictions. The administering authority looks for investment returns higher than those available on government bonds by investing in other asset classes such as equity stocks and property.

The administering authority makes sure that it only faces a reasonable level of risk by:

- restricting its investment to the levels allowed by the investment regulations;
- only investing in asset classes which are generally recognised as appropriate for UK pension funds; and
- working with the fund's actuary, investment advisors and fund managers to analyse the possible risks from those asset classes.

Purpose of the fund

The purpose of the fund is to:

- pay scheme benefits, transfer values, costs, charges and expenses;
- receive contributions, transfer values and investment income; and
- appropriately invest money which is not immediately needed to meet liabilities.

Responsibilities of the main parties involved

The administering authority, the individual employers and the scheme actuary have the most relevant responsibilities in relation to the fund. Their main responsibilities are as follows.

Administering authority

The administering authority's main responsibilities are as follows.

1 To collect employers' and employees' contributions and make sure these contributions are paid by the due date.

Individual employers must pay contributions in line with regulations 39 to 42 of the LGPS regulations. The administering authority will make sure that all employers are aware of these requirements, especially the requirement of the Pensions Act 1995 that says that members' contributions must be paid by the 19th of the month after the month that they are paid by the member. Employers who do not meet these requirements may be reported to the Pensions Regulator.

The administering authority will make sure that it takes action to recover assets from admitted organisations whose admission agreement has ended. It will do this by:

- asking the fund actuary to work out the funding position at the date the admission agreement ended; and
- telling the admitted organisation that it must pay any amounts due once the agreement has ended.

In working out the funding position at the date the admission agreement has ended, the fund actuary will not consider future investment returns over and above those available from gilt-edged securities, unless another employer in the fund guarantees the liabilities left in the fund.

2 To invest surplus money in line with the regulations.

The administering authority will keep to regulation 9 of the investment regulations.

3 To make sure that cash is available to meet liabilities when they become due.

The administering authority recognises this duty and performs it as set out in the aims of the fund above.

4 To manage the valuation process after consulting the fund actuary.

The administering authority will communicate effectively with the fund actuary to:

- agree timescales for providing information and valuation results;
- make sure this information is accurate;
- make sure that the fund actuary is clear about the funding strategy;
- make sure that employers who are taking part in the scheme receive appropriate information throughout the process; and
- make sure that reports are made available, in line with the relevant guidance and regulations.

5 To prepare and maintain a statement of investment principles and a funding strategy statement after consulting interested parties.

The administering authority will make sure that both documents are prepared and maintained as necessary.

6 To monitor all areas of the fund's performance and funding, and amend these two documents if necessary.

The administering authority monitors the funding position of the fund every three months, and the investment performance of the fund each month. The statement of investment principles and funding strategy statement will be formally reviewed every year, unless this needs to be carried out at an earlier date.

Individual employers

Individual employers will:

- deduct contributions from employees' pay;
- pay all contributions, including their employers' contribution as decided by the actuary, by the date they are due;
- use the discretions given to them by the regulations on how certain parts of the regulations apply to their employees;
- pay for added years in line with agreed arrangements; and
- tell the administering authority as soon as possible about all changes to their membership, or other changes which affect future funding.

The fund actuary

The fund actuary's main responsibilities are as follows.

1 To prepare valuations, including setting employers' contribution rates after agreeing assumptions with the administering authority and considering the funding strategy statement.

Valuations will also be prepared in line with generally accepted actuarial methods and reported on in line with guidance note 9 issued by the Board of Actuarial Standards as far as the guidance note is relevant to the LGPS.

2 To prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

This advice will take account of the funding position and strategy of the fund, along with other relevant matters.

Principles and Policies

Solvency

The administering authority will aim to make sure the fund is solvent. For this purpose, the administering authority defines ‘solvency’ as being when the value of the fund’s assets is greater than or equal to the value of the fund’s liabilities when measured using ‘ongoing’ actuarial methods and assumptions.

‘Ongoing’ actuarial methods and assumptions means using the projected unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer who is unlikely to become insolvent. The financial assumptions used to assess the funding level will consider the yields available on long-term fixed-interest and index-linked gilt-edged investments. The administering authority has also agreed with the fund actuary that the assumptions will partly allow for the higher long-term returns that are expected on the assets the fund actually holds, and understands the risks of this approach if those extra returns fail to come about.

Consistent with the aim of keeping employers’ contribution rates as constant as possible, and after considering the risks in relation to this approach, the administering authority has also agreed with the fund actuary to use smoothing adjustments in making the solvency measurement. It is unlikely that all of these smoothing adjustments will be extended to employers who are only taking part in the fund for a fixed period (for example, an employer who has been admitted because they have been awarded a best-value outsourcing contract).

Funding strategy

If a valuation reveals that the fund has a surplus or shortfall of assets to meet its liabilities, employers’ contribution rates will be adjusted to target a return to the solvent position over a period of years (the recovery period). The administering authority will set the recovery period that applies for each employer after consulting the employer and the fund actuary, and will aim to balance the various funding requirements against the risks involved (for example, the financial strength of the employer and how it takes part in the fund).

The administering authority recognises that a large part of the fund’s liabilities are expected to arise as benefit payments over long periods of time. For employers of sound covenant, the administering authority is prepared to agree to recovery periods which are longer than the average future working lifetime of that employer’s membership. The administering authority recognises that this approach is consistent with the aim of keeping employers’ contribution rates as constant as possible. However, the administering authority also recognises the risk in relying on long recovery periods and has agreed a limit of 40 years with the fund actuary. The administering authority’s policy is to agree with each employer recovery periods which are as short as possible within this framework.

For employers who are taking part in the fund for a fixed period, it is unlikely that the administering authority and fund actuary would agree to a recovery period longer than the remaining period the employer will be taking part.

Consistent with the requirement to keep employers’ contribution rates as constant as possible, the administering authority allows some employers to be treated as a group for the purposes of setting contribution rates. In particular, contribution rates for smaller employers could be unpredictable due to the increased likelihood that changes to the circumstances of beneficiaries from what the actuary originally assumed would have a significant effect. The administering authority recognises that grouping can bring about the possibility of one employer subsidising another over time. The administering authority’s policy is to consider the position carefully at each valuation and to tell each employer who is grouped that this is the case, and which other employers they are grouped with. If the employer objects to this grouping, they will be offered their own contribution rate. For employers with significantly more than 50 contributing members, the administering authority would look for evidence of significant similarity between employers before considering how to group them. Employers who are taking part in the fund for a fixed period are unlikely to be allowed to be grouped.



Principles and Policies

Again, consistent with the requirement to keep employers' contribution rates as constant as possible, the administering authority will consider, at each valuation, whether new contribution rates should be paid immediately, or reached by a series of steps over future years. The administering authority will discuss with the fund actuary the risks related to this approach, and will examine the financial effects and risks associated with each employer. The administering authority's policy is normally to allow no more than three equal steps over three years. Further steps may be allowed in extreme cases, but the total is very unlikely to go beyond six steps.

Identifying risks and measures to limit them

The administering authority's overall policy on risk is to identify all risks to the fund and to consider the position both in terms of the total risk and the individual risks. The administering authority will monitor the risks to the fund, and will take appropriate action to limit the effects of these both before, and after, they arise. The main risks to the fund are as follows.

Demographic risks

The main risks include changing retirement patterns and patterns of how long scheme members live. The administering authority will make sure that the fund actuary investigates these matters at each valuation (or more often, if appropriate) and reports on developments. The administering authority will agree with the fund actuary any changes which are necessary to the assumptions that support the measure of solvency to allow for changes in actual or expected future observations.

If significant demographic changes are identified between valuations, the administering authority will tell all employers who are taking part in the fund about how the changes affect the costs for the next valuation and will review the bonds that are in place for admitted organisations that are transferring in or out of the fund.

Regulatory risks

The risks relate to changes to regulations, national pension requirements or HM Revenue & Customs rules. The administering authority will keep up to date with all proposed changes and, where possible, express their opinion during consultation periods after careful consideration. The administering authority's policy will be to ask the fund actuary to assess how any changes could affect costs. If the costs are likely to be significant, the administering authority will tell employers and give them information on when the changes will take place.

Governance risks

This covers the risk of unexpected changes in the fund membership (for example, if an employer no longer makes the fund available to new employees, or if a large number of staff retire or withdraw from the fund), and the related risk of the administering authority not being made aware of these changes as soon as possible.

The administering authority's policy is to regularly communicate with employers, and review items such as bond arrangements, funding levels and the financial standing of employers who do not collect tax.

Statistical and financial risks

This covers items such as the performance of markets, fund investment managers, investing assets in highly changeable markets, pay or price inflation varying from expected levels, or the effects of possible increases in employers' contribution rates on fund employers and our ability to provide services. The administering authority's policy will be to regularly assess these items to make sure that all the assumptions it uses are still valid.

Solvency measure

The administering authority recognises that allowing for future investment returns of more than those available on government bonds introduces an element of risk, in that those extra returns may not come about. The administering authority's policy will be to monitor the position and to make sure that the funding target continues to be realistic if the extra returns are not achieved.

Smoothing

The administering authority recognises that using smoothing techniques as part of the measurement of solvency introduces an element of risk, in that the smoothing techniques may not provide a true market-based measure of the solvency position. The administering authority's policy is to review the effects of the smoothing techniques at each valuation to make sure that the solvency position worked out using those techniques is within an acceptable limit of the market-based position.

Recovery period

The administering authority recognises that allowing surpluses or shortfalls to be reduced to zero over a recovery period, rather than immediately, introduces a risk that action to restore solvency is not enough between measurements. The administering authority's policy is to discuss with the fund actuary the risks that apply in each situation and to limit the allowed length of the recovery period to no longer than 40 years.

Stepping

The administering authority recognises that allowing contribution rates to be changed in yearly steps, rather than immediately, introduces a risk that action to restore solvency is not enough in the early years of the process. The administering authority's policy is to discuss with the fund actuary the risks that apply in each situation and to limit the number of allowed steps to three yearly steps or, in exceptional circumstances, to six yearly steps.

Statement of investment principles

The administering authority has produced this funding strategy statement after considering an overall view of the level of risk in the investment policy set out in the statement of investment principles and the funding policy set out in this statement. The statement of investment principles is set out each year in the fund's annual report and accounts.

The administering authority will continue to review both documents to make sure that the overall risk profile continues to be appropriate.

Future monitoring

The administering authority plans to formally review this statement as part of the valuation process every three years, unless this needs to be carried out at an earlier date.

The administering authority will monitor the funding position of the fund regularly between valuations, and will discuss with the actuary whether there have been any significant changes which need to be dealt with.

Somerset County Council Pension Fund May 2008

Statement of investment principles

1 Introduction

a The Local Government Pension Scheme has existed for many years, and is based on primary legislation (The Superannuation Act 1972), and regulations approved as statutory instruments. These regulations can be revised or updated.

b Somerset County Council are the statutory administering authority' for the Local Government Pension Scheme in the administrative county of Somerset (the 1974 boundaries). The pension fund provides a benefits package for local-authority employees who are not eligible to be members of other statutory schemes (for example, schemes for teachers, police officers and firefighters).

c There are other public-sector employers in the county whose staff are entitled to belong to the pension fund (for example, further education colleges). Certain other organisations can apply to be included in the pension fund.

d Because it is not a trust-based scheme, there is no group of trustees. In effect, Somerset County Council is 'the trustee'.

e The responsibility for the fund is passed to the pensions committee. The committee is made up of:

- four Somerset County Council members;
- a district councillor representing the five district councils;
- a representative of Avon and Somerset Police Authority;
- a representative of all other participating employers; and
- a members representative.

As well as the eight committee members, an independent advisor and officers of the county council will attend all meetings. All of the committee members may vote at meetings.

The Section 151 Officer is responsible for putting the committee's decisions into practice, and for the day-to-day management of the pension fund.

f As well as this statement, the committee maintains a range of specific policies and strategies, including:

- a governance policy statement;
- a communication policy statement;
- a funding strategy statement; and
- a forward-looking committee business plan.

g The committee has adopted this statement of investment principles.

2 Pensions committee responsibilities

a The terms of reference for the committee, which form part of the governance policy for the fund, say that it is responsible for:

- deciding the aims of the investment policy;
- making arrangements for managing the fund's investments;
- regularly monitoring investment performance;
- making arrangements to publish the fund's annual report and accounts;
- consulting stakeholders, including publishing the funding strategy statement and statement of investment principles;
- ordering actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations;
- considering requests from organisations who want to join the fund as admitted organisations; and
- making representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

b The committee meets at least once every three months to consider investment strategies and the performance of its managers. At these meetings, it takes advice from its officers, managers and independent advisors as necessary.

3 Investment policy

3.1 Overview

a In line with the fund's funding strategy statement, the committee has set an aim for the fund to be at or above a 100% funding level, based on the calculations done by the fund's actuary at each three yearly valuation, so that it can meet its current and future liabilities. As the scheme provides for the

actuary to value assets and liabilities regularly and to adjust the employers' contributions, our aim is to make sure that investment returns are as high as possible for a particular acceptable level of risk so the cost to the employers is reduced as far as possible.

b Under the Local Government Pension Scheme Investment Regulations (the regulations), we must invest any income we have left after paying out pensions. The pension fund's income comes from contributions by employers and employees, together with interest and dividends on investments.

c The regulations have developed over the years and provide a legal framework within which the fund's money is managed. We keep to the limits on the maximum investment that can be made in various types of approved investment, as set out in the regulations and changed from time to time.

3.2 The type of investments to be held

a When investing pension-fund money, we take account of:

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

b While most investments will be in listed stocks and shares, we may decide:

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

c A contract is put in place with each external fund manager which clearly states the type of investments

they are allowed to make for the fund and which agrees asset allocation ranges. They will also set any restrictions we think are necessary.

3.3 The balance between different types of investment

a The fund will always hold a portfolio with a wide range of different kinds of investments to reduce risk. Investments are spread over a range of asset classes (bonds, equities, property, cash, and so on) and we have a number of different investment managers with varying investment styles.

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

3.4 Risk

a Investment by its very nature is a risk business and the returns achieved will reflect the risks that are taken.

b Investment risk includes the risk of the value of assets falling because of negative returns. We cannot completely avoid risks (for instance if all major investment markets were to fall at the same time) but we can manage it by making sure that the fund's investments are made across a number of different assets and markets. This is an effective way of reducing the risk of the fund's assets falling in value.

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

d Investment risk also includes the risk of underperforming the fund's benchmark. This is called relative risk. Setting a benchmark and performance target and monitoring the performance of funds against these helps to prevent the fund managers from investing in a way that is significantly different from what we intended, while giving them the flexibility to manage the portfolio in a way that will allow them to improve returns.

Statement of investment principles

- e By appointing more than one fund manager, we reduce the influence that each manager has on the fund. Although each fund manager typically only invests in a single asset class, we expect them to maintain a varied portfolio of investments for their individual benchmarks.
- f The committee does not set specific portfolio risk limits on its investment managers, because it believes the performance target set for each manager gives them enough guidance as to the level of risk that they should be taking.
- g By always keeping in contact with fund managers this means we can monitor the investment risks they are taking in their portfolios and for the fund as a whole.
- h The biggest risk to our fund is that the fund's assets produce worse returns than those the actuary has used when carrying out valuations and so the solvency of the fund becomes worse.

3.5 The return that we expect our investments to make

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

3.6 Security of investments

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

3.7 Social, environmental and ethically responsible investment

- a The executive board and committee have considered the implications of Local Agenda 21 and the possibility of only making specific ethical investments.
- b Evidence on performance and the spread of investment has led the committee to decide not to allocate funds on a specific ethical basis. We will look regularly at how ethical investments are performing.
- c The most effective way of understanding and influencing the social, environmental and ethical policies of those companies is by reasonable discussion with the companies we invest in, through a third party, while at the same time achieving financial returns that meet the fund's longer-term financial objectives.
- d The corporate performance of companies and their value as investments are increasingly affected by social, environmental and ethical factors. To help companies to invest carefully and responsibly, the committee will encourage and support companies that have a positive response to social, environmental and ethical concerns. The committee expects companies to do the following.

- Make a commitment to achieving recognised social, environmental and ethical best practice.
- Regularly monitor their policies and practices.
- Set up procedures which will lead to gradual improvements in performance.
- Follow all current environmental and other relevant legislation and work to anticipate future changes to legislation.
- Make available to shareholders regular and detailed reports of progress made towards maintaining and, where necessary, improving standards.
- Work to take all reasonable and practical steps to reduce or get rid of damage to the environment.
- Actively and openly discuss the social, environmental and ethical effects of their business.

3.8 Corporate governance

- a Holding shares in public limited companies gives the fund the right to vote at company meetings. We have accepted this, and vote in line with a policy agreed by the committee.
- b The policy adopted is:
 - to give external managers the power to vote on our behalf in line with their own process within industry standards and the principles of this statement;
 - for the in-house managed funds, to receive the Voting Issues Service of the Pension Investment Research Consultants (PIRC) and follow their recommendations in voting on all resolutions where practically possible; and
 - to consider individual voting issues as they arise.
- c The committee recognises its responsibility as an institutional investor to support and encourage good corporate-governance practices in the companies it invests in. The committee considers that good corporate governance can contribute to business health and success by encouraging boards, shareholders and other stakeholders to answer to each other. Good corporate governance also plays an important part in encouraging corporate responsibility to shareholders, employees and wider society.

- d To achieve this responsibility, the committee uses its voting rights attached to investments to support its corporate-governance policies. The committee's voting rights are an asset and will be used to further the long-term interests of the fund's beneficiaries. As a general principle, votes will be used to:
 - protect shareholder rights;
 - reduce, as far as possible, risk to companies from corporate governance failing;
 - improve long-term value; and
 - encourage corporate social responsibility.
- e The fund is also a member of the Local Authority Pension Fund Forum. This forum promotes the investment interests of local-authority pension funds, and makes the most of their influence as shareholders to promote corporate social responsibility and high standards of corporate governance among the companies they invest in.

3.9 Stock lending

- a The fund has a stock-lending programme that keeps to the limits allowed by the LGPS regulations.
- b The fund gets a useful source of relatively low-risk income from lending stock.

4 Accounts and audit

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

Statement of investment principles

5 Working in line with Myners

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

Myners sets out a number of principles of best practice and recommends that pension funds should set out what they are doing to apply these principles. In response to Myners' proposals, the Government issued a set of 10 investment principles in October 2001 that it said it would adopt, too. 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 where the principles have been kept to. The fund's performance against the CIPFA principles and guidance is set out below.

- b Principle 1: Effective decision-making

The administering authority should make sure that:

- **decisions are taken by people or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor how they are put into place; and**
- **the people chosen to take decisions on behalf of pension funds should have the skills and expertise to be able to assess and challenge the advice they receive, and manage conflicts of interest.**

The fund generally keeps to this principle but we aim to adopt the CIPFA learning and skills framework for members and to improve how budgets are monitored and how resources are used.

- c Principle 2: Clear aims

Overall investment aims should be set out for the fund. They should take account of the scheme's liabilities, the potential effect on local tax payers, whether admitted bodies can meet their responsibilities to the fund 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 keeps mostly to this principle but we need to consider having an absolute annual investment return target for the fund.

- d Principle 3: Risk and liabilities

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

These include the effect on local taxpayers, the risk that employers who are taking part become insolvent, the risk of their default and the risk that people live longer than we assume they will.

In light of this principle, we need to consider improving the fund's risk framework and how we report on risk.

- e Principle 4: Assessing performance

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

Administering authorities should also, from time to time, formally assess how effective they are as a decision-making organisation and report on this to scheme members.

We keep to this principle in terms of how we measure investment performance and investment managers. We need to consider ways to formally measure our advisors' performance and the pensions committee's performance.

- f Principle 5: Responsible ownership

Administering authorities should:

- **adopt, or make sure 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; and**

- **report from time to time to scheme members on how they have met these responsibilities.**

We keep to this principle.

- g Principle 6: Transparency and reporting

Administering authorities should:

- **act in a open and straightforward way, communicate with stakeholders on issues relating to how their investments are managed, the risks involved in their investments, and how the fund is meeting its aims; and**
- **provide regular information to scheme members in the way they think is most appropriate.**

We keep to this principle.

6 Arrangements for reviewing this statement

6.1 The pensions committee will review regularly this statement of investment principles, particularly to check it continues to meet all regulatory and legal requirements. We will also check the document to make sure that what we say about how we have kept to the Myner's principles reflects what is currently happening with the fund. If we significantly change the statement, the pensions committee will consult relevant stakeholders before they make any changes to the statement.

Approved by the pensions committee
Somerset County Council
June 2010

you study



Governance policy statement

Introduction

Under the Local Government Pension Scheme (Amendment) (number 2) Regulations 2005 [SI 2005/3199], each administering authority in England and Wales must prepare, maintain and publish a governance policy setting out whether they are going to pass their function or part of their function in relation to maintaining the pension fund to a committee, a subcommittee or an officer.

Somerset County Council is the administering authority for the Somerset County Council Pension Fund (the fund), and formally agreed the governance arrangements set out in this policy statement on 10 July 2009.

The fund's governance arrangements have also been produced in line with guidance and best practice from the Chartered Institute of Public Finance and Accountancy (CIPFA).

Responsibility for the fund

The county council has passed its responsibility for managing the Somerset County Council Pension Fund to a specific committee known as the Somerset County Council Pensions Committee.

The approved terms of reference for the pensions committee are set out in annex 1.

Membership of the pensions committee

The membership of the pension committee allows for wider representation from all stakeholders, while keeping overall numbers to a manageable number to recognise the significant commitment, specialist knowledge and training that needs to be developed by committee members.

The constitution for the pensions committee is set out in annex 2. All members of the committee have full voting rights on the committee.

Meetings of the pensions committee

The pensions committee will normally meet formally every February, May, September and November. These meetings will be open to members of the public.

There will also be an annual general meeting, normally in September each year, for all employers whose employees are members of the fund.

Pensions committee members will also receive a range of specific training and development to help them fulfil their role effectively.

Supporting governance policies and statements

There is a range of policies and statements, which are also maintained to support effective governance arrangements for the fund as set out below.

- Statement of investment principles
- Funding strategy statement
- Communication policy
- Annual report and accounts
- Actuarial valuation
- Forward business plan

Arrangements for reviewing this policy

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

Pensions Committee
Somerset County Council
July 2009

Annex 1

Terms of reference

- 1 These terms of reference show the main responsibilities for the pensions committee and how they will take on the functions of Somerset County Council in its role as administering authority of the Somerset County Council Pension Fund (the fund).
- 2 Main responsibilities
 - Decide the aims of the investment policy.
 - Make arrangements for managing the fund's investments.
 - Regularly monitor investment performance.
 - Make arrangements to publish the fund's annual report and accounts.
 - Consult stakeholders, and publish the funding strategy statement and statement of investment principles.
 - Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
 - Consider requests from organisations who want to join the fund as admitted organisations.
 - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- 3 In line with the Myners' Investment Principles, members must consider their training and development needs. They should make sure they have enough support staff in place and have developed a forward-looking business plan.

Annex 2

Constitution of the pensions committee

The pensions committee is made up of:

- four county council elected members;
- one district councillor representing the five district councils;
- one representative for Avon and Somerset Police Authority;
- one representative of the admitted organisations and remaining smaller scheduled organisations; and
- a nominated representative of pension-fund members.

The committee will also be attended by:

- an officer; and
- a specialist adviser.

The total number of members on the committee will be eight.

All committee members have full voting rights.

Governance compliance statement

Introduction

Under Regulation 31 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), an administering authority must, after consulting people it considers appropriate, prepare, publish and maintain a governance compliance statement.

This statement must set out the following.

- a Whether the administering authority asks a committee, a sub-committee or an officer of the administering authority to carry out some of or all of its responsibilities to the pension fund.
- b If it does, the statement should also set out:
 - 1 the terms of reference, structure and the way the delegation is run;
 - 2 how often any committee or sub-committee meetings will be held; and
 - 3 whether the committee or sub-committee includes representatives of employing authorities (including non-scheme employers) or members and, if so, whether those representatives have voting rights.
- c To what extent a delegation (if there is one) keeps to guidance given by the Secretary of State for Communities and Local Government and, if it does not keep to the guidance, the reason for not doing so.

The statement must be revised and published by the administering authority following a significant change in their policy on any of the matters referred to above.

This statement was made and approved by the Somerset County Council pensions committee on 10 June 2010.

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
A – Structure		
a The main committee, set up by the appointing council, should manage how benefits are given out and decide how the fund's assets are managed.	Yes	Somerset County Council has set up the Somerset County Council pensions committee for this purpose. The specific terms of reference for the committee are set out at annex 1.
b Representatives of participating LGPS employers, admitted organisations and scheme members (including pensioner and deferred members) are members of either the main or secondary committee.	Yes	The pensions committee includes representation of all employers taking part. Scheme members (whether active, pensioner and deferred) are represented through a Unison-nominated representative on the pensions committee.
c If a secondary committee or panel has been set up, both the main and secondary committee or panel must communicate with each other effectively.	Does not apply	There are no secondary committees or panels in place.
d If a secondary committee or panel has been set up, at least one seat on the main committee should be given to a member from the secondary committee or panel.	Does not apply	There are no secondary committees or panels in place.
B – Representation		
a That all key stakeholders are given the opportunity to be represented within the main or secondary committee structure. These include the following (see a1 to a4 below).		

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Governance compliance statement

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
a1 Employing authorities (including non-scheme employers, such as admitted organisations)	Yes	The pensions committee includes representation of all the scheme employers, including the county council, district councils, the police authority and the admitted organisations.
a2 Scheme members (including deferred and pensioner scheme members) should be represented at committee meetings.	Yes	Scheme members (whether active, pensioner or deferred) are represented through a Unison-nominated representative on the pensions committee.
a3 Where appropriate, independent professional observers should attend committee meetings.	Yes	The independent investment advisor attends all pensions committee meetings.
a4 Expert advisors (when we think this is appropriate) should attend committee meetings.	Yes	<p>Our in-house officer expert advisors attend all pensions committee meetings, including the Chief Financial Officer, investments manager and fund administration manager.</p> <p>The appointed actuary, outside auditors and performance advisors also attend at least once a year.</p>
b Where pension-scheme members sit on a main or secondary committee, they should be treated equally in terms of being able to read all documents, attend all meetings and training and be given the opportunity to contribute to the decision-making process, with or without voting rights.	Yes	All members of the pensions committee receive equal access to documents and training and have equal speaking rights in the decision-making processes.

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
C – Role of members		
a Committee or panel members should be made fully aware of the status, role and function they must perform on either a main or secondary committee.	Yes	<p>All new members receive regular specific training and access to outside training and seminars.</p> <p>When committee or panel members are appointed to the board, we ask lead officers to give them an induction and information about the fund. New members are also given relevant committee reports and annual reports.</p> <p>Specific terms of reference are also in place for the pensions committee (see annex 1) and the county council monitoring officer has given the committee specific legal guidance on the role of members.</p> <p>All committee members also understand that they are not there to represent or promote their own personal or political interests. They also understand that they must declare any conflicts of interest and not take part in discussion or voting if there is a conflict of interest on an item on the agenda.</p>
b At the start of any meeting, committee members should be asked to declare any conflicts of interest related to items on the agenda.	Yes	Since the pensions committee was set up, we have made sure members declare any conflicts of interest with items on the agenda.
D – Voting		
a The policy of administering authorities on voting rights should be clear and straightforward, including the reasons given for not giving voting rights to each organisation or group represented on main LGPS committees.	Yes	All members of the pensions committee have full voting rights.

Governance compliance statement

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
E – Training, facility time and expenses		
a There should be a clear policy on training, facility time and refunds of expenses for members involved in the decision-making process.	Yes	<p>The pensions committee have adopted a formal training policy for its members.</p> <p>The committee forward work-plan provides for specially designed training days, together with access to, and support for, outside training provision and attendance at appropriate seminars.</p> <p>We encourage all members to attend regular training.</p> <p>The pension fund repays members for any costs they have in relation to training.</p>
b All policies should apply equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Yes	All pensions committee members have equal access and rights to training and related support.
c The administering authority should consider using yearly training plans for committee members and keep a record of all training that members carry out.	Yes	The pensions committee have adopted a training policy for committee members. The committee will report on training each year.
F – Meetings		
a An administering authority's main committee or committees should meet at least every three months.	Yes	The pensions committee meets every three months and forward dates have been agreed for at least the next 12 months. A forward meeting plan is also in place.
b An administering authority's secondary committee or panel should meet at least twice a year at the same time as the main committee.	Does not apply	There are no secondary committees or panels in place.

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
c An administering authority who does not include pension fund members in their formal governance arrangements should provide a forum in which the interests of key stakeholders can be represented.	Yes	The pensions committee does include pension fund members and this means all key stakeholders are represented.
G – Access		
a In line with any rules in the council's constitution, all members of main and secondary committees or panels should have equal access to committee papers, documents and advice that is to be considered at main committee meetings.	Yes	All members of the pensions committee receive the same agenda and papers containing advice for each meeting. All our pensions committee members can question our professional advisors (who attend pensions committee meetings).
H – Scope		
a Administering authorities should take steps to bring “wider scheme issues” within the scope of their governance arrangements.	Yes	<p>Each meeting of the pensions committee receives a report on the performance of our pension fund, progress against the forward business plan and important issues concerned with managing benefits.</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, outside auditor and performance advisors.</p>

Legal guidance – Governance standards and principles	Do we keep to this guidance?	Evidence of keeping to guidelines and, if guidelines are not kept to, the reasons for this
I – Publicity		
a Administering authorities should publish details of their governance arrangements so that if stakeholders are interested in wanting to be part of the arrangements, they can do so.	Yes	<p>The governance arrangements of the pensions committee are formally reviewed every four years as part of the forward business plan.</p> <p>There are procedures in place to reappoint people to the pensions committee at least every four years.</p> <p>All of the policies adopted by the pensions committee on behalf of the administering authority are published every year in the fund's annual report and financial statement and are available on the county council's website. If you ask us, we will provide you with a paper or electronic copy of any policies or the annual report. The policies the pensions committee publish every year include the Statement of Investment Principles, Funding Strategy Statement, Governance Policy Statement and Communications Policy Statement.</p>

Terms of reference

- 1 These terms of reference show the main responsibilities for the pensions committee on how they will take on the functions of Somerset County Council in its role as administering authority of the Somerset County Council Pension Fund (the fund).
- 2 Main responsibilities
 - Decide the aims of the investment policy.
 - Make arrangements for managing the fund's investments.
 - Regularly monitor investment performance.
 - Make arrangements to publish the fund's annual report and accounts.
 - Consult stakeholders, and publish the funding strategy statement and statement of investment principles.
 - Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
 - Consider requests from organisations who want to join the fund as admitted organisations.
 - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- 3 In line with the Myners' investment principles, members must consider their training and development needs. They should make sure they have enough support staff in place and have developed a forward-looking business plan.

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Pensions committee scheme of delegation

Introduction

In order to meet its responsibilities, from time to time the pensions committee will ask officers to carry out some of their duties. This document provides a clear framework as to what responsibilities they have given to officers and what responsibilities the pensions committee have kept (we call this framework the scheme of delegation).

This scheme of delegation will refer to each of the committee's main responsibilities as laid out in the committee's terms of reference (see annex 1).

1 To decide the aims of the investment policy

The committee agree the aims of the investment policy and publish the aims in the form of the funding strategy statement and statement of investment principles.

2 To 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 tell the Chief Financial Officer their preferences when they appoint outside fund managers. Under county council rules, all contracts must be awarded and managed by officers. The committee will let the Chief Financial Officer know if they want a fund manager's contract to come to an end.

The Chief Financial Officer is responsible for appointing a global custodian and an actuary for the fund and for managing their contracts.

If the committee decide that assets will be managed in-house, the Chief Financial Officer will arrange this in line with any guidelines the committee give them.

The committee decide how the fund's assets will be invested (for example, which investment type should be used). When they have made an agreement, the Chief Financial Officer is responsible for monitoring the investment assets against the strategic asset allocation and, from time to time, making any changes to the fund so that it continues to meet the strategic asset allocation.

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

3 To regularly monitor investment performance

The committee will review the performance of all fund managers every three months. WM Company will, as an independent expert at measuring investment performance, give an annual presentation to the committee about how well the fund managers are performing. The committee will also meet with external fund managers from time to time to discuss how the fund is performing.

The Chief Financial Officer will review the performance of all fund managers every month. Officers will meet with outside fund managers every three months to discuss the fund's performance.

4 To make arrangements to publish the fund's annual report and accounts

The Chief Financial Officer will make arrangements for the fund's annual report and accounts to be produced and audited. The committee will receive the auditor's report every year.

5 To consult stakeholders, and publish the funding strategy statement and statement of investment principles

The Chief Financial Officer will arrange for all policies and statements to be drafted and will carry out consultations if these are necessary. The committee will approve all policies and statements after receiving feedback from any consultations that took place.

6 To order actuarial valuations to be carried out in line with the Local Government Pension Scheme regulations

The Chief Financial Officer will appoint an actuary for the fund and organise the valuation process. The committee will receive the actuary's draft report and approve it.

7 To consider requests from organisations who want to join the fund as admitted organisations

The committee will consider requests from organisations who want to join the fund as admitted organisations.

8 To make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits

The committee will tell the Chief Financial Officer what it wants to be included in any representations, which he will then draft and send to the Government.

Pensions Committee
Somerset County Council
July 2009

Annex 1

Terms of reference

- These terms of reference show the main responsibilities for the pensions committee on how they will represent Somerset County Council in its role as administering authority of the Somerset County Council Pension Fund (the fund).
- Main responsibilities
 - Decide the aims of the investment policy.
 - Make arrangements for managing the fund's investments.
 - Regularly monitor investment performance.
 - Make arrangements to publish the fund's annual report and accounts.
 - Consult stakeholders, and publish the funding strategy statement and statement of investment principles.
 - Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
 - Consider requests from organisations who want to join the fund as admitted organisations.
 - Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.
- In line with the Myners' Investment Principles, members must consider their training and development needs. They should make sure they have enough support staff in place and have developed a forward-looking business plan.

Introduction

The 2004 Pensions Act states that trustees of occupational pension schemes should:

- be trained;
- have knowledge of and understand the law relating to pensions;
- understand the role of trustees;
- understand the principles of scheme funding and investment; and
- understand how pension scheme benefits are managed.

Members of the pensions committee are not legally trustees and are not bound by this law, but they should try to reach a similar standard.

Within the Local Government Pension Scheme, the governance compliance statement says that we must keep to the following.

“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.”

We expect pension committee members to attend regular training to make sure they understand the LGPS, pension benefits and investment issues so they can make informed decisions for the benefit of all stakeholders.

CIPFA Knowledge and Skills Framework

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

The committee has formally adopted the framework, and will assess all relevant people against the suggested standards of knowledge. They will also make sure they can go on relevant training courses.

In the fund's annual report, the committee will assess the level of expertise they have reached against the level required by the framework and will report on the amount of training that each individual has received during the year.

Yearly training for committee members

We encourage pensions committee members to do the following amount of training.

Level 1 – For new pensions committee members in their first year on the committee

New members should have one to three days’ training, which is made up of the following.

- Half-day in-house induction training on the LGPS and its benefits, the membership and role of the committee and the fund's current investment structure.
- Reading the pensions committee members’ handbook (this includes information on the fund members’ guide, the annual report and financial statement) and background reading and knowledge building for half a day
- Attending at least one day of outside training on relevant topics
- Attending the annual employers’ communications meeting

Level 2 – For members who have been on the committee for two or three years

Members should use one or two days a year to improve their knowledge and skills in specific areas. For example:

- investing in particular asset classes;
- assessing how fund managers are performing;
- socially responsible investment and corporate governance;
- actuarial valuation;
- fund accounting and tax; and
- how pension benefits are administered by outside organisations.

Level 3 – For members who have been on the committee for more than three years

Members should set aside at least two days a year so they can refresh their knowledge or take more advanced training on either fund investment or pensions administration.

We report on the training of each committee member and their attendance record at formal committee meetings in the fund's annual report and financial statement.

Events our members can attend

Each year, we will provide at least one training day for our members so they can help to meet our forward business plan. We encourage all members to attend.

Our members can also attend a number of specialist courses run by organisations such as the Local Government Employers and our fund-manager partners. Officers can give them details of these courses.

There are a number of conferences that take place each year that our members can attend. These include 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) conference (usually held in December).

The fund will meet committee members’ out-of-pocket expenses if they attend any outside courses or conferences.

Pensions Committee
Somerset County Council
June 2010

Communication policy statement

Introduction

Under the Local Government Pension Scheme (Amendment) (number 2) Regulations 2005 [SI 2005/3199], each administering authority in England and Wales must prepare, maintain and publish a statement by no later than 1 April 2006, 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.

Scheme members

The fund will communicate with scheme members in the following ways.

- The fund will send new members appropriate scheme literature within 15 days of receiving confirmation that a new employee is eligible for the scheme. The fund will issue a formal statutory notice of scheme membership within 20 days of receiving filled-in entry forms or confirmation of pension rights being transferred.
- The fund will issue annual benefit statements confirming the current value of benefits and estimated retirement benefits to all current scheme members and deferred members.
- The fund will send newsletters to current scheme members and pensioners once a year.
- The fund will send pensioners advice slips every month.
- The fund will arrange pre-retirement seminars for members approaching retirement.
- The fund will arrange pensions presentations for groups of members, and will consider regular 'roadshows' for the future.

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 contact people who are not yet members to remind them of the benefits of joining the scheme and how they can join.

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 general 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 every year for employers about administration;
- site visits to larger employers every year, and to others when requested;

- formal consultation on regulatory issues with employers; and
- training seminars for employers.

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.
- We will report to the county council every year.

Communicating with our stakeholders in other ways

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 investment principles after consulting employing authorities.
- The fund will develop a website providing up-to-date scheme information with help from the Local Government Pensions Committee.

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.

Pensions Committee
Somerset County Council
July 2009

Report from the Corporate Director - Resources



you become one

Investment activity

During the 2009-2010 financial year, the planned-asset allocation of the fund did not change. On 1 April 2009, we changed the benchmarks for all of our equity managers after the pensions committee reviewed the benchmarks. We also changed the size of most of the funds so we could invest in the new emerging-market equity fund and the planned private-equity fund.

The emerging-market fund has a target size of 3% of the total fund. Whilst an initial investment was made prior to the start of this financial year (in March 2009) it was planned to reach the full size over a period of time, with additional investments being made in £5 million pieces. The final investment was made in November 2009.

The investment in private equity will ultimately be 3% of the total fund, however the nature of this asset class is such that this will take a number of years to achieve as funds are invested gradually, this process began with a first investment in March 2010.

At its November 2009 meeting, the pensions committee decided that UBS should have the Japan element of their fund removed from them and that we would invite tenders for a new manager for this part of the fund. The assets were removed from UBS's control on 30 March 2009 and were managed by the in-house team on a passive basis while the tender to recruit a new manager was completed. During the year we undertook a full EU compliant tender process to select a new long-term manager. That process concluded with the selection of Nomura Asset Management in January with funds being moved to their control in the last week of March 2010.

Report from the Corporate Director - Resources

pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
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pension fund annual report 09/10
pension fund annual report 09/10
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pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10

Investment performance

pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
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pension fund annual report 09/10
pension fund annual report 09/10
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pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10

Investment market background

Interest rates

Rates were dropped to 0.5% just before the start of the financial year in response to the ‘credit crunch’, which began in 2008. With the economy falling into recession during the financial year, the Bank of England kept UK interest rates at this level throughout the year. As well as this, because of the serious nature of the economic crisis, the Bank of England began the unusual process of quantitative easing, where they bought £200 billion of bonds in an effort to stimulate the economy.

Investment returns

Returns on most investment markets for the year were very strong – the markets recovered from the falls of the previous two years. Equity markets typically gained between 40% and 60%.

Key market indicators

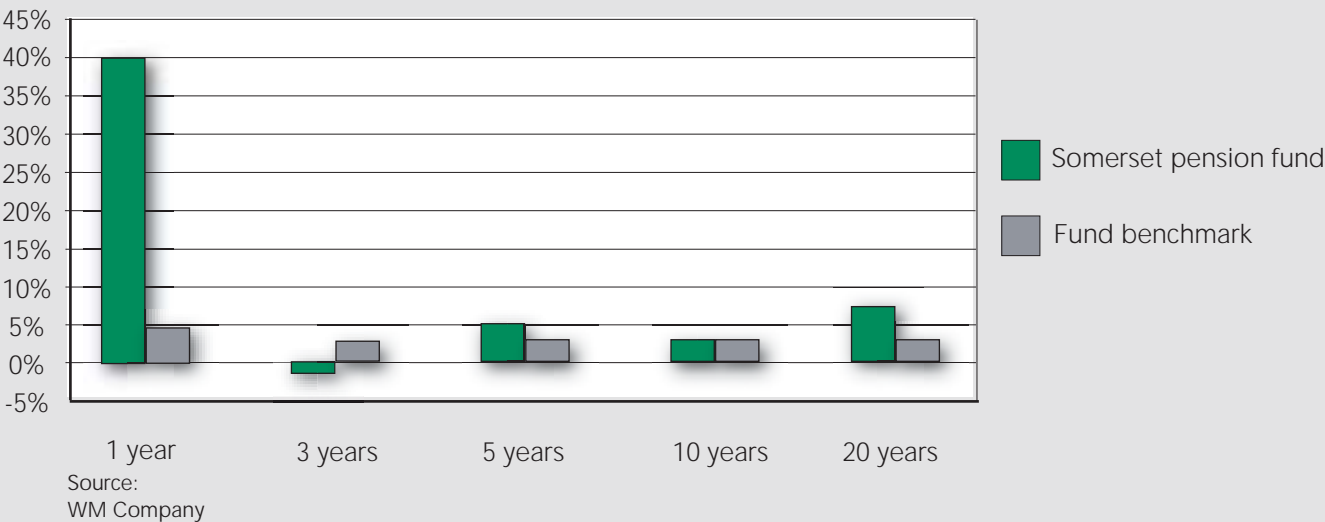
	Start of year	End of year	Percentage change for the year
Base rate	0.50%	0.50%	
Strength of sterling against US dollars	1.43	1.52	6%
Euro	1.08	1.12	4%
Yen	141.73	141.91	0%
Stock markets (quoted in local currency)			
FTSE 100 (UK)	3,926	5,680	45%
FTSE All Share (UK)	1,984	2,910	47%
Dow Jones (USA)	7,609	10,857	43%
S&P 500 (USA)	798	1,169	47%
FTSE Eurofirst 300 ex UK (Europe)	832	1,213	46%
Nikkei 225 (Japan)	8,110	11,090	37%
MSCI Emerging Market	570	1,010	77%

Source:
Bank of England
Bloomberg

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 2009/2010, the fund grew significantly in size. This growth was way above the rate of increase of prices. 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



Investment performance

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

Against this peer group of local-authority funds, we are ranked 17th out of 87 funds for 2009/2010, compared with being 84th out of 87 in 2008/2009.

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

For the five-year period, we are placed 73rd out of 83 local-authority funds. Over the 10-year period, we are placed 65th out of 80 funds. Over 20 years, we are 53rd out of 64 funds.

Annualised time-weighted return (TWR)

	One year	Five years	10 years	20 years
	%	%	%	%
Best	55.3	10.0	6.1	9.2
Upper 25%	38.7	7.7	4.3	8.6
Weighted average	35.3	7.1	3.8	8.3
Lower 25%	32.6	6.0	2.8	8.1
Worst	8.4	2.7	1.5	7.1
Somerset	39.9	5.2	2.7	7.9
Position out of 100	19	87	81	82
Ranked	17	73	65	53
out of	87	83	80	64

Source: WM Company

Overall fund performance

Like most pension funds, the fund's total return was very good for the financial year at a return of 39.9%. We measure how good we think this figure is against our scheme-specific benchmark. This benchmark is basically a combination of the benchmarks we give to the individual asset managers and is worked out for us by the WM Company. The return on our scheme-specific benchmark was 38.3% and the fund outperformed against this by 1.6%. The performance of each of the fund managers is shown in the tables below.

1 year				
Manager	Asset class	Fund	Benchmark	Fund relative to Benchmark
Somerset County Council	Passive global equity	41.6%	45.3%	-3.7%
Standard Life	UK equity	53.6%	52.3%	1.3%
JP Morgan	US equity	45.4%	41.5%	3.9%
Jupiter	European equity	56.1%	48.8%	7.3%
Nomura	Japanese equity	Initial investment in March 2010		
Somerset County Council	Japanese equity	30.6%	28.3%	2.3%
UBS	Far East equity	70.6%	69.7%	0.9%
Pioneer	Emerging market equity	69.4%	71.1%	-1.7%
Standard Life	Bonds	23.7%	22.0%	1.7%
Aviva	Property	10.1%	11.6%	-1.5%
Record Currency Management	Active currency	-0.7%	0.0%	-0.7%
	Passive currency	0.4%	0.6%	-0.2%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Yorkshire Fund Managers	Venture capital	0.0%	0.4%	-0.4%
Somerset County Council	Cash	0.3%	0.4%	-0.1%
Whole Fund		39.9%	38.3%	1.6%

3 years (annualised)				
Manager	Asset class	Fund	Benchmark	Fund relative to Benchmark
Somerset County Council	Passive global equity	7.2%	7.5%	0.3%
Standard Life	UK equity	-10.6%	-11.3%	0.7%
JP Morgan	US equity	0.1%	-0.1%	0.2%
Jupiter	European equity	1.9%	-0.1%	2.0%
Nomura	Japanese equity	Initial investment in March 2010		
Somerset County Council	Japanese equity	Initial investment in March 2009		
UBS	Far East equity	12.4%	11.4%	1.0%
Pioneer	Emerging market equity	Initial investment in March 2009		
Standard Life	Bonds	Initial investment in February 2008		
Aviva	Property	-11.7%	-10.2%	-1.5%
Record Currency Management	Active currency	-1.2%	0.0%	-1.2%
	Passive currency	-6.3%	-6.2%	-0.1%
Neuberger Berman	Global private equity	Initial investment in March 2010		
Yorkshire Fund Managers	Venture capital	0.0%	3.2%	-3.2%
Somerset County Council	Cash	Comparable data not available		
Whole Fund		-2.1%	-2.6%	0.5%

Investment performance

5 years (annualised)				
Manager	Asset class	Fund	Benchmark	Fund relative to Benchmark
Somerset County Council	Passive global equity	9.8%	10.0%	-0.2%
Standard Life	UK equity	2.3%	1.7%	0.6%
JP Morgan	US equity	4.5%	4.5%	0.0%
Jupiter	European equity	9.4%	9.4%	0.0%
Nomura	Japanese equity	Initial investment in March 2010		
Somerset County Council	Japanese equity	Initial investment in March 2009		
UBS	Far East equity	15.0%	14.8%	0.2%
Pioneer	Emerging market equity	Initial investment in March 2009		
Standard Life	Bonds	Initial investment in February 2008		
Aviva	Property	0.0%	0.4%	-0.4%
Record Currency Management	Active currency	Initial investment October in 2006		
	Passive currency	Initial investment October in 2006		
Neuberger Berman	Global private equity	Initial investment in March 2010		
Yorkshire Fund Managers	Venture capital	0.0%	3.8%	-3.8%
Somerset County Council	Cash	Comparable data not available		
Whole Fund		5.2%	4.8%	0.4%

Source: WM Company

Financial statements

Our responsibilities

As the trustee of the fund, we must:

- appoint an officer to manage the fund's financial affairs – for us, that officer is the Corporate Director – Resources; and
- manage the fund's affairs to protect its assets and make sure resources are used economically, efficiently and effectively.

Responsibilities of the Corporate Director – Resources

The Corporate Director – Resources 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 2010.

In preparing this statement of accounts, the Corporate Director – Resources has:

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

The Corporate Director – Resources 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 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 Children, Schools and Families) nor firefighters, who have their own scheme. The fund also extends to cover employees of district councils, civilian employees of the Avon and Somerset Police Authority (police officers have a separate scheme) and employees of other member organisations. A full list of employers whose employees are covered by the fund is provided on the next page.

Contributions by employees are based on seven tiered contribution bands, depending on the individual employee's pay. The seven contribution bands range from 5.5% to 7.5%. 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 last valuation of the fund was made as at 31 March 2007. For Somerset County Council, for example, the employer's rate for the three years covered by this valuation was 14.3% in 2008/2009, 14.6% in 2009/2010 and is 15.1% in 2010/2011. 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 14.7% at the 2007 valuation (11.3% at the 2004 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 14.7% is made up of a rate of 13.5% for new service and 1.2% for deficit funding. At the valuation the actuary estimated that the fund's assets covered 95% of the fund's liabilities. The valuation as at 31 March 2010 is currently being carried out.

The pension and lump-sum payments that employees receive when they retire are related to their final year's salary and how long they have worked for an employer within the fund. Increases in pension payments linked to inflation come out of the fund.



Financial statements

Administering authority

Somerset County Council

Member organisations

Major scheduled organisations

County council

Somerset

Police authority

Avon and Somerset (civilian staff)

District councils

Mendip
Sedgemoor
South Somerset
Taunton Deane
West Somerset

Other scheduled organisations with contributors

Parish and town councils, and so on

Axbridge Town Council
Burnham and Highbridge Town Council and Burial Board
Chard Town Council
Crewkerne Town Council and Burial Board
Frome Town Council
Glastonbury Town Council
Ilminster Town Council
Langport Town Council
Lower Brue Drainage Board
Minehead Town Council
North Petherton Town Council
Shepton Mallet Town Council
Somerton Town Council
Street Parish Council
Wellington Town Council
Wells Burial Board and Parish Council
Williton Parish Council
Wincanton Town Council
Yeovil Town Council

Further-education colleges

Bridgwater College
Richard Huish Sixth Form College
Somerset College of Art and Technology
Strode College
Yeovil College

Foundation and voluntary-aided schools

Bruton Primary School
Bruton Sexeys School
Brymore School
Charlton Horethorne Primary School
Enmore Primary School
Wellington St John's Primary School

Other organisations

Avon and Somerset Local Probation Board
Exmoor National Park

Admitted organisations with contributors

Care Focus Somerset Ltd
Connect South West Ltd (formally Connexions Somerset Ltd)
ECT Recycling Ltd
Homes in Sedgemoor
Learning and Skills Network
Learning South West
Magna West Somerset Housing Association
Flourish Homes Ltd (formerly Mendip Housing Ltd)
National Autistic Society
SHAL Housing Ltd
Society of Local Council Clerks
Somerset Care Ltd
Somerset Leisure Ltd
Somerset Redstone Trust
Somerset Rural Youth Project
South West Regional Assembly Board
Tone Leisure Ltd
Wessex Group Valuation Tribunal
Yarlington Housing Group

Other scheduled organisations without contributors (pensioners only)

Long Ashton Parish Council
North Somerset Drainage Board
Martock Parish Council

Admitted organisations without contributors (pensioners only)

Ammerdown College
Signpost Housing Association
Vaughan Lee House

Fund account

2008/2009 £ (millions)	£(millions)		2009/2010 £ (millions)	£(millions)	Notes
		Contributions and other income			
20.772		Contributions from employees - basic	21.526		1
0.501		- additional	0.561		1
46.500		Contributions from employers	49.200		1
1.616		Recoveries from member organisations	1.615		1
2.429		Employer payments for early retirements	4.884		1
8.864		Transfer values received	11.314		
80.682			89.100		
		Less benefits and other payments			
-41.048		Recurring pensions	-45.822		1
-12.379		Lump sum on retirement	-13.423		1
-1.363		Lump sum on death	-0.807		1
-4.523		Transfer values paid	-7.468		
-0.028		Refund of contributions	-0.017		2
-0.910		Administrative expenses	-0.987		3
-60.251			-68.524		
	20.431	Contributions after payments		20.576	
		Investment income			
34.351		Investment income received	30.638		4
4.770		Investment income accrued	4.497		4
-3.459		Less investment expenses	-3.633		5
-1.443		Less irrecoverable tax	-1.198		
0.011		Other income (such as commission)	0.004		
34.230			30.308		
		Change in market value of investments			
-178.666		Realised profit or loss	23.241		
-148.996		Unrealised profit or loss	239.150		
-327.662			262.391		
	-293.432	Net return on investments		292.699	
	-273.001	Net increase in the fund during the year		313.275	
	1,035.250	Add net assets at begining of year		762.249	
	762.249	Net assets at end of year		1,075.524	

Net asset statement

On 31 March 2009 £(millions)		On 31 March 2010 £(millions)	Notes
	Investment assets and liabilities		
767.869	Investment assets	1,091.334	6
-20.416	Investment liabilities	-27.680	6
13.050	Other investment balances	6.878	9
	Current assets		
1.540	Contributions due from employers	1.270	
1.325	Other debtors	6.875	
	Current liabilities		
0.000	Unpaid benefits	0.000	
-1.119	Other creditors	-3.153	
<u>762.249</u>	Net assets at end of year	<u>1,075.524</u>	

The accounts reflect the assets that are available to the trustee, and the current liabilities. Longer-term liabilities for future pension benefits are not reflected in the accounts. Future contributions are matched to future liabilities through an actuarial valuation.

Accounting policies

- 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
 - Most 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
 - When fixed-interest securities are valued, accrued income is excluded
 - Pooled investments 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 South West Regional Venture Fund and Neuberger Berman Crossroads 2010 fund are valued at cost
 - Contributions and benefits are accounted for in the period in which they fall due
 - Interest on deposits and fixed-interest securities is accrued if it is not received by the end of the financial year
 - Interest on investments is accrued if it is 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 investments are accrued on the day of trading
 - Transfer values are accounted for when money is received or paid. This treatment is in line with the revised Statement of Recommended Practice (SORP) which applied fully from 1 April 1998. 13 transfers into the scheme amounting to £750,000 were agreed but not settled on 31 March 2010. There were eight transfers out which were outstanding at the end of the financial year. These transfers totalled £392,000. None of these transfers appear in these accounts.
 - The fund makes 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, 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. If the transaction is not linked to a foreign-exchange transaction, we use the exchange rate on the day of the transaction to convert the transaction into sterling for accounting purposes.
 - The pension fund financial statements have been prepared in line with the conditions of Chapter 2 – Recommended Accounting Practice of the Pension SORP 2007.



Financial statements

Note 1: Contributions and benefits

	Somerset County Council £ (millions)	Other scheduled organisations £ (millions)	Admitted organisations £ (millions)	Total £ (millions)
Employees' contributions				
Normal	10.833	9.134	1.559	21.526
Additional	0.285	0.251	0.025	0.561
Total	<u>11.118</u>	<u>9.385</u>	<u>1.584</u>	<u>22.087</u>
Employers' contributions				
Normal	23.360	19.095	3.390	45.845
Deficit funding	1.903	0.885	0.567	3.355
Total	<u>25.263</u>	<u>19.980</u>	<u>3.957</u>	<u>49.200</u>
Recurring pension and lump sum payments	-28.354	-27.230	-4.468	-60.052
Money recovered from member organisations	0.138	1.457	0.020	1.615
Employer payments for early retirements	1.199	3.001	0.684	4.884
	<u>9.364</u>	<u>6.593</u>	<u>1.777</u>	<u>17.734</u>

Note 2: Refunds

2008/2009 £ (millions)		2009/2010 £ (millions)
-0.013	Contributions refunded to people who leave with less than three months' service	-0.012
-0.001	Interest accumulated on refunds agreed in the past	0.000
<u>-0.014</u>		<u>-0.012</u>
0.002	Deductions from contributions equivalent premium	0.002
-0.016	Less payments to Department for Work and Pensions contributions equivalent premium	-0.007
<u>-0.028</u>		<u>-0.017</u>

Note 3: Administration expenses

2008/2009 £ (millions)		2009/2010 £ (millions)
-0.800	Administration costs charged by Somerset County Council	-0.815
-0.022	Actuary's fees	-0.033
-0.008	Legal expenses	-0.009
-0.080	Other expenses	-0.130
<u>-0.910</u>		<u>-0.987</u>

Note 4: Investment income

2008/2009 £ (millions)		2009/2010 £ (millions)
11.205	Fixed interest	11.547
1.259	Index linked	0.975
9.289	UK equities	9.028
11.457	Foreign equities	9.406
3.674	Property unit trusts	3.643
2.060	Cash invested internally	0.315
0.000	Venture capital	0.000
0.001	Commission recapture	0.001
0.176	Stock lending	0.220
<u>39.121</u>		<u>35.135</u>

Note 5: Investment expenses

2008/2009 £ (millions)		2009/2010 £ (millions)
-0.126	Fund manager fees	-0.132
-0.137	Aviva Investors	-0.144
-0.153	JP Morgan Asset Management	-0.223
0.000	Jupiter Asset Management	-0.111
-1.065	Pioneer	-1.063
-0.833	Record Currency Management	-0.750
-0.122	Standard Life Investments	-0.104
	UBS Global Asset Management	
<u>-2.436</u>		<u>-2.527</u>
-0.134	Other expenses	-0.091
-0.146	Professional services and subscriptions	-0.134
-0.118	Specialist IT systems	-0.167
-0.021	Custody fees	-0.020
-0.604	Performance measurement fees	-0.694
	Property unit trust managers' fees	
<u>-1.023</u>		<u>-1.106</u>
<u>-3.459</u>		<u>-3.633</u>

Note 6: Investment Assets & Liabilities

31 March 2009 £(millions)	£(millions)	%	%		£(millions)	31 March 2010 £(millions)	%	%
183.443 3.251		24.5 0.4	24.9	UK equities Quoted Standard Life smaller companies fund	278.755 4.802		26.2 0.4	26.6
	186.694					283.557		
177.426 89.479 35.472 22.792 1.530 0.000 4.979		23.7 12.0 4.7 3.0 0.2 0.0 0.7		Foreign equities North America Europe Japan Pacific (not including Japan) Middle East Nomura Japan fund Pioneer emerging markets fund	215.676 125.330 29.162 66.967 1.527 33.112 33.897		20.3 11.8 2.7 6.3 0.1 3.1 3.2	47.5
	331.678		44.3			505.671		
30.504 74.754 39.706 0.888 0.000 10.365		4.1 10.0 5.3 0.1 0.0 1.4	20.9	Bonds UK fixed-interest - public sector - corporate sector UK index-linked - public sector Overseas index-linked - public sector Foreign - public sector - corporate sector	28.803 94.321 43.231 1.688 0.000 22.603		2.7 8.9 4.1 0.2 0.0 2.1	18.0
	156.217					190.646		
50.052 8.761		6.7 1.2	7.9	Property UK property funds Overseas property funds	69.964 8.555		6.6 0.8	7.4
	58.813					78.519		
0.000 1.400		0.0 0.2	0.2	Private equity Neuberger Berman Crossroads 2010 fund South West regional venture fund	0.247 1.900		0.0 0.2	0.2
	1.400					2.147		
11.784 0.000		1.6 0.0	1.6	Derivatives Forward foreign-exchange contracts Government bond futures	15.051 0.000		1.4 0.0	1.4
	11.784					15.051		
21.284		2.9	2.9	Cash and others Cash invested internally	15.743		1.5	1.5
	21.284					15.743		
	767.870		102.7	Investment assets		1,091.334		102.6
-20.417 0.000		-2.7 0.0	-2.7	Derivatives Forward foreign-exchange contracts Government bond futures	-27.680 0.000		-2.6 0.0	-2.6
	-20.417					-27.680		
	-20.417			Investment liabilities		-27.680		-2.6
	747.453		100.0	Net investment assets		1,063.654		100.0
				Made up of Historical cost Unrealised profit or loss		897.367 166.287		
	747.453					1,063.654		

Note 7: Movement in investment assets

Manager	Asset Class	Investment assets as at 1 April £(million)	Change in cash invested internally £(million)	Purchases £(million)	Sales Proceeds £(million)	Realised profit or loss £(million)	Unrealised Profit or loss £(million)	Investment assets as at 31 March £(million)
2008/2009	Total	1,028.464	-2.096	2,414.593	-2,365.846	-178.666	-148.996	747.453
Somerset County Council	Global equity	248.385	0.000	173.369	-196.630	7.816	75.977	308.917
Standard Life	UK equity	154.875	0.000	130.735	-106.205	-0.900	75.673	254.178
JP Morgan	US equity	39.293	0.000	39.565	-36.728	1.485	13.785	57.400
Jupiter	European equity	34.177	0.000	44.263	-37.930	-1.147	21.802	61.165
Nomura	Japanese equity	0.000	0.000	32.635	0.000	0.000	0.478	33.113
Somerset County Council	Japanese equity	20.798	0.000	44.663	-71.097	0.261	5.375	0.000
UBS	Far East equity	15.865	0.000	33.110	-24.561	5.207	10.937	40.558
Pioneer	Emerging Market equity	4.979	0.000	20.000	0.000	0.000	8.918	33.897
Standard Life	Bonds	156.217	0.000	98.828	-83.829	-6.768	26.198	190.646
Standard Life	Derivatives	-0.407	0.000	228.749	-228.748	-0.001	0.034	-0.373
Aviva	Property	58.813	0.000	20.807	-4.174	-0.953	4.026	78.519
Aviva	Currency	0.000	0.000	51.116	-51.116	0.000	-0.112	-0.112
Record	Currency	-8.226	0.000	4,360.497	-4,361.178	0.680	-3.917	-12.144
Neuberger Berman	Global private equity	0.000	0.000	0.249	0.000	0.000	-0.002	0.247
Yorkshire	UK venture capital	1.400	0.000	0.500	0.000	0.000	0.000	1.900
Somerset County Council	Cash	21.284	-23.080	0.000	0.000	17.561	-0.022	15.743
2009/2010	Total	747.453	-23.080	5,279.086	-5,202.196	23.241	239.150	1,063.654
Transaction costs for the year amount to £1,400,000								

Financial statements

Note 8: Management Structure

31 March 2009		Manager	Asset class	31 March 2010	
£(million)	%			£(million)	%
248.385	33	Somerset County Council	Passive global equity	308.917	29
154.875	21	Standard Life	UK equity	254.178	24
39.293	5	JP Morgan	US equity	57.400	5
34.177	4	Jupiter	European equity	61.165	6
0.000	0	Nomura	Japanese equity	33.113	3
20.798	3	Somerset County Council	Japanese equity	0.000	0
15.865	2	UBS	Far East equity	40.558	4
4.979	1	Pioneer	Emerging market equity	33.897	3
155.810	21	Standard Life	Bonds	190.273	18
58.813	8	Aviva	Property	78.407	7
-8.226	-1	Record Currency Management	Currency	-12.144	-1
0.000	0	Neuberger Berman	Global private equity	0.247	0
1.400	0	Yorkshire Fund Managers	UK venture capital	1.900	0
21.284	3	Somerset County Council	Cash	15.743	2
747.453	100	Net investment assets		1,063.654	100

Note 9: Other Investment Balances

31 March 2009			31 March 2010
£ (millions)			£ (millions)
Assets			
4.076	-	Accrued income	4.175
0.611	-	Accrued Recoverable tax	0.322
36.439	-	Payments due on investments sold	4.894
41.126			9.391
Liabilities			
-28.076	-	Payments not made on purchases and losses due on sales	-2.513
13.050			6.878

Note 10: Major Holdings

31 March 2009		Stock	Description	31 March 2010	
Rank	£(millions)			Rank	£(millions)
20	4.979	Pioneer Emerging Market Equity Fund	Pooled fund of emerging market equities	1	33.897
-	0.000	Nomura Japan Fund	Pooled fund of Japanese equities	2	33.113
1	16.023	BP	UK oil company	3	21.485
5	10.066	HSBC	UK bank	4	21.280
2	14.786	Royal Dutch Shell	UK oil company	5	15.251
12	5.720	Rio Tinto	UK mining company	6	14.897
4	11.406	Vodafone	UK mobile phone compnay	7	14.102
6	8.536	Glaxosmithkline	UK drugs producer	8	12.115
7	7.170	BHP Billiton	UK mining company	9	11.248
85	1.995	Barclays	UK bank	10	8.725
32	3.929	Xstrata	UK mining company	11	8.065
10	6.211	Aviva Pooled Pension PUT	UK property unit trust	12	7.954
9	6.355	Astrazeneca	UK drugs producer	13	6.566
11	5.975	British American Tobacco	UK cigarette maker	14	6.174
15	5.347	Blackrock property fund	UK property unit trust	15	5.966
28	4.320	Index Linked Treasury 2.5% 2013	UK government debt	16	5.806
77	2.263	Standard Chartered	UK bank	17	5.796
3	12.525	Exxon Mobil	US oil company	18	5.773
14	5.614	BG Group	UK gas company	19	5.747
13	5.672	Quercus	UK property unit trust	20	5.607

None of the holdings of the fund makes up more than 5% of the net investment assets.
The largest holding (Pioneer Emerging Market Equity Fund) makes up 3.2% of the net investment assets.

you take a short break



Note 11: Derivatives

The fund may only invest in derivatives if the derivatives help to reduce the level of risk or make the fund's portfolio more efficient.

During the year the fund used forward foreign-exchange contracts and bond futures.

The year end value of derivatives is as follows.

31 March 2009 £ (millions)				31 March 2010 £ (millions)		
Asset	Liability	Net value		Asset	Liability	Net value
			Forward foreign-exchange contracts			
0.065	-0.472	-0.407	Standard Life fixed Interest	0.052	0.425	-0.373
0.000	0.000	0.000	Aviva	0.000	-0.112	-0.112
8.398	-9.327	-0.929	Record active fund	13.607	-18.635	-5.028
3.321	-10.618	-7.297	Record passive fund	1.392	-8.508	-7.116
<u>11.784</u>	<u>-20.417</u>	<u>-8.633</u>		<u>15.051</u>	<u>-27.680</u>	<u>-12.629</u>
			Government bond futures			
0.000	0.000	0.000	UK Government gilt future	0.000	0.000	0.000
<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	US Government treasury future	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
<u>0.000</u>	<u>0.000</u>	<u>0.000</u>		<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
<u>11.784</u>	<u>-20.417</u>	<u>-8.633</u>		<u>15.051</u>	<u>-27.680</u>	<u>-12.629</u>

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 high-yield bonds. Typically, Standard Life chose to hedge 100% of their currency risk.

Aviva 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 four funds that invest in European property and are priced in euros. Typically, Aviva chose to hedge 100% of their currency risk.

In the Record active fund, their aim is to use forward foreign-exchange contracts to make a profit. Record believe that high interest rate currencies tend to increase in value relative to low interest rate currencies over time. In this way, they hope to make a profit on their investments. Because currency returns are not related to the returns on other asset classes this investment should over the long term both reduce the overall volatility of returns and improve the funds overall return. The level of risk and the currencies that Record may invest in are controlled through a management agreement.

In the Record passive fund the aim is to hedge 60% of the currency exposure of the currencies we have exposure to in our equity holdings. The currencies hedged are Australian dollars, Canadian dollars, Danish krone, euros, Hong Kong dollars, Japanese Yen, Norwegian krone, Singapore dollars, Swedish krona, Swiss francs and US dollars. The management of these exchange risks should reduce the volatility of returns of the overall fund in the long term.

The fair value of these contracts at the end of the financial year is based on market foreign-exchange rates at 31 March each year. All forward foreign-exchange contracts are over-the-counter trades.

Standard Life invest in bond futures (which are derivatives of overseas government bonds) because the bond futures have lower trading costs and are easier to trade than the underlying bonds themselves. There are strict guidelines to how Standard Life can use bond futures to make sure 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 2009 £ (millions)				31 March 2010 £ (millions)		
Asset	Liability	Net value		Asset exposure value	Liability exposure value	Net value
			Forward foreign-exchange contracts			
19.828	-20.235	-0.407	Standard Life fixed Interest	31.038	-31.411	-0.373
0.000	0.000	0.000	Aviva	8.482	-8.594	-0.112
392.936	-393.865	-0.929	Record active fund	927.332	-932.360	-5.028
233.557	-240.854	-7.297	Record passive fund	293.070	-300.186	-7.116
<u>646.321</u>	<u>-654.954</u>	<u>-8.633</u>		<u>1,259.922</u>	<u>-1,272.551</u>	<u>-12.629</u>
			Government bond futures			
0.000	0.000	0.000	UK Government gilt future	0.917	-0.917	0.000
<u>0.000</u>	<u>0.000</u>	<u>0.000</u>	US Government treasury future	<u>0.688</u>	<u>-0.688</u>	<u>0.000</u>
<u>0.000</u>	<u>0.000</u>	<u>0.000</u>		<u>1.605</u>	<u>-1.605</u>	<u>0.000</u>
<u>646.321</u>	<u>-654.954</u>	<u>-8.633</u>		<u>1,261.527</u>	<u>-1,274.156</u>	<u>-12.629</u>

We have restated the prior year accounts as last year we showed the exposure values as the investment asset and liability in the net asset statement.

The fund lent stock valued at £32,263,000 to other organisations under a stock-lending agreement on 31 March 2010. The fund held collateral of £35,300,000 for these loans. The form of collateral provided was as follows.

- 15.1% UK government debt
- 15.1% UK equities
- 59.1% US equities
- 10.7% euro-denominated business debt

As at 31 March	2005	2006	2007	2008	2009	2010
Active scheme members	18,174	18,463	19,071	19,886	20,022	20,450
Pensioners						
Current (in payment)	8,406	8,818	9,126	9,706	10,126	10,821
Deferred (future liability)	7,738	9,025	10,059	10,897	12,787	13,817
Total (active plus pensioners)	34,318	36,306	38,256	40,489	42,935	45,088
Active members for each current pensioner	2.16	2.09	2.09	2.05	1.98	1.89

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 line with regulation 5 (2)(C) of the Pension Scheme (Management and Investment of Funds) Regulations 1998, do not include AVCs. The total AVC assets invested were valued at £772,000 with Equitable Life at 6 April 2010 and £3,815,000 with Prudential on 31 March 2010. During the year, employees contributed £544,000 in AVCs to Prudential and £3,000 to Equitable Life.

Pensions committee members Tim Carroll, Sam Crabb, Caroline Moore, Sarah Miller and John Wilkins are members of the Somerset County Council Pension Scheme.

Pensions committee members Sarah Miller and Ian Dewey have personal investments that are managed by Jupiter Asset Management.

The fund holds shares in a number of companies that Somerset County Council and the other member organisations do business with. Standard Life, JP Morgan Asset Management, Jupiter Asset Management, UBS Global Asset Management, Pioneer Investments and Aviva Investors for their parts of the fund, decide which companies the fund should invest in, without asking the county council, its officers or other member organisations. Decisions about suitable investments for the in-house fund are made based only on the recommendations of a quantitative analysis system, so

officers do not have the power to decide which companies the pension fund should or should not invest in.

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

We have prepared a statement of investment principles, which explains the strategies and policies that we use to manage the pension fund investments. We include the full details of the statement in the pension fund annual report and financial statement.

There were no contingent liabilities as at 31 March 2010.

There were no post balance sheet events as at 23rd September 2010.



Roger Kershaw, Corporate Director – Resources
September 2010



Introduction

The last full three yearly valuation of the Somerset County Council Pension Fund was carried out by Barnett Waddingham as at 31 March 2007 in line with Regulation 77(1) of the Local Government Pension Scheme Regulations 1997 (as amended). The results were published in our report in March 2008.

2007 valuation

In the 2007 valuation, the rates and adjustments certificate stated that a common contribution rate of 14.7% of pensionable pay should be paid by each employing organisation taking part in the Somerset County Council Pension Fund. As well as this, each employing organisation has to pay an individual adjustment to reflect its own particular circumstances and funding position within the fund. The county council agreed to pay 14.3% of pensionable pay in the 2008/2009 financial year and 14.6% of pensionable pay in the 2009/2010 financial year, and have agreed to pay 15.1% of pensionable pay in the 2010/2011 financial year. Details of each employer's contribution rate are in the Statement to the Rates and Adjustment Certificate in the three yearly valuation report.

In the 2007 valuation, the results for the fund were as follows.

- The funding level was assessed at 94.5%. That is, the value of the total assets represented 94.5% of the value of the accrued liabilities of the fund, as at the valuation date.
- The common contribution rate was set at 14.7% of pensionable pay, assuming the funding level was to be restored to 100% over a 25-year period. This rate allows for investment returns to be lower in the three years, to the next valuation date.
- The actuary made changes to the individual employers’ contribution rates as set out in the rates and adjustments certificate in the valuation.
- The funding level of the fund had increased from 74% (which was the level at the 2004 valuation).

Contribution rates

The contributions rates, as well as the rates paid by the members of the fund, are enough to meet:

- 100% of the fund's liabilities in relation to each individual employer to the valuation date, allowing for future pay increases and increases to pension in payment when they are due; and
- an amount to reflect each employer's estimated share of the fund's assets compared with 100% of their liabilities in the fund.

Asset value and key financial assumptions

The value of the fund's assets as at 31 March 2007 for valuation purposes was £1.126 billion.

The contribution rates were worked out using the projected unit method, taking account of market conditions on that date, as follows.

Rate of return on investments:	6.9% every year
Rate of increase in pay:	4.8% every year
Rate of increase to pensions in payment:	3.3% every year

What happened after the valuation

In the three years to March 2010, actual returns have been lower than the assumption although the expected increase in the value of the liabilities has also been less than expected because the real discount rate used in the valuation has increased.

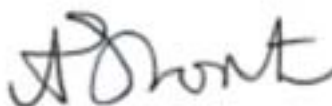
Overall the funding level has fallen since the last valuation.

The next actuarial valuation is due as at 31 March 2010 and the resulting contribution rates that employers will need to use will take effect from 1 April 2011.



Graeme Muir FFA
Partner

13 July 2010



Anna Short FFA
Actuary

Independent auditor’s report

pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
pension fund annual report 09/10
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Plain English Campaign's Crystal Mark does not apply to the independent auditor’s report.

Independent auditor’s report to the Members of Somerset County Council on the Pension Fund

I have audited the pension fund accounting statements for the year ended 31 March 2010. The pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies. This report is made solely to the members of Somerset County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies published by the Audit Commission in April 2008.

Respective responsibilities of the Responsible Financial Officer and auditor

The Responsible Financial Officer is responsible for preparing the pension fund accounting statements, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice. In preparing this pension fund accounting statements, the Responsible Financial Officer is responsible for:

- selecting suitable accounting policies and then applying them consistently;
- making judgments and estimates that were reasonable and prudent;
- keeping proper accounting records which were up to date;
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

My responsibility is to audit the pension fund accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the pension fund accounting statements give a true and fair view, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year. I also report to you whether, in my opinion, the information which comprises the commentary on the financial performance included within the Pension Fund Annual Report, is consistent with the pension fund accounting statements. That information comprises the report from the Corporate Director – Resources.

I review whether the governance compliance statement published in the Pension Fund Annual Report reflects compliance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008 and related guidance. I report if it does not meet the requirements specified by the Department of Communities and Local Government or if the statement is misleading or inconsistent with other information I am aware of from my audit of the accounting statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

I read other information published with the pension fund accounting statements and related notes and consider whether it is consistent with the audited pension fund accounting statements. This other information comprises the remaining elements of the Pension Fund Annual Report. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the pension fund accounting statements and related notes.

Opinion

In my opinion:

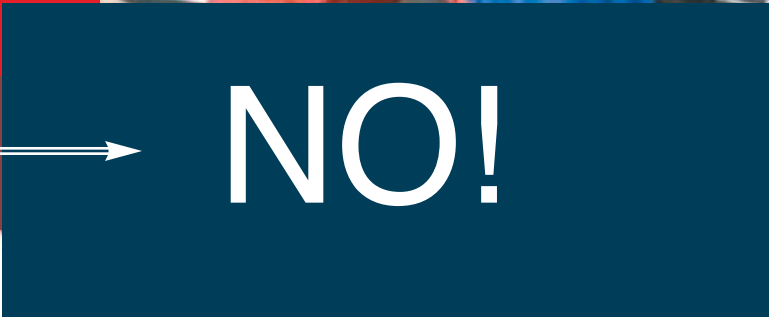
- the pension fund accounting statements and related notes give a true and fair view, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2009: A Statement of Recommended Practice, of the financial transactions of the Pension Fund during the year ended 31 March 2010, and the amount and disposition of the fund's assets and liabilities as at 31 March 2010, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- the information given in the commentary on financial performance included within the Pension Fund Annual Report is consistent with the pension fund accounting statements.

Brian Bethell

District Auditor
Audit Commission
Westward House
Lime Kiln Close
Stoke Gifford
Bristol
BS34 8ZZ
September 2010

end of the road?

you retire =

A dark blue slide with a white arrow pointing to the text "NO!". The arrow is on the left side, pointing towards the center. The text "NO!" is in a large, white, sans-serif font. There is a thin red vertical line on the far left edge of the slide.

you start life!