

ANNEX 1

SERVICE PLAN & BUDGET REPORT 2026-29

1 Management Summary

Global markets were helpful during 2025. Equities increased in value by 19% with the UK and Emerging Markets being standout performers. Gilts and other Credit were positive while there were emerging signs of recovery in Property. The Fund's portfolio value returned 7.5% reaching £6,323m¹ and we enter 2026 in a robust financial position with 108% funding¹.

The Fund continued to invest in Local Impact assets during 2025-26 focused on three areas: renewable infrastructure, affordable housing, and small business funding. We have now deployed £55m into solar farms, we have deployed £12m into affordable housing, and will shortly announce further housing investment in our region. We have also started to fund small businesses across the South West with two such investments to date. Our new target is to invest c.£300m or 5% of the Fund into local impact by the end of 2027.

The Fund made further progress on climate targets. The equity portfolio is reaching its decarbonisation targets ahead of time, faster than required to meet net zero by 2045

In terms of service experience, 2025-26 delivered further progress. Member requests addressed within required timeframes was sustained at 90%. Backlogs were materially reduced and individual members' different pension accounts merge, strengthening our administrative foundations for further improvements during 2026-28.

Looking forward the Fund has set itself core objectives for the next three years:

In terms of administration and service:

- We will further improve service experience for both our members and employers
- We will raise our operational efficiency to enable lower unit costs

In terms of investments:

- We will execute new pooling arrangements and move our assets from Brunel to LPPI.
- We will review our Investment Strategy, seeking to improve the Fund's risk / return mix and improve the probability of contribution reductions for employers.
- We will accelerate investment in Local Impact and raise assets to our target of £300m.
- We will start to invest in Natural Capital.

We will aim to achieve the above objectives while also getting the basics right:

- We will meet all our regulatory obligations.
- We will improve skills among both officers and Board / Committee members.
- We will identify, measure, and mitigate risks.
- We will manage within the budget set by the Pension Committee.

¹ 31 December 2025

2 Administration

2025-26 Review

The year has seen continued improvement in member servicing, with member requests completed within the required timeframes averaging 90%.

Introduction of a hybrid mail system has made a significant impact in the way we manage our postal correspondence to members, making the process quicker safer and secure. The Fund introduced multiple new software products to better support member engagement which included a new member portal, telephone system and data cleansing.

Objectives 2026-27

During 2026-27 we plan to drive three core objectives: 1) meet regulatory requirements, 2) improve member servicing 3) increase operational efficiency.

1. Meet regulatory requirements

- McCloud: we will implement the final phase of remedy by the deadline of August 2026.
- Pensions Dashboard: we continue to improve our data readiness in anticipation of the launch of the public dashboard.
- The Fund will comply with other regulatory changes including outcomes of the government's recent Access & Fairness and Access & Protections consultations.

2. Improve Member Servicing

- The Fund will continue to develop online processing to give members better options to self-serve within our member portal.
- Offer a multi-channel approach to offer a service that reflects a member's choice in a safe and secure environment.

3. Increase operational efficiency

- We will continue to develop digital communications, through improved online content and web experience for our members and employers.
- We will automate key processes to drive operational efficiency and reduce risks.

3 Investments & Funding

2025-26 Review

Global markets shrugged off trade policy concerns to deliver strong returns during 2025. Equities increased by 19% with the UK outperforming. Government bonds delivered broadly positive returns, supported by expectations of future rate cuts. The Fund in aggregate returned 7.5% during 2025 rising to £6,300m, with a funding level of 108%².

² estimate of 31 December 2025

A number of strategic changes were implemented including increased allocations to index-linked gilts and multi asset credit. The strategic allocation to local impact assets increased from 3% to 5%. At the end of the year £180m had been committed and £70m invested across the priority areas of renewable infrastructure, affordable housing and SME financing.

The Fund also made further progress on its climate targets. By the end of 2025 the Fund's equity portfolio was 60% less carbon intensive than the global equity index, exceeding its decarbonisation targets ahead of time, faster than required to meet net zero by 2045.

Consistent with 'Fit for the Future' proposals, the Fund will become one of nine shareholders of its new pool (LPPI) on 1st April 2026. Significant work was undertaken during the year in readiness for the asset transition and subsequent wind down of the Brunel business.

Triennial Valuation

The triennial valuation was struck based on the Fund's financial position on 31 March 2025 and showed a surplus of £339m compared with a deficit of £238m in the last (2022) triennial valuation. Average employer contribution rates for future service reduced from 18.6% of pay to 16.3%.

The Fund's Funding Strategy Statement was updated in March 2026 to reflect these changes, setting out the Fund's valuation and funding plan to objectively balance affordability for individual employers and solvency of the Fund. In terms of setting contributions, the relationship of the expected investment return on assets compared to the rate of expected future increases in benefit payments (i.e. CPI inflation) is critical. The inclusion of a Surplus policy sets out how any surplus will be utilised to reduce employer rates and the inclusion of a surplus reserve to manage contribution sustainability.

Objectives 2026-27

The Fund aims to achieve predictable employer contributions, through a growth-oriented investment strategy at acceptable risk, seeking to achieve financial returns which exceed the Fund's actuarial assumptions. Focus areas include the following:

Implementation of New Pooling Arrangements

- During 2026-27 the Fund will work with our new pool LPPI, to embed investment management arrangements and related governance and operational arrangements.
- Assets will transition to LPPI and subsequent work will focus on reshaping the portfolio, to drive operational efficiencies and implement the new investment strategy (see below).
- The Fund will also review its framework for governing investment decisions to ensure efficient and effective decision making, aligned with Fit for the Future arrangements.

Investment Strategy

- A review of the investment strategy will be conducted during 2026-27, following the triennial valuation, to ascertain the optimal strategy to deliver the funding plan.
- The Fund will work with LPPI to review risk and return objectives, asset allocation and risk management framework.

Local Impact Portfolio

- The Fund will continue to deploy capital into its local investments across its three sub-sectors: renewable infrastructure, affordable housing, small company (SME) funding.
- The Fund will commence work with LPPI, WECA and other delivery partners to identify opportunities that meet specification for this portfolio.

Natural Capital portfolio

- The Fund will work with LPPI to further define the objectives for the strategic allocation to Natural Capital and develop a specification to support identifying opportunities. This work is expected to commence in second half of 2026.
- This will be managed by LPPI which is developing solutions to meet the needs of all nine LGPS funds in the pool.

Employers

- The focus during 2026-27 will be on managing employer admissions and exits. We will ensure scheme exits are managed compliantly and with actuarial integrity.
- The Fund undertakes annual covenant checks on employers to assess their specific risks – required to identify employers facing potential funding issues – so we can work with them to manage pension costs and minimise financial risks. We will review and adjust this process in consideration of updated TPR guidance.

4 Governance

Fit for Future - Good Governance Review

- The LGPS Fit for the Future regulations set out expectations to improve LGPS governance at Fund and Pool level. Regulations and statutory guidance are expected to be published 1st April 2026.
- The Fund has already taken action to comply with the draft requirements issued in 2021 but will conduct a further gap analysis and implementation plan during 2026.

General Code of Practice (GCOP)

- The Pension Regulator's GCOP came into force on 27 March 2024, consolidating 10 separate Codes.
- During 2025 the Fund implemented its action plan to meet compliance with new requirements. A further review will be conducted in 2026.

Knowledge & Skills

- Knowledge & skills requirements are a key component of the Fit for Future requirements for committees, pension boards and officers.
- Committee and Board members and officers have committed to complete Hyman's Learning Academy which now forms a mandatory part of the Fund's Training policy.
- Achieving compliance with Fit for Future and our policy will be a priority for 2026-27.

Audit

- The Audit Plan for 2026-27 will focus on a few critical areas.

	Timing
Risk Management	Q1
Pension Dashboard - Data Readiness: Phase 1	Q2
Cyber Security - Staff Training & Awareness, inc. Boards	Q3
Cyber Security - Malware & Ransomware: APF Response	Q4
LPPI - Review of Control Environment	Q4
Follow Up Reviews on 2025/26 Audits	All

Pension Committee Recruitment

- The Fund will undertake a nomination exercise to appoint a new Academy representative as well as appointing its first Independent Person aligned with Fit for Future requirements.

Risk Management

- The Fund will keep its Business Continuity Plan under review to ensure it remains fit for purpose and resilient vs new threats.
- The Fund will also identify key risks and undertake mitigating actions to reduce the Fund's aggregate risk exposure.

5 Regulatory Update

Regulatory change will be considerable in 2026-27. The government has already notified LGPS Funds of new regulation changes being introduced from 1 April 2026 based on the Access and Fairness, and the Access and Protection Consultations published in 2025.

Key changes impacting funds in 2026 include 1) Equalisation of survivor pensions and death grants, 2) Gender gap benefits which will mean amendments to regulations to make more periods of authorised absence pensionable, 3) Introduction of a new Councillors Pension Scheme for England.

Whilst new regulations will become effective, the Fund is still working on the McCloud Remedy which has been extended to August 2026, as guidance is not complete for all processes. Work is still to be completed for members with divorce debits, club transfers, and members with Teachers' excess service.

For Pensions Dashboard, the Fund connected to the Integrated Service Provider (ISP) in October 2025. Work is ongoing to ensure that data, systems, and processes are compliant prior to the 'Go Live' date, assumed to be October 2026 and requiring the Secretary of State to give at least 6 months' notice.

Annual projects for 2026-27 include Annual Benefit Statements for deferred and active members and Annual Allowance Statements for members breaching the annual allowance.

Looking further ahead, the Fund will need to review systems, processes, and communications for upcoming regulatory changes, including IHT on death grants and unused pension benefits in 2027, and increase in the minimum pension age (to 57) in 2028.

6 Business Change

Change Programme

2025/26 Review

The Business Change team delivered the following projects with the Administration team:

- New member portal,
- Migration to hosted environment,
- Connection to the Pensions Dashboard ecosystem,
- Telephony system & Hybrid mail,
- Data cleansing tool.

Objectives 2026-27

The Business Change team's 2026-27 focus is to work with the Administration and Technical teams to support their key objectives by delivering the following projects:

- Pensions Dashboard readiness and target operating model.
- Introducing online processing via the member portal.
- Driving internal process improvements.
- Administration to Payroll system integration.

Communications

In 2025-26 the Fund made progress communicating its objectives and ethos including:

- Securing media coverage of our new investment in a local affordable housing.
- Keeping stakeholders informed about investment pooling changes and the Pension Committee's decision on Aerospace & Defence.
- Deepening employer engagement via quarterly newsletters and consultation on the updated Administration Strategy.
- Sharing news on staff charity fundraising via LinkedIn.

Example media coverage includes: [Room 151](#), [Professional Pensions](#), and [Somerset Live](#).

The Fund has several communications objectives for 2026-27, focused on regulatory commitments and key stakeholder groups.

- *Regulatory*: communicate changes such as Pensions Dashboard and Fit for the Future.
- *Members*: raise members' engagement with their pension and improve digital experience. We will encourage members to sign-up to our online portal and implement improvements to our new starter process.
- *Employers*: work with employers to support member portal sign-ups and new starter engagement.

7 Budget & Cashflow Forecast 2026-29

The 2026-27 budget of £35.4m is £0.8m (+2%) above the £34.6m budget of 2025-26.

<i>£ millions</i>	2025-26	2026-27	Change 2027 vs 2026
	budget	budget	
Admin & Governance	9.9	9.6	-0.3
Investment management fees	24.7	25.8	+1.1
Total	34.6	35.4	+0.8

The 2026-27 budget shows a £0.8m (2%) increase vs 2025-26.

Admin & Governance

The £0.3m reduction in Admin & Governance costs reflects a combination of material increases and decreases to budgets between 2025-26 and 2026-27.

Increases to the budget include a) new digital system costs covering a full financial year, b) annual salary increases, c) reduction in the vacancy factor provision, d) expected support costs arising from Fit for Future implementation and change of asset pool.

Decreases to the budget include a) a reduction in consultancy requirements, b) savings on LGPS employer contributions for APF staff, c) Triennial Valuation costs funded from the 2025-26 budget, d) a reduction in fees paid for independent investment advice as LPPI take on more responsibility for delivering the investment strategy and providing advice.

Rising operational efficiencies will enable lower unit costs, e.g. through deploying new software and digital integration. Such savings will feed through from 2027-28.

Investment Fees

2026-27 investment management fees of £25.8m are £1.1m (4%) higher than the £24.7m for 2025-26.

Increased investment fees are driven by: a) higher asset values, b) continued build out of the Local Impact portfolio, c) higher exposure to index linked gilts through Liability Driven Investment. In aggregate this represents a 1 bps increase in investment management fees to 40 bps, projected to fall to 39 bps for the next two years.

Investment costs also include fees paid to LPPI which will manage the Fund's assets. The estimated share of LPPI costs is 11% or £1.75m (3 bps). There are also ongoing costs associated with the run-down of Brunel in 2026-27.

In the budgets for 2026-27 and 2027-28, we have assumed an increase in fees paid to LPPI as they take on more responsibility for implementing the investment strategy and providing investment advice, alongside a corresponding reduction in fees paid for independent investment advice, e.g. fees paid to Mercer.

Cashflow

As Fund membership matures, monitoring cash flow trends becomes increasingly critical.

The Fund has now passed an inflection point from being cash flow positive (contributions exceed benefits) to cash flow negative. At the same time, the Fund has now moved into an actuarial surplus. Taken together, these factors result in projected net cash outflows of £106.7 million in 2026–27, with further detail provided in Appendix 3.

Future service contribution rates are expected to reduce, and employers will transition from making deficit recovery payments to claiming surplus in accordance with the valuation. This change materially lowers the projected level of employer contributions from an estimated £244m in 2025-26 to £186m in 2026-27.

Pensions in payment are scheduled to increase by 3.8% in 2026-27.