

## **Annual Accounts and Investment Performance**

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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 This report is intended to give members an overview of the fund's accounts, the information within the accounts, the investment performance for the 2016-2017 financial year and related matters covered in the Fund's Annual Report.
- 1.2 The full annual report will appear on the SCC website following the formal adoption by the committee.

### **2. Issues for consideration**

- 2.1 The committee is asked to formally approve the Fund's annual report.



## **4. Accounts analysis**

### **4.1 Contributions**

Overall contributions from employers and employees increased by 7.8% to £90.0m. Contributions from employees rose by a relatively modest 1.2%, which is consistent with the level of increase for the previous year. Employer contributions increased by 10.9%. The employer normal contributions increased by less than the employee contributions at 0.4% over the previous year. Deficit funding increased by 32.4% as further steps in the fixed deficit recovery amounts certified by the actuary came into force.

### **4.2 Recurring Pensions**

Payments of pension to members increased by 5.9% to £68.2m. Pensioner numbers were higher during the year but broadly in line with the increase in payments so the average pension value only increased marginally by 0.4% to £4,514. Pensions in payment increased by 0.0% for inflation effective from 1<sup>st</sup> April 2016 as a result of a negative CPI figure for September 2015.

### **4.3 Net Additions from dealings with members**

The cash flow from contributions over payments has improved from an inflow of £3.6m to an inflow of £8.3m. The ramping up of the deficit recovery lump sums paid by employers has led to the fund being cash flow positive again.

### **4.4 Administrative expenses**

Administrative expense fell by 11% to £1.2m. The fall is due to the development costs of moving the pension payroll across to Peninsula Pensions not recurring and the removal of costs for this service from SCC. It is anticipated that there will be further savings in 2017-18 as the SCC charge reduces to a negligible level. The administration cost per member fell by 16% to £18.75.

### **4.5 Investment Expenses**

Investment expense increased by 15.4% compared to the 2015-2016 figure to £5.0m. The 26.4% increase in fund managers' fees compares to an 11.8% increase in average funds. The most significant factor in the increase in fund managers' fees was a rise in the amount of performance fees paid to fund managers. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.3% to 0.28p.

#### 4.6 Oversight and governance expenses

Oversight and Governance costs increased by 13.8% during the year to £0.7m. The most notable increase in costs were the 53% increase in net actuarial fees, although this is to be expected in a valuation year, and the nearly 5 times increase in pooling costs.

#### 4.5 Total Expenses

Total expenses for the fund increased by 9.7% to £6.9m. This represents a 4.2% increase in the total cost per member to £111.20 and an 1.9% fall in the total expenses per pound of assets to 0.39p

#### 4.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 16.4% to £53.0m. The yield on average net investment assets increased from 2.9% to 3.0%.

#### 4.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 27.4% to £3.7bn. The liability net of assets increased by 32.3%.

#### 4.8 Membership statistics

Total membership increased by 4.4%. Active members decreased by 4.9% during the year and the number of deferred members increased 8.9%. The number of pensioners increased by 4.3% during the year. The ratio of active members for each pensioner has fallen to 1.40.

### **5. Investment Performance**

5.1 Investment performance for the financial year was 22.7%. Performance for the year was ahead of the fund's scheme specific benchmark of 22.2%. The majority of the outperformance was due to good performance by our fund managers, particularly Standard Life, Maple-Brown Abbott and Neuberger Berman, this effect was reduced by the underperformance of Jupiter. Asset allocation was slightly negative for the year mostly due to being underweight emerging markets and overweight cash through most of the year..

5.2 Looking at longer periods the three year return at 11.6% p.a. is strong but 0.1%p.a..

5.3 The fund's 5 year return is 11.3% p.a., and the 10 year return is 5.9%p.a..

### **6. Consultations undertaken**

None

## **7. Financial Implications**

- 7.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods. The next assessment is due in late 2016 using data from March 2016.

## **8. Background Papers**

Somerset County Council Pension Fund Annual Report and Financial Statements 2016/17

**Note** For sight of individual background papers please contact the report author.