

Annual Accounts and Investment Performance

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Executive Portfolio Holder: Not applicable
Division and Local Member: 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 2017-2018 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 and the issue of the consistency opinion by the external auditor.

2. Issues for consideration

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

3. Copy of fund account

2016/2017
£ millions £ millions

2017/2018
£ millions £ millions Notes

	Contributions and other income		
20.892	Contributions from employees	20.720	1
69.123	Contributions from employers	78.667	1
2.851	Recoveries from member organisations	2.713	1
2.450	Transfer values received	5.312	2
95.316		107.412	
	Less benefits and other payments		
-68.168	Recurring pensions	-71.213	1
-13.429	Lump sum on retirement	-16.535	1
-1.568	Lump sum on death	-2.646	1
-3.423	Transfer values paid	-4.205	2
-0.401	Refund of contributions to leavers	-0.288	3
-86.989		-94.887	
8.327	Net additions from dealings with members		12.525
	Management Expenses		
-1.157	Administrative expenses	-1.113	4
-4.964	Investment management expenses	-5.706	5
-0.740	Oversight and governance expenses	-0.800	6
-6.861		-7.619	
1.466	Net additions including management expenses		4.906
	Investment income		
48.677	Investment income received	50.757	7
4.364	Investment income accrued	8.975	7
-0.884	Less irrecoverable tax	-1.217	
0.009	Other income (such as commission)	0.000	
52.166		58.515	
	Change in market value of investments		
55.640	Realised profit or loss	48.913	10
262.909	Unrealised profit or loss	-23.594	10
318.549		25.319	
370.715	Net return on investments		83.834
372.181	Net increase in the net assets available for benefits during the year		88.740
	Change in actuarial present value of promised retirement benefits		
-773.469	Vested benefits	-58.239	11
-29.076	Non-vested benefits	16.602	11
-802.545	Net change in present value of promised benefits		-41.637
-430.364	Net increase/(decrease) in the fund during the year		47.103
-1,334.106	Add net liabilities at beginning of year	-1,764.470	
-1,764.470	Net liabilities at end of year	-1,717.367	

4. Accounts analysis

4.1 Contributions

Overall contributions from employers and employees increased by 10.4% to £99.4m. Contributions from employees fell by 0.8%, which is consistent with the fall in the number of active members. Employer contributions increased by 13.8%. The employer normal contributions increased by 16.5% over the previous year, the majority of this is explained by the primary rate increasing from 13.4% of salary to 15% of salary (on average) with 2017-18 being the first year of new employer rates resulting from the 2016 valuation. Deficit funding increased by 7.6% as further increase in the fixed deficit recovery amounts certified by the actuary came into force.

4.2 Recurring Pensions

Payments of pension to members increased by 4.5% to £71.2m. Pensioner numbers were higher during the year by slightly more than the increase in payments so the average pension value decreased marginally by 0.6% to £4,487. Pensions in payment increased by 3.0% for inflation effective from 1st April 2017.

4.3 Net Additions from dealings with members

The cash flow from contributions over payments has improved from an inflow of £8.3m to an inflow of £12.5m. The ramping up of the deficit recovery lump sums paid by employers has led to the fund being increasingly cash flow positive over the year.

4.4 Administrative expenses

Administrative expense fell by 3.8% to £1.1m. The fall is due to the residual SCC costs of providing payroll, which has wholly moved to Peninsula Pensions, not recurring. The administration cost per member fell by 7.4% to £17.36.

4.5 Investment Expenses

Investment expense increased by 15.0% compared to the 2016-2017 figure to £5.7m. The 8.9% increase in fund managers' fees compares to an 12.8% increase in average funds. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 0.4% to 0.28p.

4.6 Oversight and governance expenses

Oversight and Governance costs increased by 8.1% during the year to £0.8m. The most notable increase in costs was the nearly 3 times increase in pooling costs.

4.5 Total Expenses

Total expenses for the fund increased by 11.1% to £7.6m. This represents a 6.9% increase in the total cost per member to £118.84 and an 1.5% fall in the total expenses per pound of assets to 0.38p.

4.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 12.6% to £59.7m. The yield on average net investment assets was unchanged at 3.0%.

4.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 1.1% to £3.8bn. The liability net of assets decreased by 2.7%.

4.8 Membership statistics

Total membership increased by 3.5%. Active members decreased by 1.9% during the year and the number of deferred members increased 12.8%. The number of pensioners increased by 5.8% during the year. The ratio of active members for each pensioner has fallen to 1.30.

5. **Investment Performance**

5.1 Investment performance for the financial year was 3.8%. Performance for the year was ahead of the fund's scheme specific benchmark of 3.4%. The outperformance was due to good performance by our fund managers, particularly Jupiter and Standard Life for fixed income, this effect was reduced by the underperformance of Standard Life for UK equity. Asset allocation was slightly negative for the year mostly due to being underweight property and emerging markets and overweight cash through most of the year..

5.2 Looking at longer periods the three-year return at 8.3% p.a. is strong and 0.2%p.a. above the benchmark return.

5.3 The fund's 5-year return is 9.1% p.a., and the 10 year return is 7.2%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 2019 using data from March 2019.

8. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2017/18

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