

Pension Fund Annual Report 2023/2024

Lead Officer: Maria G. Christofi: Interim Chief Finance Officer (Section 151 Officer)
Author: Anton Sweet: Funds and Investments Manager
Contact Details: (01823) 359584
anton.sweet@somerset.gov.uk

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 2023/2024 financial year and related matters covered in the Fund's Annual Report.
- 1.2 The draft full annual report is attached as appendix A. The final finished version of the annual report will appear on the Somerset Council website following the formal adoption by the Committee and Pension Fund Board and the issue of the consistency opinion by the external auditor.
- 1.3 Under the LGPS regulations the Fund is required to produce an Annual Report and publish it by 1st December each year. Much of the content of the annual report is either required under the regulations or under statutory guidance issued by CIPFA.
- 1.4 Fresh statutory guidance on the "Preparing the Pension Fund Annual Report" was issued jointly by DLUHC (now MHCLG), CIPFA and the LGPS Scheme Advisory Board in April. Funds are encouraged to adopt the new guidance on a best efforts basis for the 2023/2024 year with it being a formal requirement for subsequent years. Officers have applied the new guidance as much as possible.

2. Issues for consideration

- 2.1 The committee is asked to formally approve the Fund's annual report subject to the addition of the external auditor's opinions.
- 2.2 In the event of the external auditor requiring changes to the accounts prior to the provision of their opinions it is requested that the Chair be given the ability to approve these amendments on behalf of the Committee.

3. Accounts analysis

3.1 Contributions received

Overall contributions from employers and employees increased by 8.1% to £132.6m. Contributions from employees grew by 6.6%, this is noticeably different from the 3.4% decrease in active members and to some extent reflects higher wage growth. Employer contributions increased by 8.5%. The employer normal contributions increased by 18.5% over the previous year, reflecting typically higher rates of contributions being required under the first year of the 2022 actuarial valuation. Deficit funding decreased by 31.3% also reflecting the new rates from the 2022 valuation. Augmentation payments from employers increased from £0.5m to £3.0m, with the majority of this increase coming from the newly created Somerset unitary council it is likely that this increase was linked to the first wave of workforce reorganisation that occurred during the year.

3.2 Recurring Pensions

Payments of pension to members increased by 11.5% to £101.3m. Pensioner numbers were higher during the year by 4.1% and the average pension in payment increased marginally by 7.3% to £4,868. Pensions in payment increased by 10.1% for inflation effective from 1st April 2023.

3.3 Net Additions from dealings with members

The cash flow from contributions over payments has fallen from an inflow of £15.4m to an inflow of £7.6m. This reflects the more rapid increase in pensions in payment over contributions but there is also a significant imbalance between the £19.6m of transfers out paid against the £13.6m of transfers in received.

3.4 Administration expenses

Administrative expense (Peninsula Pensions cost) increased by 17.5% to £1.7m. The administration cost per member increased by 15.2% to £23.64.

3.5 Investment expenses

Investment expense increased by 21.1% compared to the 2022-2023 figure to £11.8m. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 14.3% to 0.40p. This indicates a significant portion of the increase is due to higher asset values with fund manager fees typically charged as a percentage of assets under management.

3.6 Oversight and governance expenses

Oversight and Governance costs decreased by 8.3% during the year to £0.6m. This was largely due to the extra actuarial costs associated with a valuation year not recurring.

3.7 Total expenses

Total expenses for the fund increased by 19.2% to £14.1m. This represents a 16.7% increase in the total cost per member to £196.91 and total expenses per pound of assets increased by 11.9% to 0.47p.

3.8 Investment income

Investment income (dividends and bond interest received) for the year decreased by 1.7% to £10.7m. The yield on average net investment assets fell from 0.39% to 0.36%.

3.9 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 2.2% to £3.1bn. Overall we now have a net asset rather than a liability.

3.10 Membership statistics

Total membership increased by 1.7%. Active members decreased by 3.4% during the year and the number of deferred members increased 3.2%. The number of pensioners increased by 4.1% during the year. The ratio of active members for each pensioner fell below 1 for the first time to 0.98.

4. **Investment performance**

4.1 Investment performance for the financial year was 13.2%. Performance for the year was above the fund's scheme specific benchmark of 12.2%. Asset allocation added 1.5% during the year, significant contributions to this came from being overweight global equities (both passive and active), underweight property and underweight to UK government Gilts and index-linked Gilts. The remaining -0.5% of difference was due to the underperformance of the fund managers collectively. There was significant underperformance in the GHA equity fund which, as our largest exposure, represents the bulk of this.

4.2 Looking at longer periods the three-year return at 6.3% p.a. is reasonable and comfortably above the actuary's discount rate for the period. The fund outperformed its benchmark over the 3 years by 0.9% p.a.

4.3 The fund's 5-year return was 7.5% p.a., and the 10 year return was 8.1% p.a.

5. Pooling savings

- 5.1 The annual report contains full disclosure of the costs and savings related to pooling.
- 5.2 For the current year fee savings amounted to £2.0m plus internal savings of £156,000 but the overall impact is reduced by Brunel fees of £1.1m. The saving for the year was £1.0m. With anticipated increases in fee savings as more private equity money moves to Brunel we should make savings of at least this level going forward.

6. Consultations undertaken

- 6.1 None

7. Financial implications

- 7.1 Over time the performance of the pension fund investments will impact the amount that Somerset 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 2025 using data from March 2025.
- 7.2 The audited accounts of the Pension Fund form a key part of the governance arrangements around the Finances of the Pension Fund.

8. Legal implications

- 8.1 The LGPS regulations require the publishing of an annual report by 1st December following the March year end each year. The regulations also include some specific information that it is a requirement to include in the annual report. The draft of the annual report provided meets all of the requirements.
- 8.2 As noted above the draft provided has met the new guidance on a best efforts basis. Officers have taken steps to ensure we can be fully compliant in next year's annual report as required by the guidance.

9. Background papers

- 9.1 None

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