

Annual Report

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<i>Executive Portfolio Holder:</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 2019-2020 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.
- 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.

2. Issues for consideration

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

3. Copy of fund account

2018/2019		2019/2020		
£ millions	£ millions	£ millions	£ millions	Notes
Contributions and other income				
20.909		21.186		4
85.071		82.132		4
2.699		3.301		4
5.672		16.017		5
114.351		122.636		
Less benefits and other payments				
-76.008		-81.657		4
-17.761		-15.654		4
-2.088		-2.515		4
-5.951		-11.386		5
-0.383		-0.304		6
-102.191		-111.516		
12.160	Net additions from dealings with members		11.120	
Management Expenses				
-1.170		-1.285		7
-6.178		-6.228		8
-0.608		-0.662		9
-7.956		-8.175		
4.204	Net additions including management expenses		2.945	
Investment income				
42.212		29.629		10
4.714		4.173		10
-1.214		-0.599		
45.712		33.203		
Change in market value of investments				
286.389		161.409		13
-215.868		-321.123		13
70.521		-159.714		
116.233	Net return on investments		-126.511	
120.437	Net increase in the net assets available for benefits during the year		-123.566	

4. Accounts analysis

4.1 Contributions

Overall contributions from employers and employees decreased by 2.5% to £103.3m. Contributions from employees grew by 1.3%, this is below the 1.9% increase in active members. Employer contributions decreased by 3.5%. The employer normal contributions increased by 1.2% over the previous year, this is consistent with the increase in the level of employee contributions. Deficit funding increased by 2.3% as further increases in the fixed deficit recovery amounts certified by the actuary came into force. Augmentation payments from employers fell by 65%.

4.2 Recurring Pensions

Payments of pension to members increased by 7.4% to £81.7m. Pensioner numbers were higher during the year by 5.6% so the average pension value increased marginally by 1.5% to £4,586. Pensions in payment increased by 2.4% for inflation effective from 1st April 2019.

4.3 Net Additions from dealings with members

The cash flow from contributions over payments has deteriorated from an inflow of £12.2m to an inflow of £11.1m. Increases in recurring pensions and lump sum payments slightly outstripping the increase in contributions.

4.4 Administrative expenses

Administrative expense (Peninsula Pensions cost) increased by 9.8% to £1.3m. This is reasonable considering the 0.8% increase in membership and 14.8% increase in the number of active employers. The administration cost per member increased by 8.0% to £19.13.

4.5 Investment Expenses

Investment expense increased by 0.8% compared to the 2018-2019 figure to £6.2m. The 25.6% decrease in fund managers' fees (outside of Brunel) was partially due to lower performance fees, but also a number of mandates being closed as funds moved to Brunel. Increases in fund manager fees charged via Brunel were in line with reductions seen on fees from the external fund managers that had previously managed those funds. This means there were insufficient savings to compensate for the £1.0m of fees charged by the Brunel company. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.45% to 0.30p.

4.6 Oversight and governance expenses

Oversight and Governance costs increased by 8.9% during the year to £0.7m. This increase is due to a significant increase in actuarial charges. We would usually expect this in a valuation year.

4.5 Total Expenses

Total expenses for the fund increased by 2.8% to £8.2m. This represents a 1.1% increase in the total cost per member to £121.73 and total expenses per pound of assets has increased by 2.6% to 0.39p.

4.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 28.0% to £33.8m. This reduction was to be expected as we transferred direct holdings in dividend paying shares for non-distributing units in Brunel pooled funds during the year. We expect the amount of investment income collected to continue to noticeably reduce as the transfer of assets to Brunel continues. The yield on average net investment assets fell from 2.2% to 1.6%.

4.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet decreased by 6.1% to £3.7bn. The liability net of assets decreased by 6.7%.

4.8 Membership statistics

Total membership increased by 0.8%. Active members increased by 1.9% during the year and the number of deferred members decreased 1.1%. The number of pensioners increased by 5.6% during the year. The ratio of active members for each pensioner has fallen to 1.14.

5. Investment Performance

- 5.1 Investment performance for the financial year was -5.9%. Performance for the year was above the fund's scheme specific benchmark of -6.8%. Asset allocation added 0.43% during the year, the majority of this occurred in the last quarter and was due to the significant overweight to cash during the fall in markets in February and March. The remaining 0.4% of difference was due to the outperformance of the fund managers collectively. Effectively all of the outperformance was generated by the Brunel Global High Alpha mandate with the other managers smaller effects cancelling each other out.
- 5.2 Looking at longer periods the three-year return at 1% p.a. is paltry but this is partially a result of the very short-lived market lows around our year end date. The fund matched its benchmark over the 3 years.
- 5.3 The fund's 5-year return was 4.7% p.a., and the 10 year return was 6.9% 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 2019 using data from March 2019.

8. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2019/20.