

Annual Report

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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 2020-2021 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 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

Overall contributions from employers and employees increased by 7.9% to £111.5m. Contributions from employees grew by 6.6%, this is significantly different from the 1.3% fall in active members. Employer contributions decreased by 8.3%. The employer normal contributions increased by 24.4% over the previous year. Deficit funding decreased by 12.8%. The changes in employer contributions are mostly driven by 2020/21 being the first financial year of contributions certified by the actuary after the 2019 valuation exercise. Augmentation payments from employers fell by 69%, following a fall of similar proportions the year before.

3.2 Recurring Pensions

Payments of pension to members increased by 3.2% to £84.3m. Pensioner numbers were higher during the year by 3.5% so the average pension value decreased marginally by 1.2% to £4,531. Pensions in payment increased by 1.7% for inflation effective from 1st April 2020.

3.3 Net Additions from dealings with members

The cash flow from contributions over payments has deteriorated from an inflow of £11.1m to an inflow of £8.5m. This is largely due to a significant swing in the balance between transfers in and transfers out.

3.4 Administrative expenses

Administrative expense (Peninsula Pensions cost) decreased by 1.2% to £1.3m. This is commendable given the continuing increase in membership and the number of employers. The administration cost per member decreased by 1.9% to £18.77.

3.5 Investment Expenses

Investment expense increased by 15% compared to the 2019-2020 figure to £7.2m. As mentioned in the accounts £0.6m relates to property fund managers fees where there has not been a change in the fees but a significant improvement in transparency. 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 despite a significant increase in the value of funds being managed. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.3% to 0.31p.

3.6 Oversight and governance expenses

Oversight and Governance costs increased by 2.9% during the year to £0.7m. The most significant increase was in IT costs although a significant part of the increase was one off items related to moving our investment accounting database to a cloud-based delivery rather than being hosted on a server at Count Hall.

3.5 Total Expenses

Total expenses for the fund increased by 11.7% to £9.1m. This represents a 10.9% increase in the total cost per member to £134.99 and total expenses per pound of assets was unchanged at 0.39p.

3.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 43.4% to £19.1m. 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 1.6% to 0.8%.

3.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 34% to £4.9bn. The liability net of assets decreased by 43%.

3.8 Membership statistics

Total membership increased by 0.7%. Active members decreased by 1.3% during the year and the number of deferred members increased 0.4%. The number of pensioners increased by 3.5% during the year. The ratio of active members for each pensioner has fallen to 1.09.

4. Investment Performance

- 4.1 Investment performance for the financial year was 27.2%. Performance for the year was above the fund's scheme specific benchmark of 24.7%. Asset allocation added 0.51% during the year, the majority of this occurred in the last quarter and was due to the significant overweight to equities and underweight to fixed income. The remaining 2% of difference was due to the outperformance of the fund managers collectively. The outperformance was generated by the Brunel Global High Alpha mandate and Neuberger Berman with the other managers smaller effects cancelling each other out.
- 4.2 Looking at longer periods the three-year return at 8.1% p.a. is healthy and considerably above the actuary's discount rate for the period. The fund outperformed its benchmark over the 3 years by 0.6% p.a..
- 4.3 The fund's 5-year return was 10.0% p.a., and the 10 year return was 8.7% p.a..

5. Pooling savings

- 5.1 The annual report now contains full disclosure of the costs and savings related to pooling.
- 5.2 For the current year fee savings amounted to £0.4m but there were transition costs of £1.4m and Brunel fees of £1m.

6. Collection of contributions

- 6.1 Details of the effectiveness of collection of contributions from employers is disclosed in the annual report.
- 6.2 During the 2020/2021 financial year we collected 97.64% of contributions by value by or before due date and 99.89% by value within 10 days of due date.

7. Consultations undertaken

None

8. Financial Implications

- 8.1 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 2022 using data from March 2022.

9. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2020/21.