

## Annual Report

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*Executive Portfolio Holder:* Not applicable

*Division and Local* Not applicable

*Member:*

### 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 2022-2023 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 1<sup>st</sup> 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 4.02% to £122.7m. Contributions from employees grew by 8.3%, this is noticeably different from the 0.61% increase in active members and to some extent reflects higher wage growth. Employer contributions increased by 2.9%. The employer normal contributions increased by 8.5% over the previous year, similar to employee contributions as you would expect. Deficit funding decreased by 9.0%. Augmentation payments from employers decreased by 49%, following a 42% increase last year.

#### **3.2 Recurring Pensions**

Payments of pension to members increased by 4.3% to £90.9m. Pensioner numbers were higher during the year by 3.6% so the average pension value increased marginally by 0.4% to £4,535. Pensions in payment increased by 3.1% for inflation effective from 1st April 2022.

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

The cash flow from contributions over payments has fallen from an inflow of £20.4m to an inflow of £15.4m. 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 5.9% to £1.4m. The administration cost per member increased by 3.5% to £20.52.

#### **3.5 Investment Expenses**

Investment expense increased by 14.8% compared to the 2021-2022 figure to £9.8m. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 12.9% to 0.35p. A proportion of this will be due to more transparent disclosure.

### 3.6 Oversight and governance expenses

Oversight and Governance costs increased by 12.0% during the year to £0.7m. This was largely due to the extra actuarial costs associated with a valuation year.

### 3.7 Total Expenses

Total expenses for the fund increased by 13.5% to £11.9m. This represents a 10.9% increase in the total cost per member to £168.69 and total expenses per pound of assets fell 10.5% to 0.42p.

### 3.8 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 30.0% to £10.9m. This reduction was to be expected as we transferred direct holdings in coupon paying bonds for non-distributing units in Brunel pooled funds during the prior year. We expect the amount of investment income to stabilise at approximately this level now the transition of assets to Brunel is largely complete. The yield on average net investment assets fell from 0.6% to 0.4%.

### 3.9 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet fell by 37% to £3.1bn. The liability net of assets decreased by 88%.

### 3.10 Membership statistics

Total membership increased by 2.2%. Active members increased by 0.6% during the year and the number of deferred members increased 2.5%. The number of pensioners increased by 3.6% during the year. The ratio of active members for each pensioner fell to 1.05.

## 4. **Investment Performance**

4.1 Investment performance for the financial year was -1.8%. Performance for the year was above the fund's scheme specific benchmark of -4.7%. Asset allocation added 1.8% during the year, approximately half of this was due to overweight in equities and the other half the underweight to UK government Gilts and index-linked Gilts. The remaining 1.5% of difference was due to the outperformance of the fund managers collectively. There was significant outperformance in the GHA equity fund which represents the bulk of this.

4.2 Looking at longer periods the three-year return at 10.5% 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 1.2% p.a..

4.3 The fund's 5-year return was 6.0% p.a., and the 10 year return was 7.6% 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 £150,000 but the overall impact is reduced by Brunel fees of £1.0m. The saving for the year was £1.1m. With anticipated increases in fee savings as more private equity money moves to Brunel we should make noticeable savings of at least this level going forward.

## **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 2022/2023 financial year we collected 93.03% of contributions by value by or before due date and 98.71% 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 2025 using data from March 2025.

## **9. Background Papers**

Somerset County Council Pension Fund Annual Report and Financial Statements 2022/23.