

ITEM No ...3.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 7 MARCH 2016**

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2016/2017

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 100-2016

1 PURPOSE OF REPORT

This report introduces the eleventh annual business plan for the Tayside Pension Funds.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2016-2017 Business Plan which applies to the administration and management of the Tayside Pension Fund and the Tayside Transport Pension Fund.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2016/2017. Investment manager fees are charged directly to the Funds, as are actuarial and investment consultancy costs.

4 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom". A Guide to the Application of the Myners Principles (December 2009) suggests that as one of the means of achieving effective decision making an annual business plan for the pension fund should be prepared and submitted.

This plan is prepared for the Pension Funds as a whole. This is over and above individual Service Plans for both the Financial Services Section as part of the Corporate Services Department's overall planning process.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES**

26 FEBRUARY 2016



BUSINESS PLAN 2016-2017

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme" Principle 1 - Effective Decision Making it is necessary that an annual business plan is prepared for the Funds. This document together with the Statement of Investment Principles will set out the investment philosophy and priorities for the Funds.

2 **BACKGROUND**

The Tayside Pension Fund and Tayside Transport Pension Fund are merged for investment management purposes but remain separate entities subject to separate actuarial valuations and each producing their own set of accounts. At 31 December 2015 the value of the merged Funds was approximately £2,873m.

Within Dundee City Council's Corporate Services Department the responsibility for the Pension Funds lies now within Financial Services following retirement of the Pensions & Payroll Manager. The structure is currently under review.

The annual budget for 2016/2017 for these sections is shown in Appendix 1.

3 **INVESTMENT MANAGERS**

As stated in the Statement of Investment Principles (SIP) the objective of the Fund is to be 100% funded and to that end individual performance targets are set for each manager. These are stated in the SIP. However, these targets can only influence the asset side of the valuation and the liability side also affects the funding level. This is considered more fully in the Funding Strategy Statement (FSS).

Given the different styles of the managers and the decision to diversify their investment strategies it is unrealistic to expect all managers to meet their targets each year. However they will continue to be monitored quarterly by the Pension Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2015 are shown in Appendix 2. It is possible that the manager fees will increase as they are linked to the value of funds so will rise if funds increase.

Contributions rates are 17.0% of payroll for the 3 year period from 2015/2016.

Lump Sum payments may increase as some employers in the scheme continue to offer Early Retirement Schemes.

5 **PERFORMANCE MANAGEMENT**

Investment Performance Measurement will continue to be provided by Northern Trust, the Fund's custodian. A procurement exercise is due to commence and the outcome of this exercise may result in a change of provider, but should result in achieving efficiencies.

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the LGPS Scotland Investment & Governance Group.

The Funds will also be subject to periodic review by both internal and external audit.

6 **ACTUARIAL SERVICES**

These have been provided from 1 July 2004 by Barnett Waddingham (previously Punter Southall), following a tendering exercise. The initial three year period was extended to an additional three year period from 1 July 2007. This has been further extended and a tender exercise was postponed until after the triennial valuation at 31 March 2014. A procurement exercise is planned for 2016/2017 and the outcome of this exercise may result in a change of provider.

7 **INVESTMENT CONSULTANCY**

Investment advice is provided by AON Hewitt. This contract began on 1 October 2013 following a tendering exercise using the new LGPS Procurement Framework. The period of the contract is for an initial 3 years with an option to extend contract period for a further two years. Aon Hewitt provide an annual report to the Sub-Committee each March (covering the managers and fund performance for the previous full calendar year) and will attend quarterly meetings with fund managers and provide regular advice to the Council's Officers.

8 **FUNDING STRATEGY STATEMENT**

These are produced following consultation with the actuary.

9 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

10 **ADMINISTRATION**

The new LGPS scheme and regulations became effective 1 April 2015 and included revised governance arrangements.

The new scheme moves to benefits being worked out using career average (CARE) rather than final salary and built up at a rate of 1/49th on annual pensionable pay.

The new self service pension administration module is being installed, with the employers of around 60% of active membership now utilising this medium. The second phase (a further 30%) is planned for March 2016 with the remainder of employers, pensioners and members being rolled out in the following months to July 2016.

11 **TREASURY MANAGEMENT STRATEGY**

Dundee City Council provides a treasury management service at a cost of £7,000 per annum.

FINANCIAL SERVICES AND INVESTMENT AND PENSION ADMINISTRATION
EXTRACT OF REVENUE BUDGET 2016/2017

	<u>Financial Services and Investment (£000)</u>	<u>Pension Administration (£000)</u>	<u>Total (£000)</u>
Staff	62	456	518
Property	4	45	49
Supplies and Services	37	145	182
Transport	1	1	2
Third Party Payments	<u>-</u>	<u>20</u>	<u>20</u>
	104	667	771
Treasury Management	7	-	7
TOTAL EXPENDITURE	<u>111</u>	<u>667</u>	<u>778</u>

TAYSIDE PENSION FUND ACCOUNTS

Restated 2013/2014 £000	FUND ACCOUNT	Note	2014/2015	
			£000	£000
	CONTRIBUTIONS AND BENEFITS			
	<u>Contributions receivable :-</u>			
67,620	From employers	5	68,776	
<u>22,364</u>	From members	5	<u>22,636</u>	
89,984				91,412
3,762	Transfers in	7		3,324
	<u>Benefits payable :-</u>			
(64,283)	Pensions		(68,545)	
<u>(19,865)</u>	Lump Sums	6	<u>(21,104)</u>	
(84,148)		6		(89,649)
	<u>Payments to and on account of Leavers :-</u>			
(179)	Refund of Contributions to Members		(233)	
(79)	Refund of Contributions to State Scheme		(115)	
<u>(4,483)</u>	Transfers Out	7	<u>(4,890)</u>	
(4,741)				(5,238)
<u>(1,192)</u>	Administration Expenses	4,14,16		<u>(1,232)</u>
3,665	Net (Withdrawals)/Deposits from dealings with Members			(1,383)
	RETURNS ON INVESTMENTS			
59,067	Investment Income	8	56,574	
146,447	Change in Market Value of Investments	9	336,802	
<u>(8,391)</u>	Investment Management Expenses	17	<u>(11,921)</u>	
<u>197,123</u>	Net Returns on Investments			<u>381,455</u>
200,788	Net increase in Fund during the year			380,072
<u>2,262,275</u>	OPENING NET ASSETS OF THE SCHEME			<u>2,463,063</u>
<u>2,463,063</u>	CLOSING NET ASSETS OF THE SCHEME			<u>2,843,135</u>

TAYSIDE PENSION FUND ACCOUNTS

2014 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	Note	2015 £000	£000
	<u>Listed Investments</u>			
593,619	UK Equities		656,278	
57,927	UK Pooled Funds		64,398	
39,579	UK Fixed Interest - Public Sector		47,561	
11,131	UK Fixed Interest – Other		7,850	
77,281	UK Index Linked - Public Sector		91,285	
564,960	Overseas Equities		654,486	
175,409	Overseas Pooled Funds		208,047	
290,860	Overseas Open Ended Investment Companies		352,658	
12,841	Overseas Fixed Interest – Other		17,877	
418	Derivatives (Futures)		286	
	<u>Unlisted Investments</u>			
296,038	UK Open Ended Investment Companies		339,194	
14,529	M&G Fund		11,782	
62,821	Overseas Open Ended Investment Companies		68,140	
232,546	Property Unit Trusts		304,428	
25,209	Cash Balances held by Fund Managers		16,093	
<u>11,598</u>	Financial Debtors	13	<u>19,691</u>	
2,466,766				2,860,054
	INVESTMENT LIABILITIES			
	(89) Derivatives (Futures)		(77)	
<u>(6,998)</u>	Other Financial Liabilities	13	<u>(15,823)</u>	
<u>(7,087)</u>	Total Financial Liabilities			<u>(15,900)</u>
2,459,679	Net Financial Assets	9		2,844,154
	CURRENT ASSETS			
5,614	Contributions Due from Employers		7,903	
1,768	Sundry Debtors	12	1,471	
<u>2,318</u>	Cash and Bank		<u>1,340</u>	
<u>9,700</u>			<u>10,714</u>	
	LESS CURRENT LIABILITIES			
(6,316)	Sundry Creditors	12	<u>(11,733)</u>	
<u>3,384</u>	NET CURRENT ASSETS			<u>(1,019)</u>
<u>2,463,063</u>	NET ASSETS			<u>2,843,135</u>

Marjory Stewart, FCCA, CPFA
 Executive Director of Corporate Services
 Dundee City Council
 25 September 2015

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2013/2014	FUND ACCOUNT		2014/2015	
£000			£000	£000
	CONTRIBUTIONS AND BENEFITS	Note		
	<u>Contributions receivable:-</u>			
899	From employers		840	
<u>89</u>	From members		<u>76</u>	
988				916
	<u>Benefits payable:-</u>			
(1,958)	Pensions		(2,036)	
<u>(689)</u>	Lump Sums		<u>(515)</u>	
(2,647)				(2,551)
	<u>Payments to and on account of Leavers:-</u>			
-	Transfers Out		<u>(78)</u>	
-				(78)
<u>(30)</u>	Administration Expenses	10,11		<u>(36)</u>
(1,689)	Net Withdrawals from dealings with Members			(1,749)
	RETURNS ON INVESTMENTS			
799	Investment Income	5	810	
3,191	Change in Market Value of Investments	6	6,981	
<u>(180)</u>	Investment Management Expenses	12	<u>(199)</u>	
<u>3,810</u>	Net Returns on Investments			<u>7,592</u>
2,121	Net increase in Fund during the year			5,843
<u>54,170</u>	OPENING NET ASSETS OF THE SCHEME			<u>56,291</u>
<u>56,291</u>	CLOSING NET ASSETS OF THE SCHEME			<u>62,134</u>

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2014 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2015 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE	Note	
	<u>Listed Investments</u>		
14,230	UK Equities		14,811
3,550	UK Fixed Interest - Public Sector		3,609
596	UK Fixed Interest - Other		515
6,085	UK Index Linked - Public Sector		6,892
14,397	Overseas Equities		15,827
1,036	Overseas Fixed Interest - Other		1,490
35	Derivatives (Futures)		18
	<u>Unlisted Investments</u>		
11,137	UK Open Ended Investment Companies		12,092
92	Overseas Open Ended Investment Companies		105
3,986	Property Unit Trusts		4,510
836	Cash Balances held by Fund Managers		700
<u>101</u>	Financial Debtors	9	<u>1,014</u>
56,081			61,583
	INVESTMENT LIABILITIES		
(8)	Derivatives (Futures)		(9)
<u>(17)</u>	Other Financial Liabilities	9	<u>(744)</u>
<u>(25)</u>	Total Financial Liabilities		<u>(753)</u>
56,056	Net Financial Assets	6	60,830
	CURRENT ASSETS		
6	Contributions Due from Employers		6
-	Sundry Debtors		1
<u>311</u>	Cash and Bank		<u>1,355</u>
317			1,362
	LESS CURRENT LIABILITIES		
(82)	Sundry Creditors	8	<u>(58)</u>
<u>235</u>	NET CURRENT ASSETS		<u>1,304</u>
<u>56,291</u>	NET ASSETS		<u>62,134</u>

Marjory Stewart, FCCA, CPFA
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 Dundee City Council
 25 September 2015

APPENDIX 3

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2010 Actual</u>	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Actual</u>	<u>2014 Actual</u>	<u>2015 Actual</u>	<u>Target</u>
1 <u>Pension Fund Administration</u>								
(i) Cost per member	£28.88	£25.40	£27.68	£23.90	£23.00	£26.92	£25.62	£30.00
2 <u>Pension Fund Investment</u>								
(i) Annual Investment performance relative to benchmark	+1.0%	-0.8%	-1.4%	-0.7%	+1.6%	+2.71	+1.0%	+1.0%
(ii) Funding level of Pension Fund	100%	98%	98%	98%	98%	99.8%*	99.8%*	99.8%*

*Estimated prior to valuation at 106.9%. 99.8% does not include 5% volatility reserve.

From Current Statement of Investment Principles*

3	<u>Investment Managers</u>	<u>Performance Target (on rolling 3 year basis)</u>
	Fidelity	Specific Benchmark +1.5% pa (gross of fees)
	Baillie Gifford	Specific Benchmark +1.75 to 2% pa (net of fees)
	Schroder Property	HSBC IPD Pooled Property Median +0.75% pa
	Goldman Sachs	Specific Benchmark +1.25% pa (gross of fees)
	Alliance Bernstein	Specific Benchmark +1.5% to 2% pa (net of fees)
4	<u>Asset Allocation</u>	<u>Target</u>
	<u>Main Fund</u>	
	Fidelity (Global Equity)	21%
	Baillie Gifford (Global Equity)	12%
	Schroder Property	12%
	Goldman Sachs (Bonds)	12%
	Alliance Bernstein (Global Equity)	15%
	Baillie Gifford (UK Equity)	12%
	Fidelity (Bonds)	6%
	Legal & General (Global Equity)	10%
	<u>Transport Fund</u>	
	Baillie Gifford (Global Equity)	22.5%
	Goldman Sachs (Bonds)	40%
	Schroder Property	10%
	Baillie Gifford (UK Equity)	27.5%

*Subject to amendment following Investment strategy review

Service Providers

Target - 2015

5	Actuarial Services	To continue quarterly monitoring of funding levels.
6	Investment Consultancy	To continue to monitor performance of managers.