

ITEM No ...18.....

**/REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 20 MARCH 2023**

REPORT ON: TAYSIDE PENSION FUND BUSINESS PLAN 2023/2024

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 100-2023

1 PURPOSE OF REPORT

This report introduces the annual business plan for the Tayside Pension Fund.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2023/2024 Business Plan which applies to the administration and management of the Tayside 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 2023/2024. Investment manager fees are charged directly to the Fund, 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 Fund as a whole. This is over and above an individual Service Plan for the Financial Services Section as part of Corporate Service's overall planning process.

5 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

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

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

10 MARCH 2023

This page is intentionally left blank



BUSINESS PLAN

2023-2024

This page is intentionally left blank

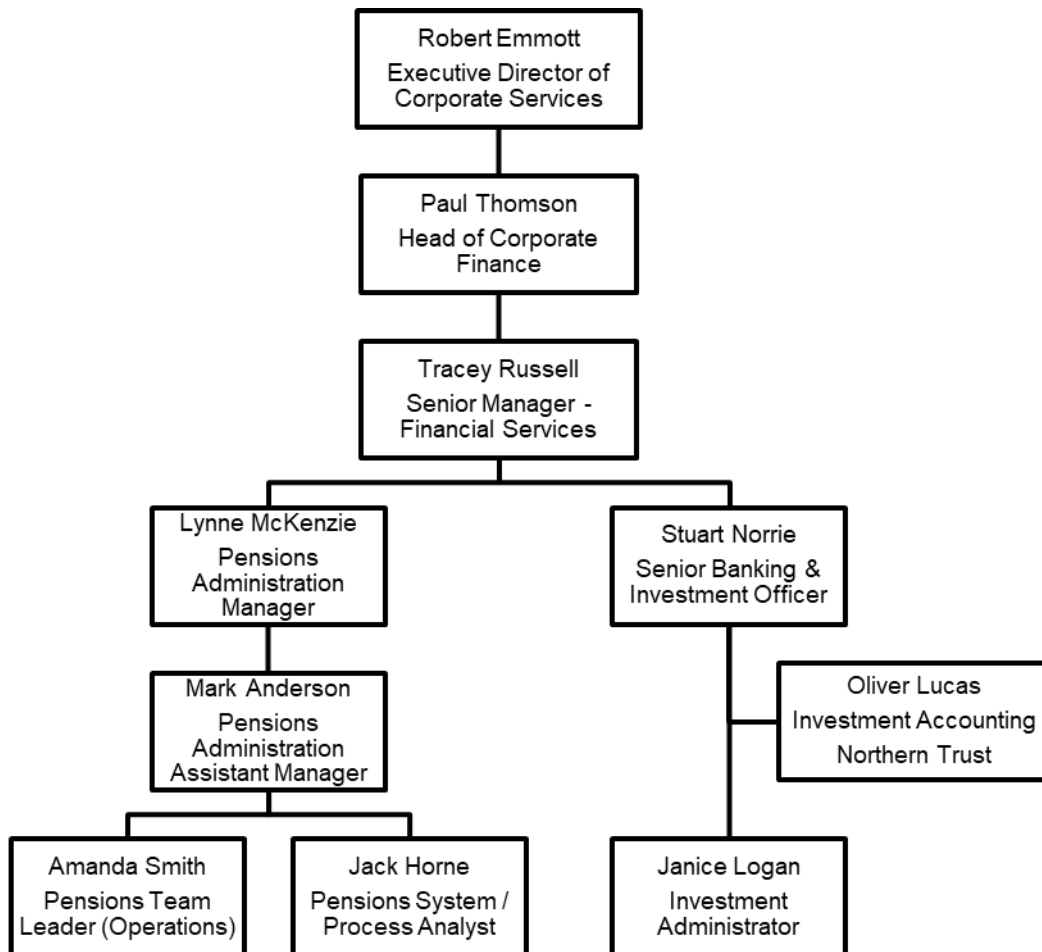
1 **INTRODUCTION**

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**

At 31 December 2022 the value of the Fund was approximately £4,655.0m.

The Pension Fund management structure lies within Financial Services as part of Dundee City Council's Corporate Finance function, the structure is detailed below -



An analysis of the Fund's management costs can be found in Appendix 1.

Over the course of the year a review of staffing requirements will be undertaken to ensure that the Fund continues to meet its statutory requirements and service levels. Any resultant staffing and recruitment exercises will be undertaken within the year.

3 **INVESTMENT**

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).

Following the outcome of the 2020 actuarial valuation, a review of investment strategy took place in 2021/22, with recommendations actioned in 2022/23 if market conditions favour. The investment strategy recommendations will continue to be implemented during 2023/24.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2022 are shown in Appendix 2. It is possible that investment manager fees will be subject to increase due to their linkage with the value of funds under management.

Most employer contribution rates are 17.0% of payroll for the 3-year period from 2021/2022 to 2023/2024. There are two employers who pay higher contribution rates due to this scheme being closed to new entrants.

In respect of Fund outflows, it is possible that 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.

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 Fund's performance will also be subject to periodic review by both internal and external audit.

6 **INTERNAL AUDIT**

PricewaterhouseCoopers (PwC) were appointed under the Crown Commercial Service Framework, for provision of a full internal audit service in January 2021 for a period of three years with an option to extend for a further two one-year periods. During 2022/23, audits undertaken reviewed Employer Contributions and Business Resilience, as well as ongoing reviews of TPR New Consolidated Code of Practice and Pension Dashboard readiness. The recommendations made have been accepted and are in the process of implementation now and will be complete during 2023/24.

Audits planned for 2023/24 are as follows:

- Pension Administration - a review of the design and operating effectiveness of key controls in respect of: members events, calculations and communications, complaints and disputes, member payments and call centre.
- Liquidity Management - a review of the design and operating effectiveness of key controls in respect of: How management determine cash flow requirements in the short and longer term; Identifying liquidity requirements and position; How management determine cash flow / liquidity requirements as part of strategic planning; Using the cash flow model to analyse and determine position; and Using model outputs to determine / inform actions.
- ESG Policy - advisory review to provide an overview of industry practice; understand actions already taken by Management; understand Management's ongoing project plans; and provide feedback on management's articulation of plans. We will also inspect a sample of Investment Manager third party assurance reports to understand the extent to which TPF obtains assurance.

7 **ACTUARIAL SERVICES**

These have been provided from 1 July 2004 by Barnett Waddingham. The procurement exercise planned for 2022/2023 has been subject to delay as a result of operational priorities, and this is now a priority following 2023 triennial valuation exercise. The outcome of this procurement exercise may result in a change of provider.

8 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by ISIO Ltd (formerly KPMG). This contract began on 2 July 2018 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 for a further 1 year plus 1 year, based upon satisfactory performance. ISIO provide an annual report to the sub-committee each March (covering the managers and fund performance for the previous full calendar year) and should attend quarterly meetings with fund managers and provide regular advice to the Council's Officers. They undertook a review of investment strategy in 2021/22 and will continue to assist with the implementation of their recommendations during 2023/24.

9 **FUNDING STRATEGY STATEMENT**

This is produced annually following consultation with the actuary and employers. The funding strategy has been subject to revision following the 2020 valuation to specifically accommodate changes in employer status, and cessation valuation criteria.

10 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

11 **ADMINISTRATION**

Online employer and member services

Additional modules from the core Altair system were introduced in 2021/22, providing the following services:

- I-Connect - This online portal provides employers with a secure, swift and efficient way to issue the essential information required for the Fund to ensure accuracy of member records.

With initial implementation phase now complete, the fund is committed to working with employers through 2023/2024 to increase efficiency for both employers and the fund by working together to utilise all I-Connect functions.

- Member Self Service – Take up of the member portal has been very good since its implementation but the fund will continue to take every opportunity to promote this service to employers and employees, and to continue to utilise the ongoing system functionality as it is released.

McCloud / Sargeant Judgement

Following the publication in February 2021 of the UK Government approach to remedying the age discrimination found in the 2015 pension reforms, and whilst awaiting the introduction of the necessary legislative changes, the Fund have been planning how they will address the necessary adjustments to member records required to fulfil their obligations in terms of the Judgement.

Following approval to recruit a team for the additional work this scheme change will incur a recruitment project was commenced. This has proved to be a difficult process and currently two posts remain vacant, but recruitment remains a focus and posts will be filled prior to the legislation being laid in October 2023.

This is a fundamental change in operations, and the project progression will be reported to the Sub-Committee on a quarterly basis.

GMP Rectification

The planned exercise for the rectification of pensions where an incorrect GMP data has led to an under or overpayment in the actual value of individual pensions in payment continued during 2022/23 but due to the complexity of the task could not be completed. This will continue to be a priority for 2023/2024.

Following this exercise (which is being undertaken by Equiniti, who had undertaken the initial GMP reconciliation to HMRC data), the Fund will contact all identified pensioners affected to advise them of actions taken as follows:

- For those pensions are being underpaid due to the incorrect application of GMP, these will be corrected and all arrears due paid.

- For those pensions which are being overpaid no repayment of the overpaid pension will be required, however a new scheme award known as an Increased Pension Entitlement (IPE) will be applied to these records to identify and record the amount by which the pension is being overpaid.

Pensions Dashboard

Pensions dashboards are digital services — apps, websites or other tools — which savers will be able to use to see their pension information in one place. This includes information on their occupational pension schemes such as the Local Government Pension Scheme. Dashboards aim to help members plan for retirement by finding their various pensions and reconnecting them with any lost pension pots and understanding the value of their pensions in terms of an estimated retirement income

Over 2023/24 the Fund will work with its existing software provider to ensure that our data is ready connection to the dashboard framework, that resources and IT considerations are investigated and considered. Information on the overall dashboard programme and the Funds position in the project will be submitted to Sub-Committee quarterly.

12 TREASURY MANAGEMENT

Dundee City Council provides a treasury management service for the Pension Fund, these costs are incorporated within a service level agreement with the administered authority.

Three Year Analysis of Tayside Pension Funds Costs

	2021/22 Actual £000	2022/23 Estimate £'000	2023/24 Budget £'000
Administrative costs *			
DCC Management charge	1,193	1,253	1,303
System costs	477	300	350
Audit fees	50	96	100
Actuary	28	10	40
Other expenses	110	80	90
	1,858	1,739	1,883
Oversight and Governance costs **	110	116	120
Investment Management expenses			
Management fees	9,618	9,034	9,500
Transactions costs	737	891	950
Custody fees	79	75	80
Performance monitoring service	24	25	27
Investment consultancy	37	25	27
	10,495	10,050	10,584
Total	12,463	11,905	12,587

* Administration costs are a combination of direct and indirect costs. Indirect costs, those borne by Dundee City Council, are a management charge for services provided by the administering authority. Direct costs include pension administration system, administration consultancy, audit fee, actuary, training and other fund expenses.

** Oversight and Governance costs relate to support costs incurred by the administering authority, namely Corporate and Democratic Core.

This page is intentionally left blank

TAYSIDE PENSION FUND - FUND ACCOUNT

2020/2021 £000		2021/2022 £000
	Dealings with Members, Employers and other directly involved in the fund	
76,211	Employers' contributions	81,241
27,091	Employees' contributions	28,363
3,635	Transfers in from other pension funds	6,221
<u>106,937</u>		<u>115,825</u>
(119,087)	Benefits	(125,706)
(12,503)	Payments to and on account of leavers	(5,757)
<u>(131,590)</u>		<u>(131,463)</u>
<u>(24,653)</u>	Net Withdrawals from dealings with members	<u>(15,638)</u>
(1,655)	Administration Expenses	(1,968)
<u>(26,308)</u>	Net Withdrawals from dealings with Members including Administration Expenses	<u>(17,606)</u>
	Returns on Investments	
71,033	Investment Income	79,440
1,142,937	Change in Market Value of Investments	195,064
(10,411)	Investment Management Expenses	(10,494)
<u>1,203,559</u>	Net Returns on Investments	<u>264,010</u>
<u>1,177,251</u>	Net increase in Fund during the year	<u>246,404</u>
3,672,321	Opening Net Assets of the scheme	4,849,572
<u>4,849,572</u>	Closing Net Assets of the scheme	<u>5,095,976</u>

The Fund Account shows payments to pensioners, pension contributions from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

TAYSIDE PENSION FUND NET ASSETS STATEMENT

2020/21		2021/22
£000		£000
4,883,250	Investment Assets	5,124,493
(39,604)	Investment Liabilities	(38,025)
4,843,646	Total Net Investments	5,086,468
11,878	Current Assets	13,696
4,855,524		5,100,164
(5,952)	Current Liabilities	(4,188)
4,849,572	Net assets of the fund available to fund benefits at the end of the reporting period	5,095,976

Robert Emmott BSc CPFA
 Executive Director of Corporate Services
 Dundee City Council
 17 October 2022

The Net Asset Statement represents the value and liabilities as at 31 March 2022 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 27 June 2022 and the Audited Accounts were authorised for issue on 17 October 2022.

KEY MEASURES AND TARGETS

	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	Target
1 Pension Fund Administration						
(i) Cost per member	£28.91	£36.73	£34.55	£28.67	£34.63	£35.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	+1.71%	-0.21%	+0.29%	+8.13%	-5.87%	+1.0%
(ii) Funding level of Pension Fund	107%**	107%**	109%**	109%**	109%**	109%**

* does not include 5% volatility reserve.

** does not include 10% volatility reserve.

3 Investment Managers	Performance Target (on rolling 3-year basis)
Fidelity	100% MSCI AC World Index +1.5% pa (gross of fees)
Baillie Gifford Global	100% MSCI AC World Index +1.75% to 2% pa (net of fees)
Baillie Gifford UK	100% FTSE All World Index +1.75% to 2% pa (net of fees)
Schroder Property	HSBC IPD Pooled Property Median +0.75% pa
Goldman Sachs	Yield to maturity of 3%+1.25% pa (gross of fees)
LGIM	100% FTSE AW Index +/-0.5%pa (2 out of 3 yrs)

4 Asset Allocation

Tayside Pension Fund - Target Future Asset Allocation		
Asset Class	Current Allocation	Agreed Allocation
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

5 Service ProvidersTarget – 2023/24

Actuarial Services	To prepare 2023 triennial funding valuation which will set future employer contribution rates.
Investment Consultancy	To continue to monitor performance and fees of managers, and advise as required; remain vigilant of asset allocation in relation to required returns; and to support the fund in building the local and alternative opportunities portfolio.

This page is intentionally left blank