

**ITEM No ...17.....**

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES  
COMMITTEE & PENSION BOARD– 16 MARCH 2020**

**REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2020/2021**

**REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**REPORT NO: 125-2020**

**1 PURPOSE OF REPORT**

This report introduces the 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 2020-2021 Business Plan which applies to the administration and management of the Tayside Pension Funds.

**3 FINANCIAL IMPLICATIONS**

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2020/2021. 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

**GREGORY COLGAN  
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

**11 SEPTEMBER 2020**





**BUSINESS PLAN**  
**2020-2021**



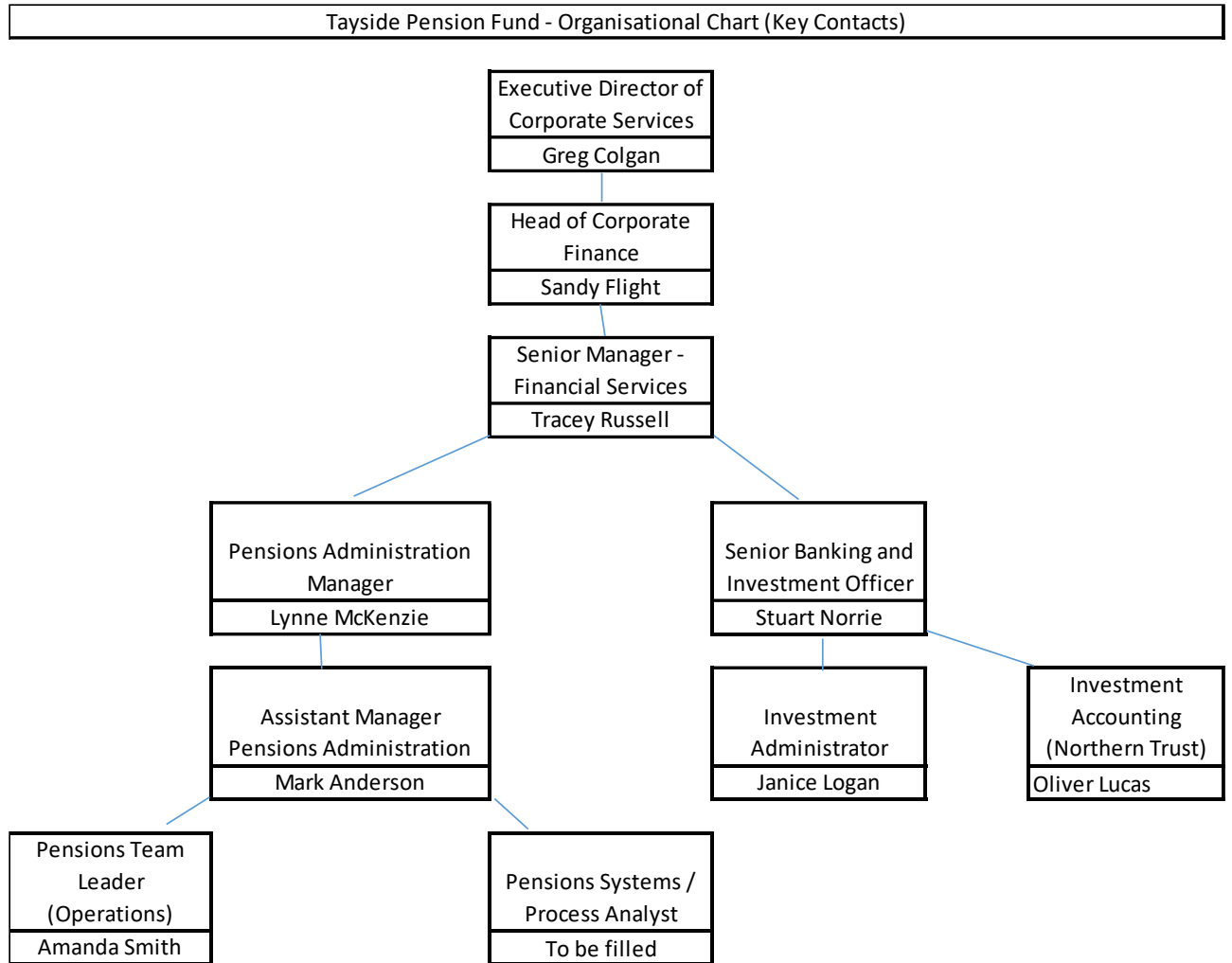
1 **INTRODUCTION**

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 2019 the value of the Fund was approximately £4,231m.

Within Dundee City Council's Corporate Services the responsibility for the Pension Fund lies within Financial Services, the structure of Financial Services is shown below.



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

Following a review of the staffing structure within Pensions Administration, the staffing levels within this are have increased over the year and the recruitment exercise will be completed in the first half of the coming financial year.

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.

As part of our new Opportunistic portfolio in Diversified Alternatives we plan to appoint a fund manager during 2020 if market conditions permit. KPMG has recommended that in order to quicken the implementation of this allocation, and whilst aware of the governance burden that the management of these types of assets have that an allocation to diversified alternatives of 50% of asset allocation to Local and Alternative Opportunities be incorporated into the fund via a procurement exercise, awarding the mandate to a manager with significant market experience in this area. This type of portfolio will produce a mixed liquidity portfolio across public and private markets with differing, complimenting risk and return profile

#### 4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2019 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 2018/2019.

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, completed in May 2017, has resulted in the Fund 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 **INTERNAL AUDIT**

In order to best meet the Fund's internal audit requirements of 2019/20 and 2020/21, a direct award will be made under the Crown Commercial Service Framework for provision of a full internal audit service. This is a short term measure to enable the Fund to meet immediate requirement, and a full procurement exercise for a longer term contract will commence during 2020.

#### 7 **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 2017. A procurement exercise is planned for 2020/2021 following triennial valuation and the outcome of this exercise may result in a change of provider.

#### 8 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by 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. KPMG will 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.

KPMG Pensions Advisory business has been sold to Exponent Private Equity. As at 2<sup>nd</sup> March, it is relaunched as Isio. The contract under the Norfolk framework has been novated, and the Fund will monitor performance and service delivery against agreed recommendations of the Pensions Regulator and the Competition and Markets Authority.

## 9 **FUNDING STRATEGY STATEMENT**

These are produced following consultation with the actuary.

## 10 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

## 11 **ADMINISTRATION**

### Pensionsweb

Exercises to assist employers to benefit from the efficiencies of automatic uploading of information direct into the Pensionsweb system have proved successful with usage increasing by 250% in 2019 from the previous year. Work continues to ensure that outlying employers continue to utilise the system.

The implementation of self-service for pensioner and dependent members has resulted in an uptake of 26% (754 members) opting to receive communications online. Unfortunately the planned implementation for deferred and active members has not been achieved due to calculation irregularities within the program.

The contract period for Pensionsweb ends in 2020 and a procurement exercise will be undertaken.

### Pension Operations

In October 2019 the section undertook an operational reorganisation to ensure that appropriate skills and resource were directed effectively to meet statutory requirements. Additional training has been provided, and processes improved and this has resulted in improved processing times. Over 2020 there are planned key process reviews and a further plan to consolidate pension payments to one monthly payment date.

### GMP

Equiniti were awarded the contract to undertake the HMRC reconciliation exercise. The reconciliation, was required to ensure that the Guaranteed Minimum Pension (GMP) half within members' record was correct and match those held at HMRC. Equiniti carried this out by assessment of data supplied by both Tayside Pension Fund and HMRC and the reconciliation was carried out both by bulk resolution of issue and individual member reconciliation. As at December 2019 Equiniti confirmed that all outstanding queries with HMRC were reviewed and actioned and as such the scheme is now 100% reconciled.

Following this full reconciliation Equiniti will now carry out the next stage of the Project to verify that all GMP's currently in application in our pensioners records are being applied correctly to ensure that the correct amount of annual increase is paid accurately. To do this Equiniti will design a system which will take the reconciled GMP data and the current pensioner payroll data and carry out a comparison to highlight any cases where incorrect GMP data has led to an under or overpayment in the actual value of individual pensions in payment.

This assessment and subsequent rectification will be carried out in line with the Local Government Pension Scheme (Increased Pension Entitlement) (Miscellaneous Amendments) (Scotland) Regulations 2019 which were laid before the Scottish Parliament on 23<sup>rd</sup> December 2019 and come into force on 1<sup>st</sup> March 2020. These regulations provide that for those pensions identified as 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 is 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.

### Employer Covenant Review

A tender for an independent service provider to undertake this task was issued in February 2019, and the contract was awarded to PwC in July 2019. The exercise was undertaken in 2019 and a subsequent report was provided to the Pension Sub-Committee in December giving an overall view of the covenant strength of the fund, but also highlighting key risks in relation to specific employers, and recommendations to address. The second phase of this exercise is planned for 2020 with PwC, in conjunction with Pinsent Mason (specialist LGPS solicitors) undertaking negotiations with individual employers to implement recommendations in order to strengthen their covenant.

### Task Management

To build from the implementation of the Pensionsweb system and further improve service through faster processes which are more easily monitored, a number of workflow tasks have been designed and applied to the Altair Pension Management System. All tasks which have a statutory timeframe for completion have now been implemented and during 2020/21 all other non-statutory deadline tasks will be implemented.

This will continue to enable the fund to better manage workload and to monitor performance in relation to the Administration Strategy through service requirements of both the fund and the employers.

### Valuation 2020

The triennial fund valuation is due on 31<sup>st</sup> March 2020 and in order to ensure that we provide the Fund Actuary with the information required to prepare the valuation report a number of data cleansing exercises will be undertaken in the first quarter of 2020/21.

## 11 **TREASURY MANAGEMENT**

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



**Three Year Analysis of Tayside Pension Funds Costs**

	2018/19 Actual £000	2019/20 Estimate £'000	2020/21 Budget £'000
<b>Administrative costs *</b>			
DCC Management charge	1,065	1,097	1,130
System costs	140	170	170
Audit fee	31	30	30
Actuary	16	20	40
Outsourcing	436	150	150
Other expenses	140	125	125
	<b>1,828</b>	<b>1,592</b>	<b>1,645</b>
<b>Oversight and Governance costs **</b>	<b>104</b>	<b>107</b>	<b>110</b>
<b>Investment Management expenses</b>			
Management fees	7,948	8,250	8,500
Transactions costs	900	925	925
Custody fees	100	100	100
Performance monitoring service	29	30	30
Investment consultancy	51	50	50
	<b>9,028</b>	<b>9,355</b>	<b>9,605</b>
<b>Total</b>	<b>10,960</b>	<b>11,054</b>	<b>11,360</b>

\* 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.



## TAYSIDE PENSION FUND - FUND ACCOUNT

2017/2018 £000		2018/2019 £000
	<b>Dealings with Members, Employers and other directly involved in the fund</b>	
72,684	Employers' contributions	72,110
23,931	Employees' contributions	24,631
2,414	Transfers in from other pension funds	1,919
99,029		98,660
(103,671)	Benefits	(111,252)
(3,816)	Payments to and on account of leavers	(6,314)
(107,487)		(117,566)
(8,458)	Net Withdrawals from dealings with members	(18,906)
(1,500)	Administration Expenses	(1,932)
<b>(9,958)</b>	<b>Net Withdrawals from dealings with Members including Administration Expenses</b>	<b>(20,838)</b>
	<b>Returns on Investments</b>	
83,390	Investment Income	94,450
110,750	Change in Market Value of Investments	137,914
(9,248)	Investment Management Expenses	(9,028)
<b>184,892</b>	<b>Net Returns on Investments</b>	<b>223,336</b>
(208)	Net Contribution and Withdrawals	-
70,774	Repatriation of Transport Fund assets	-
<b>245,500</b>	<b>Net increase in Fund during the year</b>	<b>202,498</b>
<b>3,445,123</b>	<b>Opening Net Assets of the scheme</b>	<b>3,690,623</b>
<b>3,690,623</b>	<b>Closing Net Assets of the scheme</b>	<b>3,893,121</b>

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

<b>2017/18</b>		<b>2018/19</b>
£000		£000
3,703,710	Investment Assets	3,902,965
(23,033)	Investment Liabilities	(21,653)
<b>3,680,677</b>	<b>Total Net Investments</b>	<b>3,881,312</b>
15,966	Current Assets	17,025
3,696,643		3,898,337
(6,020)	Current Liabilities	(5,216)
<b>3,690,623</b>	<b>Net assets of the fund available to fund benefits at the end of the reporting period</b>	<b>3,893,121</b>
<b>3,690,623</b>		<b>3,893,121</b>

**Gregory Colgan BAcc (Hons), ACMA, CGMA**  
 Executive Director of Corporate Services  
 Dundee City Council  
 23 September 2019

The Net Asset Statement represents the value and liabilities as at 31 March 2019 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 24<sup>th</sup> June 2019 and the Audited Accounts were authorised for issue on 23<sup>rd</sup> September 2019.



**KEY MEASURES AND TARGETS**

	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Actual</u>	<u>2016/17</u> <u>Actual</u>	<u>2017/18</u> <u>Actual</u>	<u>2018/19</u> <u>Actual</u>	<u>Target</u>
<b>1 Pension Fund Administration</b>						
(i) Cost per member	£25.62	£26.27	£28.22	£28.91	£36.73	£30.00
<b>2 Pension Fund Investment</b>						
(i) Annual Investment performance relative to benchmark	+1.0%	+0.51%	-0.57%	+1.71%	-0.21%	+1.0%
(ii) Funding level of Pension Fund	99.8%*	99.8%*	107%**	107%**	107%**	107%**

\* 99.8% does not include 5% volatility reserve.

\*\* 107% does not include 10% volatility reserve.

**Statement of Investment Principles**

<b>3 Investment Managers</b>	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)
<b>4 Asset Allocation</b>	

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

**Service Providers**

Target – 2020/21

<b>5</b>	Actuarial Services	To continue quarterly monitoring of funding levels.
<b>6</b>	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.

