

REPORT TO: PENSION INVESTMENT SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 3 MARCH 2014

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2014/2015

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 130-2014

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 2014/2015 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 2014/2015. 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 Pensions Administration Section and the Treasury and Investment Section as part of the Corporate Services Department's overall planning process.

The actuary, investment consultant and voting advisory service to the fund which require to be separately evaluated will be reviewed this year.

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**

28 FEBRUARY 2014

**TAYSIDE PENSION FUNDS
BUSINESS PLAN 2014/2015**

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 2013 the value of the merged Funds was approximately £2,497m.

Within Dundee City Council's Corporate Services Department there are two sections with responsibility for the Pension Funds - Treasury and Investment and Pensions Administration. The structures of these sections are shown at Appendix 1. It should be noted that staff in the Treasury and Investment section have other duties outwith the Pension Fund.

The annual budget for 2014/2015 for these sections is shown in Appendix 2.

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 Investment Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2013 are shown in Appendix 3. 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 will remain at 18.0% of payroll for 2014/2015.

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 planned for 2014/2015 and the outcome of this exercise may result in a change of provider.

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the CIPFA Scottish Branch Treasury Management Forum Pensions Sub-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 due to be undertaken in 2013/2014, however this has now been postponed until after the forthcoming triennial valuation at 31 March 2014 which will set the employer contribution rates for the following three year period.

7 **INVESTMENT CONSULTANCY**

Investment advice is now 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 will 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**

The eighth statements for the Funds have been produced following consultation with the actuary.

9 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 4.

10 **ADMINISTRATION**

Preparation will begin for implementation of new LGPS scheme and regulations which become effective 1 April 2015 and include revised governance arrangements.

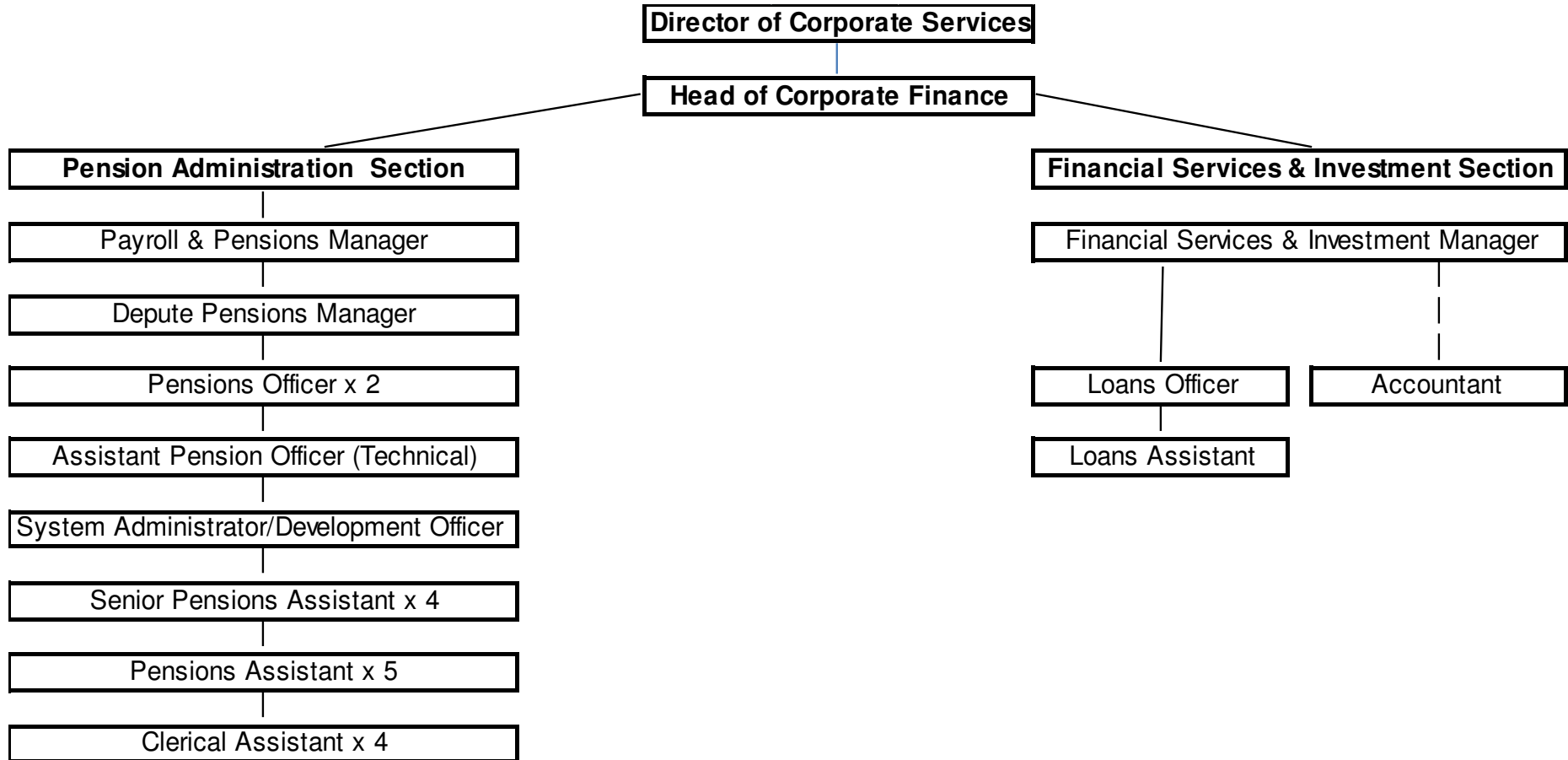
The new scheme moves to benefits being worked out using career average (CARE) rather than final salary and built up at a rate of 1/49th on annual pensionable pay.

Tender specification for the procurement of the self service module is currently being finalised. The self service module should be procured during the next scheme year and will be rolled out to all scheme employers.

11 **TREASURY MANAGEMENT STRATEGY**

Dundee City Council provides a treasury management service at a cost of £6,000 per annum.

DUNDEE CITY COUNCIL
CORPORATE SERVICES DEPARTMENT – CORPORATE FINANCE DIVISION (EXTRACT)



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2014/2015

	<u>Treasury and Investment</u> (£000)	<u>Pension Administration</u> (£000)	<u>Total</u> (£000)
Staff Costs	72	503	575
Property	3	40	43
Supplies and Services	19	48	67
Transport	1	3	4
Third Party Payments	<u>-</u>	<u>28</u>	<u>28</u>
	95	622	717
Treasury Management	6	-	6
TOTAL EXPENDITURE	<u>101</u>	<u>622</u>	<u>723</u>

TAYSIDE PENSION FUND ACCOUNTS

Restated 2011/2012 £000	FUND ACCOUNT	Note	2012/2013	
			£000	£000
	CONTRIBUTIONS AND BENEFITS			
	Contributions receivable :-			
69,787	From employers	2	66,961	
<u>22,340</u>	From members	2	<u>22,029</u>	
92,127				88,990
2,497	Transfers in	4		4,216
	Benefits payable :-			
(55,487)	Pensions		(60,522)	
<u>(22,502)</u>	Lump Sums	3	<u>(19,651)</u>	
(77,989)		3		(80,173)
	Payments to and on account of Leavers :-			
(242)	Refund of Contributions to Members		(139)	
(112)	Refund of Contributions to State Scheme		(58)	
<u>(4,544)</u>	Transfers Out	4	<u>(3,213)</u>	
(4,898)				(3,410)
<u>(1,257)</u>	Administration Expenses	1,11,,		<u>(1,198)</u>
10,480	Net Deposits from dealings with Members			8,425
	RETURNS ON INVESTMENTS			
48,533	Investment Income	5	52,578	
(3,057)	Change in Market Value of Investments	6	248,757	
<u>(5,526)</u>	Investment Management Expenses		<u>(6,543)</u>	
<u>39,950</u>	Net Returns on Investments			<u>294,792</u>
50,430	Net increase in Fund during the year			303,217
<u>1,908,628</u>	OPENING NET ASSETS OF THE SCHEME			<u>1,959,058</u>
<u>1,959,058</u>	CLOSING NET ASSETS OF THE SCHEME			<u>2,262,275</u>

TAYSIDE PENSION FUND ACCOUNTS

2012 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2013 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE	Note	
	<u>Listed Investments</u>		
496,499	- UK Equities		597,595
23,709	- UK Fixed Interest - Public Sector		40,584
8,731	- UK Fixed Interest - Other		10,512
69,966	- UK Index Linked - Public Sector		80,332
-	- UK Index Linked - Other		-
521,030	- Overseas Equities		625,041
224,392	- Overseas Open Ended Investment Companies		273,797
23,330	- Overseas Fixed Interest - Other		13,696
-	- Overseas Fixed Interest - Public Sector		-
428	- Derivatives (Futures)		597
	<u>Unlisted Investments</u>		
265,113	- UK Open Ended Investment Companies		293,822
13,861	- M&G Fund		16,213
74,438	- Overseas Open Ended Investment Companies		77,236
198,605	- Property Unit Trusts		203,370
33,102	Cash Balances held by Fund Managers		18,647
<u>12,966</u>	Financial Debtors	10	<u>8,348</u>
1,966,170			2,259,790
	FINANCIAL LIABILITIES		
(927)	Derivatives (Futures)		(727)
<u>(11,497)</u>	Other Financial Liabilities	10	<u>(2,772)</u>
<u>(12,424)</u>	Total Financial Liabilities		<u>(3,499)</u>
1,953,746	Net Financial Assets		2,256,291
	CURRENT ASSETS		
6,653	Contributions Due from Employers		6,510
1,214	Sundry Debtors	9	1,125
<u>1,752</u>	Cash and Bank		<u>4,412</u>
<u>9,619</u>			<u>12,047</u>
	LESS CURRENT LIABILITIES		
<u>(4,307)</u>	Sundry Creditors	9	<u>(6,063)</u>
<u>5,312</u>	NET CURRENT ASSETS		<u>5,984</u>
<u>1,959,058</u>	NET ASSETS		<u>2,262,275</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
25 September 2013

The unaudited accounts were issued on 21 June 2013 and the audited accounts were authorised for issue on 25 September

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2011/2012 £000	FUND ACCOUNT	2012/2013 £000	£000
	CONTRIBUTIONS AND BENEFITS	Note	
	Contributions receivable:-		
1,060	From employers		800
<u>107</u>	From members		<u>102</u>
1,167			902
-	Transfers In		75
	Benefits payable:-		
(2,033)	Pensions		(1,902)
<u>(16)</u>	Lump Sums		<u>(133)</u>
(2,049)			(2,035)
	Payments to and on account of Leavers:		
-	Refund of Contributions		-
-	Transfers Out		-
-			-
<u>(41)</u>	Administration Expenses	7	<u>(34)</u>
(923)	Net Withdrawals from dealings with Members		(1,092)
	RETURNS ON INVESTMENTS		
984	Investment Income	2	653
2,647	Change in Market Value of Investments	3	6,228
<u>(137)</u>	Investment Management Expenses		<u>(164)</u>
<u>3,494</u>	Net Returns on Investments		<u>6,717</u>
2,571	Net increase in Fund during the year		5,625
<u>45,974</u>	OPENING NET ASSETS OF THE SCHEME		<u>48,545</u>
<u>48,545</u>	CLOSING NET ASSETS OF THE SCHEME		<u>54,170</u>

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2012 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2013 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments	Note	
11,783	- UK Equities		12,658
1,986	- UK Fixed Interest - Public Sector		3,248
731	- UK Fixed Interest - Other		518
5,860	- UK Index Linked - Public Sector		6,699
-	- UK Index Linked - Other		13,711
10,859	- Overseas Equities		1,481
1,954	- Overseas Fixed Interest - Other		36
-	- Overseas Fixed Interest - Public Sector		
36	- Derivatives (Futures)		11,410
	Unlisted Investments		95
10,640	- UK Open Ended Investment Companies		3,662
80	- Overseas Open Ended Investment Companies		486
3,548	- Property Unit Trusts		<u>143</u>
1,077	Cash Balances held by Fund Managers		12,658
<u>654</u>	Financial Debtors	6	3,248
49,208			54,147
	FINANCIAL LIABILITIES		
(59)	Derivatives (Futures)		(66)
<u>(783)</u>	Other Financial Liabilities	6	-
<u>(842)</u>	Total Financial Liabilities		<u>(66)</u>
48,366	Net Financial Assets		54,081
	CURRENT ASSETS		
11	Sundry Debtors		10
<u>190</u>	Cash and Bank		<u>144</u>
201			154
	LESS CURRENT LIABILITIES		
<u>(22)</u>	Sundry Creditors	5	<u>(65)</u>
<u>179</u>	NET CURRENT ASSETS		<u>89</u>
<u>48,545</u>	NET ASSETS		<u>54,170</u>

Marjory Stewart, FCCA, CPFA
 Director of Corporate Services
 Dundee City Council
 25 September 2013

APPENDIX 4

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2008 Actual</u>	<u>2009 Actual</u>	<u>2010 Actual</u>	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Actual</u>	<u>Target</u>
1 <u>Pension Fund Administration</u>								
(i) Cost per member	£28.88	£29.11	£24.69	£25.40	£27.68	£23.90	£23.00	£30.00
2 <u>Pension Fund Investment</u>								
(i) Annual Investment performance relative to benchmark	+1.0%	+0.4%	-1.2%	-0.8%	-1.4%	-0.7%	+1.6%	+1.0%
(ii) Funding level of Pension Fund	100%	98%	98%	98%	98%	98%	98%	100%

From 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%

Service Providers

		<u>Target - 2015</u>
5	Actuarial Services	To continue quarterly monitoring of funding levels.
6	Investment Consultancy	To continue to monitor performance of managers.