

**REPORT TO: SCRUTINY COMMITTEE – 24 JUNE 2015**  
**REPORT ON: TAYSIDE PENSION FUNDS UNAUDITED 2014/2015 ACCOUNTS**  
**REPORT BY: DIRECTOR OF CORPORATE SERVICES**  
**REPORT NO: 261-2015**

## **1 PURPOSE OF REPORT**

To provide some additional commentary on the unaudited Annual Accounts 2014/15 which are being submitted to the Scrutiny Committee along with this report.

## **2 RECOMMENDATIONS**

It is recommended that the Committee:

- i notes the contents of this covering report
- ii notes the unaudited Annual Accounts which have been submitted along with this report
- iii instructs the Director of Corporate Services to arrange for the unaudited Accounts to be signed as necessary
- iv instructs the Director of Corporate Services to submit the Annual Accounts to the Fund's external auditor

## **3 FINANCIAL IMPLICATIONS**

None.

## **4 MAIN TEXT**

- 4.1 The relevant statutory provisions regarding the preparation of the Fund's Accounts are contained in the Local Authority Accounts (Scotland) Amendment Regulations 2014. Section 8 of these regulations requires that "... all the accounts of the local authority are made up and balanced as soon as practicable after the year end of each financial year and that sufficient copies of an abstract of the said accounts for each financial year are prepared ... and submitted to the authority and submitted to the appointed Auditor not later than 30 June in the next financial year...".
- 4.2 As in previous years the Annual Accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting (the Code). There are no significant changes included within the 2014/2015 Code, that impact upon the Fund's Accounts.
- 4.3 Tayside Pension Funds value at 31 March 2015 of £2,843.1m reflected an increase of £380.1m or 15.4% on the equivalent value at 31 March 2014. Tayside Transport Pension Funds value at 31 March 2015 of £62.1m reflected an increase of £5.8m or 10.4% on the equivalent figure at 31 March 2014.
- 4.4 Copies of the enclosed Annual Accounts will now be sent to the Fund's appointed external auditor (Mr Hugh Harvie, Partner, KPMG) to commence his audit of the Accounts. The outcome of the audit will be reported back to the Scrutiny Committee on 23 September 2015.

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 has been consulted on the content of this report and are in agreement with the contents.

7 **BACKGROUND PAPERS**

None

**MARJORY M STEWART**  
**DIRECTOR OF CORPORATE SERVICES**

**23 JUNE 2015**



**Unaudited**

**Annual Report and Accounts  
2014/15**

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**Administered by Dundee City Council**

**June 2015**

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## FOREWORD BY DIRECTOR OF CORPORATE SERVICES

Welcome to the Tayside Pension Funds Annual Report and Accounts produced by Dundee City Council for the year ended 31 March 2015.

The Annual Report has been produced to keep members, employers and other interested stakeholders informed about the administration and performance of the two Local Government Pension Scheme (LGPS) Funds that Dundee City Council is responsible for administering. The funds are : Tayside Pension Fund and Tayside Transport Pension Fund. The Annual Report includes a review of activities relevant to the funds in general and also provides sections dedicated to each of the funds, covering their investments, financial accounts and actuarial position.

The Main Fund value at 31 March 2015 of £2,843.1m reflected an increase of £380.1m or 15.4% on the equivalent value at 31 March 2014. The Transport Fund value at 31 March 2015 of £62.1m reflected an increase of £5.8m or 10.4% on the equivalent figure at 31 March 2014.

	2014	2015	+ / -
Main Fund value	£2,463.0m	£2,843.1m	£380.1m
Transport Fund value	£56.3m	£62.1m	£5.8m
Total Contributing Members	17,623	17,681	58
Total Pensioners	13,537	14,070	533
Scheduled Bodies	14	14	-
Admitted Bodies	30	30	-

I would wish to acknowledge the efforts of Dundee City Council's Pension Section for their patience and diligence in ensuring the continuing smooth operation of the scheme and for the courteous and efficient manner in which they look after the pension needs of contributors, pensioners and deferred pensioners. Further, I would like to thank all the Trustees of the Pensions Committee and officers of the City Council Corporate Services Department for their effort and assistance in managing the Tayside Pension Funds and, in particular, the Chair, Willie Sawers for his leadership of the Committee.

**Marjory Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**24 June 2015**

## REVIEW OF THE YEAR

### FUND UPDATE

#### Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies (see Appendix 1). Membership of the Tayside Funds at 31 March 2015 was:

	<u>Main Fund</u>	<u>Transport Fund</u>	<u>Total Fund</u>
Contributing Members	17,622	59	17,681
Pensioners	13,643	427	14,070
Deferred Pensioners	8,196	73	8,269
Undecided or Frozen	2,715	6	2,721
	<u>42,176</u>	<u>565</u>	<u>42,741</u>

#### Membership Funding

The Funds are financed by the contributions made by members and their employers as well as income earned from the investment of the Funds' monies. The contribution rates as a percentage of basic pay from 2012/2013 to 2014/2015 were as follows :-

	<u>Employees</u>	<u>Main Fund Employers</u>	<u>Transport Fund Employer</u>
2012/13	5.5% - 12%	18.0%	£800,000
2013/14	5.5% - 12%	18.0%	£820,000
2014/15	5.5% - 12%	18.0%	£840,000

The employees' contribution levels are now tiered based on a percentage of pensionable pay, whereas the employers' contribution levels are reviewed every three years by the Funds' actuaries as part of their actuarial valuation of the Funds. If the actuaries believe that a surplus is likely to materialise they will recommend a reduction in the employers' contribution rate and if they believe a deficit is likely to materialise they will recommend an increase in the employers' contribution rate.

Barnett Waddingham carried out an actuarial valuation as at 31 March 2014. The result of the valuation for the two Funds were as follows :-

	<u>Main Fund</u>	<u>Transport Fund</u>
Actuarial Value of Assets	£2,396.5m	£54.2m
Actuarial Value as a percentage of Accrued Liabilities	99.8%	99.9%

Recommended Employers' Contributions as a Percentage of Pensionable Payroll for the Main Fund and Transport Fund were as follows :-

2015/2016	17.0%	33.8%
2016/2017	17.0%	33.8%
2017/2018	17.0%	33.8%

The common rate of contribution is the rate, which, in addition to the accumulated assets and contributions paid by members is sufficient to meet 100% of the liabilities of the Fund. This rate takes into account the deficit at 31 March 2014. The deficit is spread over the average remaining working lifetime of the existing members.

The Main Fund contribution rates following the 31 March 2014 valuation were calculated using the projected unit actuarial method.

The Transport Fund contribution rates following the 31 March 2014 valuation were calculated using the attained age actuarial method.

The main actuarial assumptions were as follows:

<u>Investment Return</u>	pa
Equities	5.9%
Gilts	3.6%
Cash	3.4%
Bonds	4.1%
Property	5.5%
<u>Financial Assumptions</u>	pa
Discount Rate	5.4%
Retail Price Index	3.6% (20 year point on BoE Inflation curve)
Consumer Price Index	2.8% (RPI less 0.8%)
Pension Increases	2.8% (RPI less 0.8%)
Short-term pay increases	In line with CPI assumption for 2 years to 31/03/16
Long-term pay increases	4.6% (RPI plus 1%)

## Market Value of Funds

The market value of investments can go down, as well as up. The total market value of the investments that are under external management was £2,875.8m Main Fund and £61.4m Transport Fund as at 31 May 2015.

## Additional Contributions

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits in addition to those, which they are required to make as members of the Local Government Pension Scheme. These contributions are known as AVCs and are treated separately from the scheme's assets under arrangement with the Standard Life Assurance Company and Prudential Assurance Company. They are not recorded in the accounts of the Tayside Funds since the AVC scheme works on a defined contribution basis (ie benefit eventually derived will depend upon the amount of the contributions made, the performance of the investments made with these monies and the annuity rates at the point of retirement).

## Pension Increases

Pensions and deferred pensions are increased every year under the Pension (Increase) Act 1971 in line with movements in the Retail Price Index. From April 2011, this will be linked to Consumer Price Index rather than Retail Price Index. Recent pension increases are as follows :-

2011	3.1%
2012	5.2%
2013	2.2%
2014	2.7%
2015	1.2%

# REVIEW OF THE YEAR

## MEMBERS, ADVISORS AND OFFICERS

### Pension Sub-Committee

Dundee City Council is the administering authority for the Funds. The majority of this responsibility is delegated through the Council's Policy and Resources Committee to the Pension Sub-Committee. Membership of the Sub-Committee as at 31 March 2015 is as noted below:

<b>Committee Members</b>	Bailie Willie Sawers (Chair) Cllr Jimmy Black Cllr Kevin Keenan Bailie Ian Borthwick Cllr Gregor Murray Cllr Brian Gordon
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All committee members are members of Tayside Pension Funds.

<b>Representatives (non voting)</b>	Mrs C Shepherd (Tayside Trade Union Council) Vacant (Unison) Vacant (TGWU representing Travel Dundee Ltd)
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<b>Fund Managers</b>	Alliance Bernstein Baillie Gifford & Co Fidelity Pension Management Goldman Sachs Asset Management Legal & General Investment Management M&G Investment Management Schroder Property Investment Management
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<b>Investment Advisor</b>	Aon Hewitt
<b>Actuary</b>	Barnett Waddingham
<b>Custodian</b>	Northern Trust
<b>Bankers</b>	Royal Bank of Scotland
<b>Auditors</b>	KPMG LLP
<b>Corporate Governance Advisors</b>	Pension & Investment Research Consultants Ltd (PIRC)
<b>Performance Measurement</b>	Northern Trust

<b>Officers</b>	Marjory Stewart - Director of Corporate Services Sandy Flight - Head of Corporate Finance Tracey Russell - Financial Services and Investment Manager Alan Mooney - Payroll and Pensions Manager Roger Mennie - Head of Democratic and Legal Services
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## REVIEW OF THE YEAR

### INVESTMENT COMMENTARY

The triennial actuarial valuation as at 31 March 2014 was completed during this year. This took into consideration the impact of the new career average pension scheme and after consultation with employers and actuaries, the employer contribution rates were set for the 3 year period from 1 April 2015 at 17% for the main fund and 33.8% for the transport fund (employer contribution in 2014/15 continued at 18% and £840,000 for main and transport fund respectively). These reduced contribution rates are based on revised actuarial assumptions and funding levels of 99.8% for the main fund and 99.9% for the transport fund respectively. The valuation also introduced and included a 5% volatility reserve in both funds to allow for adverse short term financial experience in the period to next valuation.

Following a consultation process, full new governance regulations were published by Scottish Government in February requiring the set up and operation of local pension boards by 1 April 2015 and introducing a national scheme advisory board to advise Scottish ministers and individual pension schemes. Tayside Pension Fund approved a constitution, nomination and selection process, and terms of reference in anticipation and appointed prior to deadline. With an agreed training plan to accommodate statutory requirements, the new Pension Board are currently undertaking relevant training.

The new governance regulations also extended to pension administration, and in response to this, the existing Pension Investment Sub-Committee amended their terms of reference and remit to accommodate and became the Pension Sub-Committee. Additional training will be required in respect of these additional responsibilities.

In terms of investment strategy and structure, the current strategy for the main fund comprising of 70% Equities, 18% bonds and 12% real estate based on liability data from the 2011 valuation remains at present, however an asset allocation review is now being considered following the recent valuation outcome which may have impact on future strategy and structure of both the main and transport fund.

Continuous review of investment management fees resulted in a successful negotiation with the last equity manager who had been subject to performance fee agreements. The fund incorporates fee assessment as part of independent performance review with investment consultants to ensure that fee rates remain as low as possible and in line with services delivered.

### Investment Performance

#### Economic & Market Background - Financial Year to 31 March 2015

Over the period, all major investment markets delivered positive returns, with markets showing clear economic improvement and increased investor confidence and helped by the continuing loose monetary policies within the developed countries. The UK equities market delivered growth of 7% over the 12 months, and reached record levels towards the end of the period.

Uncertainty in global security caused a number of short periods of market volatility, but thankfully with limited impact. The drop in oil value resulted in weakening Russian currency and market volatility ensued, but this also benefitted net oil importing countries, airlines and travel companies as well as consumers which was reflected in UK economic data suggesting improvement in growth and revised GDP figures.

The strength of sterling did however contribute to disappointing economic performance due to the exposure to the European export market and the effect of the weak euro. Uncertainty in UK market sentiment returned following the September referendum.

The stagnancy of the Eurozone continued throughout the financial period and the currency suffered as it consistently weakened against the US Dollar and Sterling. The ECB unveiled an unprecedented package of

measures in June 2014, which although strengthened by lowering interest rates further, failed to drive the recovery and growth it hoped for.

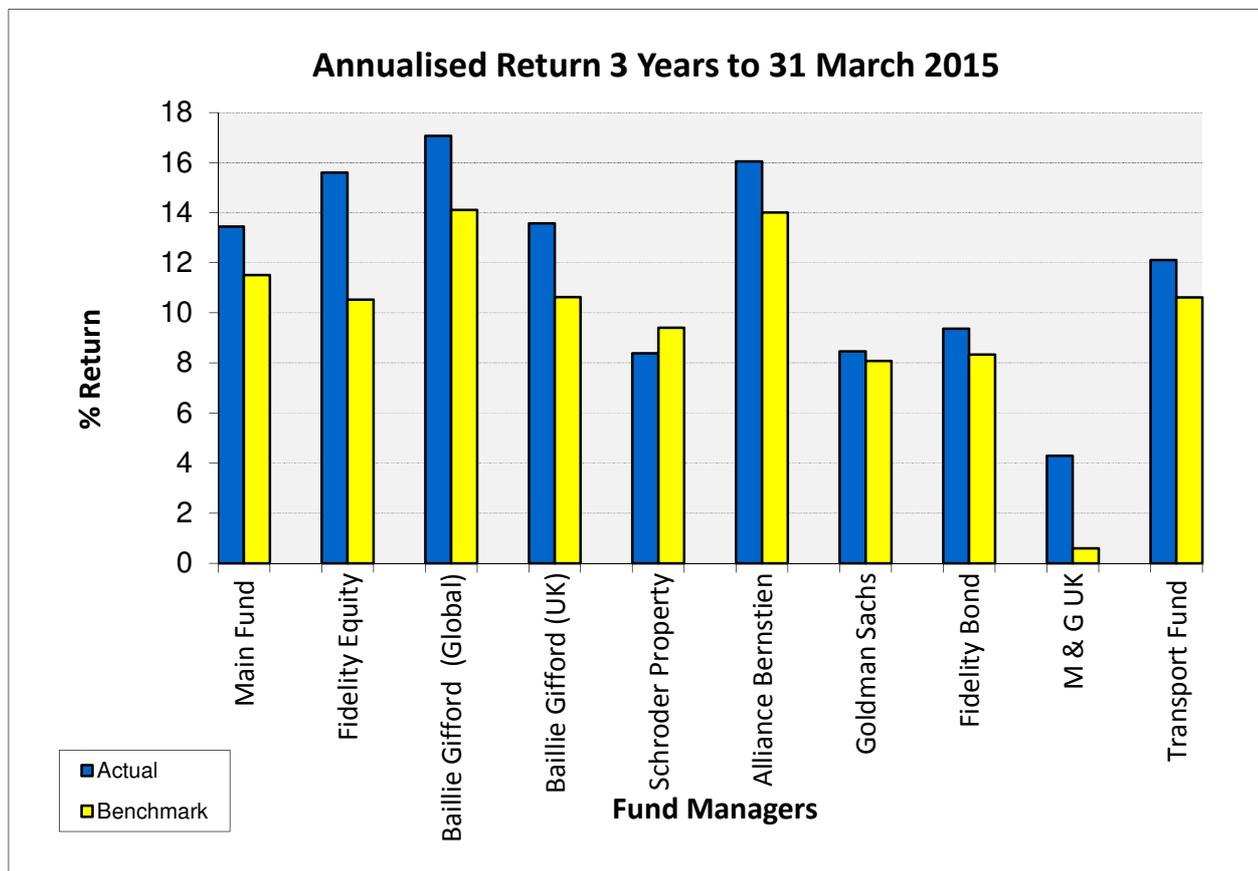
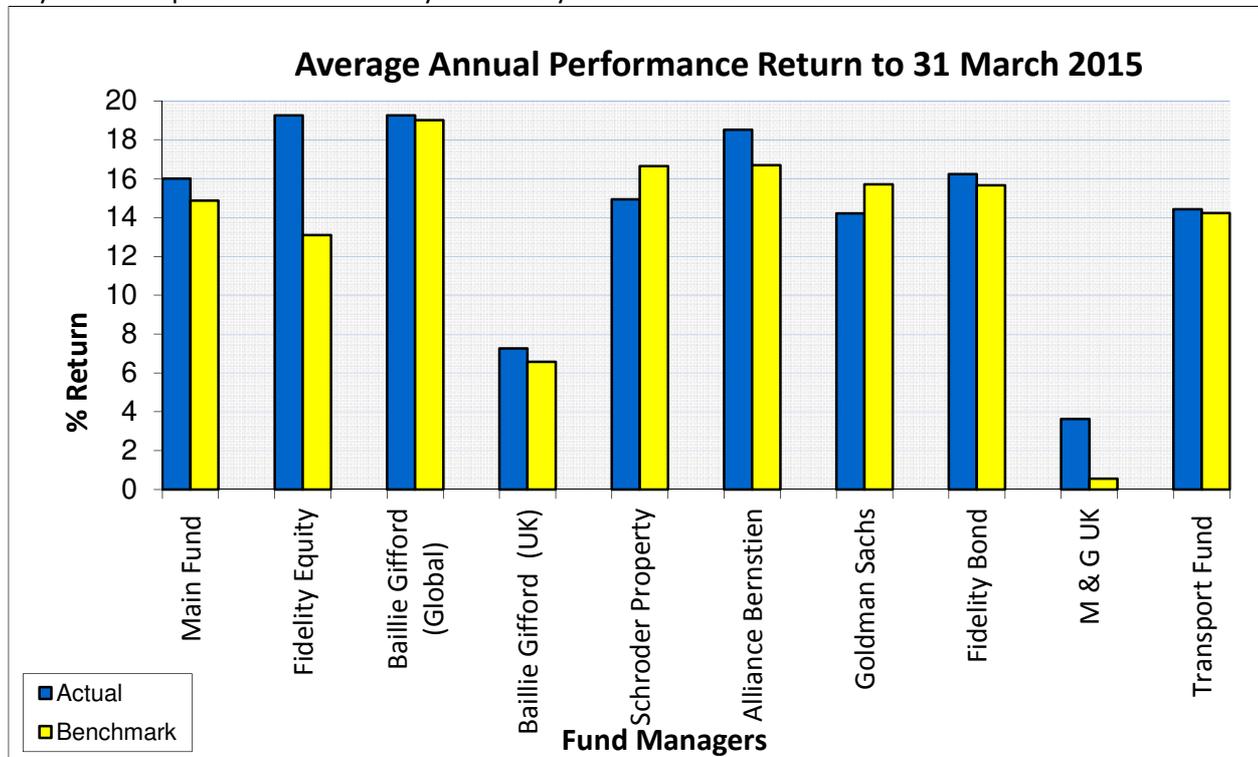
The US markets and economy was the key beneficiary of economic improvement with consecutive growth across the period. Japan entered recession once again despite improving employment and sales; and the Chinese slowdown had significant impact on emerging market performance.

A return to stability in the latter stages of the financial period ensued though with the rise (albeit slow) in oil prices and potential green shoots of recovery in the Eurozone (albeit somewhat subdued) with Greece still managing to remain, but continuing to pose the greatest risk to global economy.

## REVIEW OF THE YEAR

### Performance Measurement

In the financial year to 31 March 2015 the Main Fund returned 16.01% which was 1.14% in excess of the overall benchmark for the year. This outperformance is attributable to the individual investment managers and for Tayside Transport Fund for both 1 year and 3 year timescales is as follows:



## REVIEW OF THE YEAR

### Principal Equity Holdings (Top Five by Value) as at 31 March 2015

<u>Investment</u>	<u>Value (£000)</u>	<u>% of Total Equity Holding</u>	<u>Activities</u>
Prudential	35,938	1.779	Life Insurance
HSBC	22,453	1.111	Banks
Glaxo Smithkline PLC	21,245	1.052	Pharmaceuticals
Vodafone	19,065	0.944	Telecommunications
SABMiller	18,956	0.938	Beverage
<b>Top Five Total</b>	<b>117,657</b>	<b>5.824</b>	
Total Value of Equities	2,020,154		

### Asset Allocation and Value

These performance returns in relation to the assets invested had the following impact on the value of the funds:

#### Tayside Pension Fund

Sector	Valuation (£m) and Distribution (%)			
	31/03/2014		31/03/2015	
	£m	%	£m	%
UK Equities	666.0	27.0	736.0	25.9
UK Bonds	409.0	16.6	469.0	16.5
Overseas Bonds	13.4	0.6	19.5	0.7
Overseas Equities	1,094.1	44.4	1,283.3	45.1
Property Unit Trusts	232.6	9.5	304.4	10.7
M&G Fund	14.5	0.6	11.8	0.4
Derivatives	0.3	-	0.2	-
Cash Balance Held By Managers	25.2	1.0	16.1	0.6
Net Financial Assets	4.6	0.2	3.9	0.1
Net Current Assets	3.4	0.1	(1.1)	-
	<b>2,463.1</b>	<b>100.0</b>	<b>2,843.1</b>	<b>100.0</b>

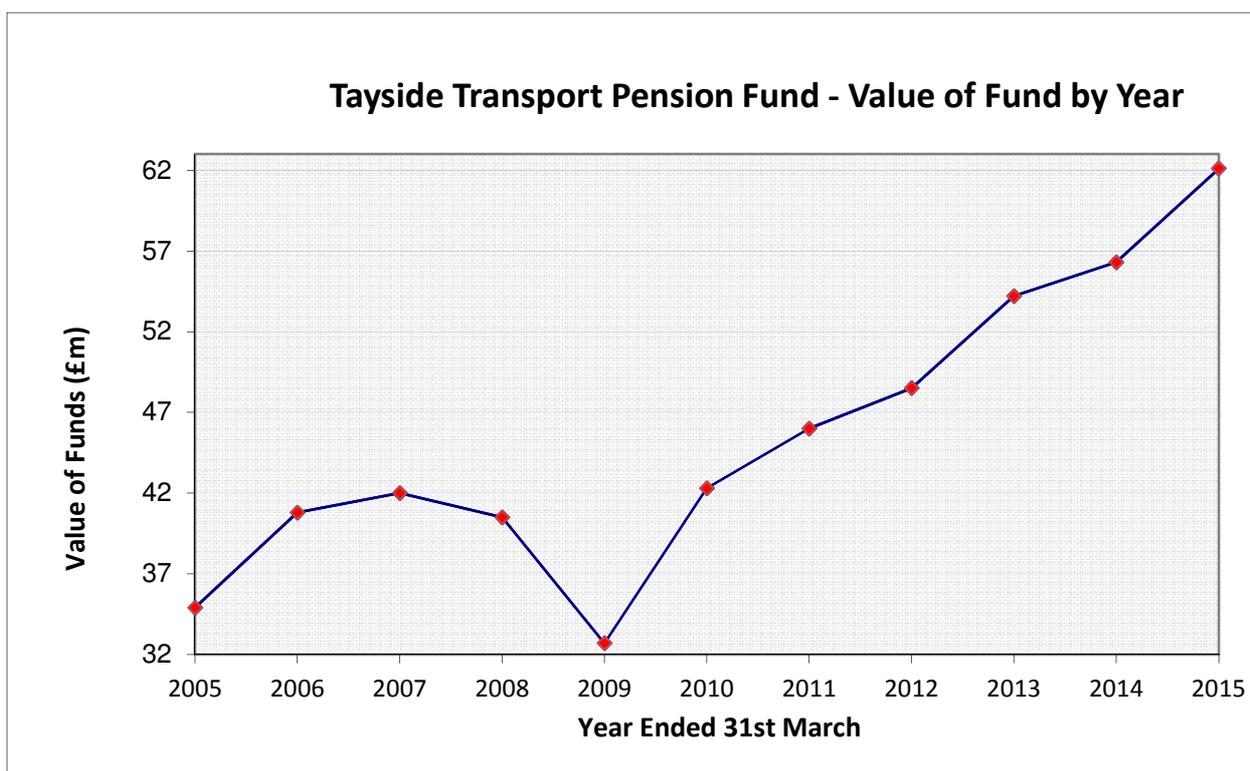
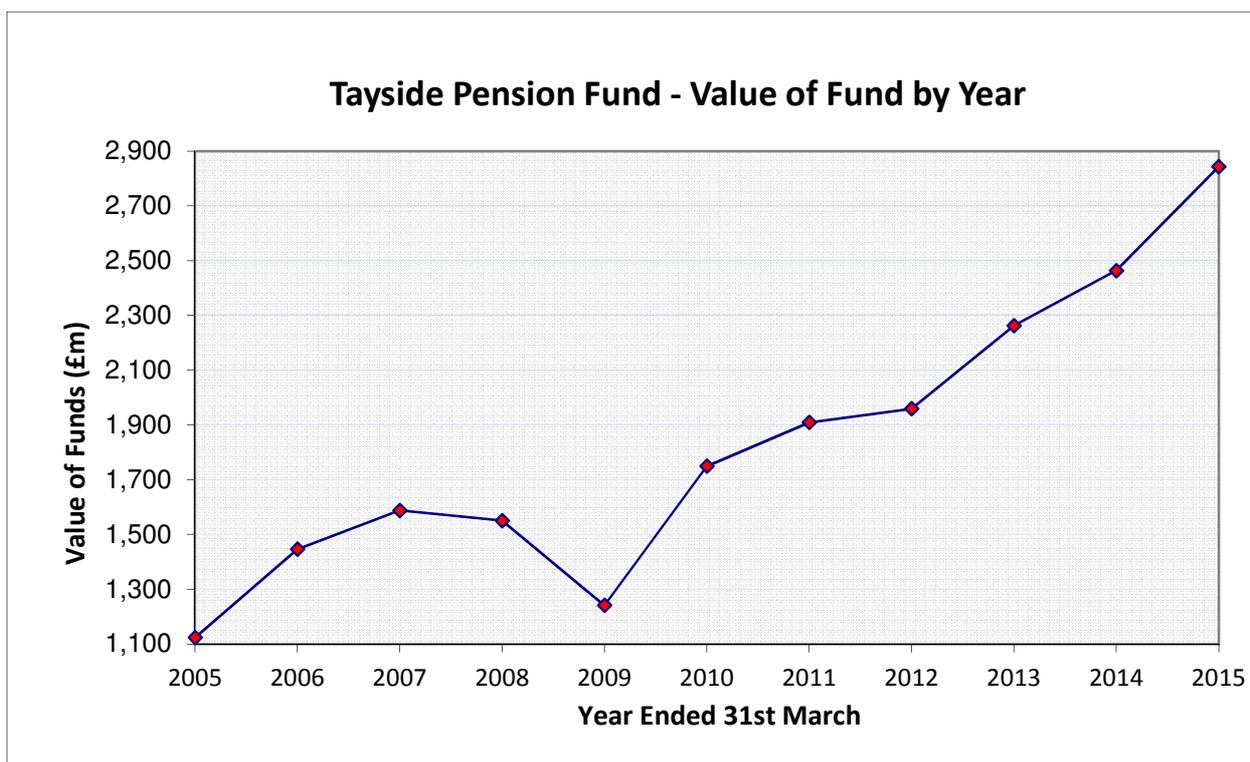
#### Tayside Transport Pension Fund

Sector	Valuation (£m) and Distribution (%)			
	31/03/2014		31/03/2015	
	£m	%	£m	%
UK Equities	14.2	25.3	14.8	23.8
UK Bonds	20.7	36.8	22.3	36.0
Overseas Bonds	1.1	2.0	1.7	2.7
Overseas Equities	15.1	26.8	16.5	26.6
Property Unit Trusts	4.0	7.1	4.5	7.3
Derivatives	-	-	-	-
Cash Balance Held By Managers	0.9	1.5	0.7	1.1
Net Financial Assets	0.1	0.1	0.3	0.4
Net Current Assets	0.2	0.4	1.3	2.1
	<b>56.3</b>	<b>100.0</b>	<b>62.1</b>	<b>100.0</b>

## REVIEW OF THE YEAR

### Valuation of Assets of the Pension Funds

	<u>Main Fund</u>		<u>Transport Fund</u>	
	<u>2014</u>	<u>2015</u>	<u>2014</u>	<u>2015</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Opening Value	2,262.3	2,463.1	54.2	56.3
New Cash Inflow/(Outflow)	54.3	43.2	(1.1)	(1.2)
Appreciation/(Depreciation) during the year	146.5	336.8	3.2	7.0
Value as at 31 March	<u>2,463.1</u>	<u>2,843.1</u>	<u>56.3</u>	<u>62.1</u>



# GOVERNANCE ARRANGEMENTS

## TAYSIDE PENSION FUND – ANNUAL GOVERNANCE STATEMENT 1 APRIL 2014 – 31 MARCH 2015

Dundee City Council is the administering authority and scheme manager of Tayside Pension Fund, a local government pension fund covering the Tayside area. The Council is responsible for ensuring that the business of Tayside Pension Fund is conducted in accordance with the law and appropriate standards.

### Scope of Responsibility

The Council has set up the Pensions Committee to control and resolve all matters relating to the investment of assets and the overall governance of the Fund. It is the role of the Pensions Committee to:

- Ensure that the Fund is:
  - Compliant with the Local Government Pension Scheme Regulations and all other legislation that governs the administration of the fund.
  - Valued as required and that reports received on each valuation are considered.
  
- Be responsible for:
  - Setting the investment objectives and policy and the strategic asset allocation in the light of the Fund's liabilities.
  - Appointing, reviewing, and assessing the performance of investment managers, investment consultants, custodians and actuaries.
  - Ensuring appropriate arrangements are in place for the administration of benefits.
  - Ensure appropriate additional voluntary contributions arrangements are in place.
  
- Prepare, maintain and publish the following:
  - Governance Compliance Statement.
  - Funding Strategy Statement.
  - The Authority Policy Statement.
  - Statement of Investment Principles.
  - Corporate Governance Policy.

### The Governance Framework

The overall governance structure, including the wider responsibilities of the Committee, is set out in the Governance Compliance Statement. Regulation 27 of the Local Government Pension Scheme (Administration)(Scotland) Regulations 2008 requires administering authorities to prepare and publish a written statement setting out the terms of their current governance arrangements, incorporating guidance provided by Scottish Ministers. The statement was last reviewed by Committee in 2011 and demonstrates that the Fund is compliant with guidance provided.

Tayside Pension Fund is administered by Dundee City Council in accordance with Section 24 of its Financial Regulations. Investment policy and decisions are delegated to the Pensions Committee of the Policy and Resources Committee. The Pension Committee provides focus on, and scrutiny over, the investment strategy and the performance of managers and the safe custody of it's assets. The Committee consists of 6 elected members from the administering authority, supported by officers of the administering authority (including the Director of Corporate Services), and 3 trade union representatives who have observer status.

The Committee meets quarterly to consider pension matters relating to investment and governance. Additional meetings are called should any matter require an in-depth review.

The Fund also holds annual investment forums for employers and the trade unions. The agenda for these meetings includes presentations by the Actuary and the Fund's Investment and Administration Managers and covers the actuarial position, the benefits structure and investment performance.

### **Continuous Improvement Agenda**

The following are notable planned improvements to be taken forward during 2015/16:

- Amendment to remit of the Pensions Committee to include pension scheme administration.
- Introduction of a Pension Board to assist in securing compliance with relevant legislation and regulation.
- Review of the Environmental, Social and Corporate Governance Policy.
- Introduction of Communication and Administration Policies.
- Introduction of an on line self-service application (LGPS PensionsWEB) to enable access to information for scheme employers and employees.

Information on the Fund is available from the following links:

Minutes of Committee meetings – [www.dundee.gov.uk/minutes/meetings?in\\_cc=35](http://www.dundee.gov.uk/minutes/meetings?in_cc=35)

Publications - [www.dundee.gov.uk/project-publications/pensions](http://www.dundee.gov.uk/project-publications/pensions)

- The Statement of Investment Principles, concerning the approach to the investment of the fund.
- The Business Plan, communication the aims and objectives of the Fund for the forthcoming year.
- The Treasury Management Strategy for the forthcoming year.
- The Actuary's report on the 2014 valuation.
- The Funding Strategy Statement, concerning the management of the identification and management of the Fund's liabilities.
- The Risk Register, concerning the application of Myners Principles.
- The Governance Policy Statement which sets out the Funds approach
- Environmental, Social and Corporate Governance Policy for investment.

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**Marjory Stewart**  
**Director of Corporate Services, Dundee City**  
**Council**  
**24 June 2015**

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**Willie Sawers**  
**Chair of Pension Investment Sub-**  
**Committee, Tayside Pension Fund**  
**24 June 2015**

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Administering Authority's Responsibilities

The Authority is required to :

- Make arrangements for the proper administration of the financial affairs of the Pension Funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

## The Director of Corporate Service's Responsibilities

The Director of Corporate Services is responsible for the preparation of the Pension Funds statement of accounts which, in terms of CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice) is required to present a true and fair view of the financial position of the Pension Funds at the accounting date and their income and expenditure for the year (ended 31 March 2015).

In preparing these statements of accounts, the Director of Corporate Services has :

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts

The Director of Corporate Services has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

## Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Pension Funds as at 31 March 2015, and their income and expenditure for the year ending 31 March 2015.

**Marjory Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**24 June 2015**

## **INDEPENDENT AUDITOR'S REPORT**

The statement of Accounts is subject to audit in accordance with the requirements of Part VII of the Local Government (Scotland) Act 1973.

**Hugh Harvie**  
**Partner**  
**KPMG LLP**  
**Saltire Court**  
**20 Castle Terrace**  
**Edinburgh**  
**EH1 2EG**

## TAYSIDE PENSION FUND ACCOUNTS

Restated 2013/2014 £000	FUND ACCOUNT	Note	2014/2015 £000      £000	
	<b>CONTRIBUTIONS AND BENEFITS</b>			
	<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 Deposits from dealings with Members			(1,383)
	<b>RETURNS ON INVESTMENTS</b>			
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>	<b>OPENING NET ASSETS OF THE SCHEME</b>			<u>2,463,063</u>
<u><b>2,463,063</b></u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>			<u><b>2,843,135</b></u>

Notes on pages 17 to 27 form part of the financial statements.

## 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
	<b>FINANCIAL LIABILITIES</b>			
	(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
	<b>CURRENT ASSETS</b>			
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>	
	<b>LESS CURRENT LIABILITIES</b>			
(6,316)	Sundry Creditors	12	<u>(11,733)</u>	
<u>3,384</u>	<b>NET CURRENT ASSETS</b>			<u>(1,019)</u>
<b><u>2,463,063</u></b>	<b>NET ASSETS</b>			<b><u>2,843,135</u></b>

**Marjory Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**24 June 2015**

Notes on pages 17 to 27 form part of the financial statements.

# NOTES TO TAYSIDE PENSION FUND FINANCIAL STATEMENTS

## 1 - The Local Government Pension Scheme

The Scheme is a "defined benefit scheme" which means that the benefits to which members and their spouses are entitled are determined by final pensionable pay and pensionable service.

Dundee City Council is the administering authority for Tayside Pension Fund (Main Fund). The scheme covering the Fund is statutory, approved by the Inland Revenue and contracted out of S2P (the State Second Pension).

Tayside Pension Fund is maintained for the benefit of its membership (including existing and deferred pensioners). This comprises the majority of Local Government employees within Dundee City Council, Perth and Kinross Council and Angus Council as well as 42 other "scheduled bodies" and "admitted bodies" (see appendix 1). Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

## 2 - Basis of Preparation of the Financial Statements

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statement within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code").

## 3 - Statement of Accounting Policies

A summary of the more important accounting policies, which have been consistently applied, is set out below:-

### Investments

Investments are included at market values, which are assessed as follows:-

A - UK quoted securities are valued at "bid" market prices at close of business on the last working day of the financial year.

B - Overseas securities are valued at "bid" market prices from the relevant overseas stock exchanges converted at closing rates of exchange on the last day of the financial year.

C - Unlisted investments, which comprise the Fund Manager's Unit Trusts and Open Ended Investment Companies, are valued at "bid" market prices on the last working day of the financial year as supplied by the Fund Manager.

### Income and Expenditure

The accounts have been prepared on an accruals basis; that is income and expenditure is included as it is earned or incurred, not as it is received or paid, except for Transfer Values which are included when they are paid or received.

### Investment Income

Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other Marketable Securities is taken into account on the date when stocks are quoted ex-dividend.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents comprise short term lending that is repayable on demand or within 3 months of the Balance Sheet date and that is readily convertible to known amounts of cash with insignificant risk of change in value.

## **Contributions**

Contributions represent the amounts received from organisations participating in the Fund, these may be from the administering authority, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employers contributions due as at 31 March 2015 have been accrued.

## **Foreign Currency**

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate that rate is used.

## **Investment Management Expenses**

Investment Management expenses consist of direct charges in line with Management Agreements, Management Charges levied on pooled funds, overseas charges and non-recoverable withholding tax, less Brokers' commission rebate.

## **Administrative Overheads and Expenses**

The Pension Administration and Pension Investment sections of Dundee City Council are responsible for administering the two Pension Funds. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these sections allocate this charge to the two Pension Funds. Costs which can be directly charged to each fund during the financial year will be, costs which are shared by both Funds are allocated in proportion to the market value or membership of the Funds as at 31 March 2015.

## **Acquisition Cost**

Any acquisition costs of investments are included in the Book Cost of the investment.

## **Additional Voluntary Contributions**

Additional voluntary contributions are separately invested from those of the funds. Additional voluntary contributions are not included in the financial statements in accordance with section 5(2)(c) of The Pensions Scheme (Management and Administration of Funds) Regulations 1998, but are disclosed as notes only (note 10).

## **Transfers to and from other Schemes**

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with Local Government Pension Scheme Regulations. Individual transfers in/out are accounted for when received/paid, which normally when the member liability is accepted or discharged. Transfers in from members wishing to use the proceeds of their additional voluntary contributions to purchase scheme benefits are accounted for on a receipt basis and are included in Transfers In. Bulk (group) transfers are accounted for on an accruals basis in accordance with the terms of the transfer agreement.

## **Taxation**

The Fund is registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

#### 4 - Related Parties

The transactions and balances with Dundee City Council disclosed in the net asset statement, details are provided below :-

	2014 £000	2015 £000
<u>Transactions</u>		
Administration Costs	1,107	1,101
<u>Balances</u>		
Due from Dundee City Council as at 31 March	1,151	2,668

#### 5 - Contributions

The total contributions receivable analysed between administering authority, other scheduled bodies and admitted bodies were as follows :-

	2013/2014			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,720	12,159	3,311	22,190
Employer contributions	19,712	35,964	9,212	64,888
Strain on Fund	666	2,067	173	2,906
<b>Total</b>	<b>27,098</b>	<b>50,190</b>	<b>12,696</b>	<b>89,984</b>

	2014/15			Total £000
	Administering Authority £000	Other Scheduled Bodies £000	Admitted Bodies £000	
Member contributions	6,752	12,143	3,573	22,468
Employer contributions	19,887	36,091	9,936	65,914
Strain on Fund	849	1,864	317	3,030
<b>Total</b>	<b>27,488</b>	<b>50,098</b>	<b>13,826</b>	<b>91,412</b>

#### 6 - Benefits

The total benefits payable analysed between administering, other scheduled bodies and admitted bodies were as follows :-

	Total Benefits Payable (incl. Lump Sums)		Lump sums (Retirement and Death Benefits)	
	2013/2014 £000	2014/2015 £000	2013/2014 £000	2014/2015 £000
Administering Authority	31,745	33,726	6,141	7,031
Other Scheduled Bodies	44,393	45,661	12,261	11,366
Admitted Bodies	8,010	10,263	1,463	2,708
<b>TOTAL</b>	<b>84,148</b>	<b>89,650</b>	<b>19,865</b>	<b>21,105</b>

## 7 - Transfer Values

The total transfer values received and paid analysed between administering, other scheduled bodies and admitted bodies were as follows :-

	Transfer Values Received		Transfer Values Paid	
	2013/14	2014/15	2013/14	2014/15
	£000	£000	£000	£000
Administering Authority	626	364	770	1,444
Other Scheduled Bodies	1,718	2,280	2,884	2,424
Admitted Bodies	1,418	680	829	1,022
<b>TOTAL</b>	<b>3,762</b>	<b>3,324</b>	<b>4,483</b>	<b>4,890</b>

## 8 - Investment Income

	2013/14	2014/15
	£000	£000
Interest from Fixed Interest Securities	6,490	6,600
Dividends from Equities	34,796	30,128
Income from Index Linked Securities	741	714
Income Pooled Investment Vehicles	11,868	16,029
Interest on Cash Deposits	72	75
Other Income	5,620	3,436
	<u>59,587</u>	<u>56,982</u>
Irrecoverable Withholding Tax	(520)	(408)
	<u>59,067</u>	<u>56,574</u>

## 9 - Investments

### Market Value of Investments Managed Externally

The Fund's investment assets are under the management of seven external fund managers. At 31 March 2015 the market value of these investment assets was £2,844.2m (2014 £2,459.7m), managed as follows:

	2014		2015	
	£m	%	£m	%
Schroder Properties Limited	235.8	9.6	310.1	10.7
Baillie Gifford & Co	656.6	26.7	708.6	25.1
Fidelity Pensions Management Equity	531.2	21.6	627.6	22.1
Alliance Bernstein	357.1	14.5	417.0	14.8
Goldman Sachs	276.2*	11.2	318.2	11.1
Fidelity Bond	150.3	6.1	174.6	6.1
M & G Investment Management	14.5	0.6	11.8	0.4
Legal & General	233.4	9.5	272.4	9.6
Financial Debtors	11.6	0.5	19.7	0.7
Financial Liabilities	(7.0)	(0.3)	(15.8)	(0.6)
<b>Net Financial Assets</b>	<u>2,459.7</u>	<u>100.0</u>	<u>2,844.2</u>	<u>100.0</u>

\* Within the Goldman Sachs investment total above there is an investment of £149.3m (2014 £131.3m) which exceeds 5% of net assets available for benefits. This is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

## Derivatives - Futures

Summary of contracts held at 31 March 2015

	Settlement Date	Economic Exposure			Net £000
		£000	Asset £000	Liability £000	
FTSE100	3 months	1,076	1	-	1
10 yr Cdn Bund	3 months	(68)	-	(3)	(3)
Eurx E-Schatz	3 months	1,288	-	(7)	(7)
Eurx Bobl	3 months	749	-	(3)	(3)
Eux BTP	3 months	915	5	-	5
Eux Foat	3 months	(1,468)	-	(13)	(13)
LIF Long Gilt	3 months	14,610	243	-	243
10 yr Treasury Note	3 months	(4,428)	-	(1)	(1)
5 yr Treasury Note	3 months	1,296	-	(10)	(10)
CBT Treasury Bonds	3 months	(801)	-	(40)	(40)
US 2 yr Treasury Note	3 months	886	37	-	37
		14,055	286	(77)	209

The economic exposure represents the nominal value of security purchased under future contracts and therefore the value subject to market movements. All future contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

## Investment Movement Summary

	Value at 01/04/2014 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2015 £m
Schroder Property	232.6	60.1	(10.6)	22.3	304.4
Baillie Gifford Global	320.0	59.6	(78.2)	55.9	357.3
Fidelity Equity	531.1	108.8	(103.3)	90.7	627.3
Alliance Bernstein	354.2	177.7	(383.9)	268.6	416.6
Goldman Sachs	273.2	179.8	(176.2)	38.5	315.3
Fidelity Bond	150.3	5.1	-	19.2	174.6
Baillie Gifford UK	320.7	44.2	(35.2)	14.8	344.5
M&G Fund	14.5	-	(3.2)	0.5	11.8
Legal & General	233.3	211.2	-	(172.1)	272.4
	2,429.9	846.5	(790.6)	338.4	2824.2
Financial Liabilities	(7.0)				(15.8)
Cash Deposits	25.2			(1.6)	16.1
Financial Debtors	11.6				19.7
Net Financial Assets	2,459.7			336.8	2,844.2

## Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £1.532.6m (2014 £1.242.0m).

## Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2015 was nil (2014 nil).

## 10 - Additional Voluntary Contributions (AVCs)

As AVCs are invested separately from the investments of the scheme itself and secure extra benefits on a money purchase basis for members that have elected to contribute, it has been decided in accordance with The Pensions Scheme (Management and Investment of Funds) Regulations 1998 not to include the relevant figures in the financial statements. AVCs managed by Standard Life had contributions of £273,503 during 2014/2015 (2014 £376,192) and value at 5 April 2015 was £4,897,481 (2014 £4,714,910). AVCs managed by Prudential had contributions of £1,119,525 during 2014/2015 (2013 £1,231,577) and a value at 31 March 2015 was £2,581,863 (2014 £1,956,589).

## 11 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2015, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £3,478.8m (2014 £3,505.6m) of which £3,264.8m (2014 £2,424.2) is vested obligation and £214.0m (2014 £1,081.4m) is non-vested obligation. This figure is used for statutory accounting purposes by Tayside Pension Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

## 12 - Sundry Debtors and Creditors

Sundry Debtors total £1.471m as at 31 March 2015 (2014 £1.768m), this figure contains pending sales ledger income £0.492m, management fees rebate from Fidelity £0.911m and miscellaneous debtors £0.068m.

Sundry Creditors total £11.733m as at 31 March 2015 (2014 £6.316m), this figure contains unpaid benefits £3.010m, custodian fees £0.051m, Investment Manager fees £8.551m, Consultancy fees £0.057m, pending purchase ledger payments £0.006m and miscellaneous creditors £0.058m.

## 13 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £15.823m as at 31 March 2015 (2014 £6.998m). This wholly represents pending purchase transactions.

Financial Debtors total £19.691m as at 31 March 2015 (2014 £11.598m). This is made up of pending sales transactions £13.037m and investment income £6.654m.

## 14 - Audit Fee

The Pension Funds have been subject to a separate external audit to that of the Council. The Main Fund incurred an audit fee of £21,038 for 2014/15 financial year.

## 15 – Other Services Provided by KPMG LLP

During 2014/15 Tayside Pension Funds had one direct transaction with KPMG LLP, this transaction (£1,800) was in respect of taxation services provided for withholding tax claims made in Spain.

## 16 – Management Expenses

	Restated	
	2013/14	2014/15
	£000	£000
Administrative costs	1,098	1,138
Investment management expenses	8,391	11,921
Oversight and governance costs	94	94
	<u>9,583</u>	<u>13,153</u>

Administration costs have been restated in 2013/14 due to investment consultancy (£28k) being included in error, this has now been included as part of Investment management expenses.

## 17 – Investment Expenses

	Restated	
	2013/14	2014/15
	£000	£000
Management fees	8,158	11,716
Custody fees	180	148
Performance monitoring service	25	25
Investment consultancy	28	32
	<u>8,391</u>	<u>11,921</u>

## 18 – Nature and Extent of Risks arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

New CARE scheme came into effect on 1 April 2015. There is an increased risk of error / communication failure due to lack of awareness of new scheme regulations. The Fund manages this risk through employer updates, newsletter and specialist sessions at annual forum.

Responsibility for managing the Fund's risk rests with the Pension Sub-Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces.

#### A) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

#### i) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

#### Other price risk—sensitivity analysis

Following analysis of historical data and expected investment return movements, in consultation with the Council's investment adviser It has been determined that the following movements in market price risk are reasonably possible for this reporting period.

	Potential Market Movement
	+/- per annum
<b>Equities</b>	
UK	19.00%
Emerging Market	30.00%
Global	18.00%
<b>Bonds</b>	
UK Index-Linked Gilts	9.00%
UK Gilts	11.00%
UK Corporate	9.00%
Other	13.00%
<b>Property</b>	12.50%
<b>Alternatives</b>	9.00%
<b>Cash</b>	0.00%

Potential price changes are determined based on the historical volatility of asset class returns and expected future returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets and are based on the investment adviser's firm's assumptions for asset class volatilities as at 31 March 2015.

If the market price of the Fund investments increases/decreases in line with the above, the change in the net assets available to pay benefits in the market price could be as follows:

	Value £	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement £	Unfavourable Market Movement £
<b>Equities</b>				
UK	736,019,087	19.00%	875,862,714	596,175,460
Emerging Market	178,208,651	30.00%	231,671,246	124,746,056
Global	1,103,867,976	18.00%	1,302,564,212	905,171,740
<b>Bonds</b>				
UK Index-Linked Gilts	140,328,250	9.00%	152,957,793	127,698,708
UK Gilts	69,994,535	11.00%	77,693,934	62,295,136
UK Corporate	258,637,855	9.00%	281,915,262	235,360,448
Other	20,716,660	13.00%	23,409,826	18,023,494
<b>Property</b>	304,428,172	12.50%	342,481,694	266,374,651
<b>Alternatives</b>	11,781,464	9.00%	12,841,796	10,721,132
<b>Cash</b>	21,511,351	0.00%	21,511,351	21,511,351
<b>Total</b>	<b>2,845,494,001</b>	<b>14.40%</b>	<b>3,255,245,137</b>	<b>2,435,742,865</b>

## ii) Interest rate risk sensitivity analysis

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment adviser, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's direct exposure to interest rate movements as at 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

The analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2015 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100 bps
Fixed Interest Securities	489,677,300	-58,600,777	67,280,116
Cash	21,511,351	0	0
<b>Total change in assets available</b>	<b>511,188,651</b>	<b>-58,600,777</b>	<b>67,280,116</b>

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. A 1% increase in interest rates does not impact the value of cash balances but will increase the interest income received on those balances by £215,113, and vice versa.

## iii) Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund does not have a currency hedging programme but individual investment managers may hedge some currencies from time to time on a tactical basis. As any hedging could be temporary, the analysis below does not allow for any currencies that are hedged at 31 March 2015. The Fund is invested in equities and bonds that are denominated in currencies other than £UK. The following table summarises the Fund's currency exposure at 31 March 2015:

Currency exposure - asset type	Asset value
	31-Mar-15
Overseas Index-Linked - Public Sector	£1,585,924
Overseas Equities	£654,485,700
Overseas OEIC (listed)	£352,657,668
Overseas OEIC (unlisted)	£68,139,904
Overseas Fixed Interest - Other	£17,876,813
Overseas Pooled Investments	£208,047,278
<b>Total overseas assets</b>	<b>£1,302,793,287</b>

## Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 7.40% (as measured by one standard deviation).

Currency exposure - asset type	Asset value	Change to net assets available to pay benefits	
	31-Mar-15	-7.40%	7.40%
Overseas Index-Linked - Public Sector	£1,585,924	£1,468,566	£1,703,282
Overseas Equities	£654,485,700	£606,053,758	£702,917,642
Overseas OEIC (listed)	£352,657,668	£326,561,001	£378,754,335
Overseas OEIC (unlisted)	£68,139,904	£63,097,551	£73,182,257
Overseas Fixed Interest - Other	£17,876,813	£16,553,929	£19,199,697
Overseas Pooled Investments	£208,047,278	£192,651,779	£223,442,777
<b>Total overseas assets</b>	<b>£1,302,793,287</b>	<b>£1,206,386,584</b>	<b>£1,399,199,990</b>

## Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the financial assets and liabilities. The selection of high quality counterparties, brokers and financial institutions minimises credit risk that may occur through the failure to settle a transaction in a timely manner.

The Fund has an Annual Treasury Strategy which sets out the approach to credit risk for internally managed funds. Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any one class of financial institution. The Fund believes it has managed its exposure to credit risk, and the Fund has had no experience of default or uncollectable deposits over the past five financial years. The cash holding under its treasury management arrangements at 31 March 2015, including current account cash, was £3.1m (2014 : £2.8m). This was held with the following institutions :-

	Credit Rating	Balance as at 31 March 2014	Balance as at 31 March 2015
Bank deposit accounts :-			
Royal Bank of Scotland	F1	2,670	-
Bank of Scotland	F1	-	-
Santander	F1	-	3,050
Bank current accounts :-			
Royal Bank of Scotland	F1	125	21

During June 2015, Royal Bank of Scotland's credit rating was downgraded to F2, this means the Fund will no longer invest internally managed cash with this institution in line with approved Treasury Strategy.

## **Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that it has adequate cash resources to meet its commitments.

The Fund has immediate access to its cash holdings. The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash.

# TAYSIDE PENSION FUND

## Actuarial Statement for 2014/2015

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £2,463.1 million, were sufficient to meet 99.8% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £4.8m. Individual employers' contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2015, a copy of which can be found on Tayside Superannuation Funds website ([www.dundee.gov.uk/pensions](http://www.dundee.gov.uk/pensions)).

### Method

The method adopted at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost the Actuary will calculate the contribution rate which meets the cost of one year benefit accrual. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is open to new members.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

<u>Investment Return</u>	pa
Equities	5.9%
Gilts	3.6%
Cash	3.4%
Bonds	4.1%
Property	5.5%
<u>Financial Assumptions</u>	pa
Discount Rate	5.4%
Retail Price Index	3.6% (20 year point on BoE Inflation curve)
Consumer Price Index	2.8% (RPI less 0.8%)
Pension Increases	2.8% (RPI less 0.8%)
Short-term pay increases	In line with CPI assumption for 2 years to 31/03/16
Long-term pay increases	4.6% (RPI plus 1%)

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

## Experience Over the Period Since April 2014

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2015.

Date	Main Fund @ 99.8%				
	Net Reserve		CARE ongoing % Value of payroll	Net Reserve required to maintain current contribution	
	£'000	%	%	£'000	%
31 March 2014	87,317	3.5	16.5	-	-
31 March 2015	242,956	8.5	17.3	7,806	0.3

The results show the net excess / deficit from the set funding levels at actuarial valuation of 31 March 2014 and the requirements to maintain the current level of employer contribution considering changes to asset values and the ongoing liability costs of the scheme to employers.

These results are calculated by projecting forward from the last valuation allowing for estimated investment returns, pay and pension increases, benefits paid and contributions made and any changes in underlying market conditions. Experience in terms of factors such as retirement or mortality are not updated.

The results are therefore only a broad indication of the current position and can only give an approximate guide to the position.

The smoothed basis is derived from an average position over a six month period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed in March 2017.

## TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2013/2014	FUND ACCOUNT	2014/2015
£000		£000    £000
	<b>CONTRIBUTIONS AND BENEFITS</b>	Note
	<u>Contributions receivable:-</u>	
899	From employers	840
<u>89</u>	From members	<u>76</u>
988		916
-	Transfers In	-
	<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>	
-	Refund of Contributions	-
-	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)
	<b>RETURNS ON INVESTMENTS</b>	
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>	<b>OPENING NET ASSETS OF THE SCHEME</b>	<u>56,291</u>
<u>56,291</u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>	<u>62,134</u>

Notes on pages 32 to 37 form part of the financial statements.

## TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2014 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2015 £000	£000
	<b>INVESTMENT ASSETS AT MARKET VALUE</b>	Note	£000
	<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
	<b>FINANCIAL LIABILITIES</b>		
(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
	<b>CURRENT ASSETS</b>		
6	Contributions Due from Employers		6
-	Sundry Debtors		1
<u>311</u>	Cash and Bank		<u>1,355</u>
317			1,362
	<b>LESS CURRENT LIABILITIES</b>		
(82)	Sundry Creditors	8	<u>(58)</u>
<u>235</u>	<b>NET CURRENT ASSETS</b>		<u>1,304</u>
<u>56,291</u>	<b>NET ASSETS</b>		<u>62,134</u>

**Marjory Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**24 June 2015**

Notes on pages 32 to 37 form part of the financial statements.

# NOTES TO TAYSIDE TRANSPORT PENSION FUND FINANCIAL STATEMENTS

## 1 - Local Government Pension Scheme

Tayside Transport Superannuation Fund began as a result of the 1985 Transport Act, the employees of the former Dundee City Bus Unit which formed part of Tayside Regional Council's Roads and Transport Department were transferred to a new company, Tayside Public Transport Company Ltd. A separate Superannuation Fund for those transferred employees was set up on 26 October 1986.

## 2 - Basis of Preparation

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statement within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2014-15 ("the Code").

## 3 - Statement of Accounting Policies

The accounting policies of Tayside Transport Pension Fund are consistent with those adopted for Tayside Pension Fund as outlined on pages 17 and 18.

## 4 - Related Parties

There were no transactions with related parties during the year.

## 5 - Investment Income

	2013/14	2014/15
	£'000	£'000
Interest from Fixed Interest Securities	182	151
Dividends from Equities	387	422
Income from Index Linked Securities	58	54
Income Pooled Investment Vehicles	166	177
Interest on Cash Deposits	6	6
Other Income	-	-
	<u>799</u>	<u>810</u>
Irrecoverable Withholding Tax	-	-
	<u>799</u>	<u>810</u>

## 6 - Investments

### Market Value of Investments Managed Externally

The Fund's investment assets are under the management of three external fund managers. At 31 March 2015 the market value of these investment assets was £60.8m (2014 £56.1m), managed as follows:-

	2014		2015	
	£m	%	£m	%
Schroder Properties Limited	4.2	7.5	4.9	8.1
Baillie Gifford & Co	29.7*	53.0	31.5*	51.8
Goldman Sachs	22.1**	39.4	24.1**	39.7
Financial Debtors	0.1	0.1	1.0	1.6
Financial Liabilities	-	-	(0.7)	(1.2)
Net Financial Assets	<u>56.1</u>	<u>100.0</u>	<u>60.8</u>	<u>100.0</u>

\* Within the Baillie Gifford investment total above there is an investment of £15.8m (2014 £14.4m) which exceeds 5% of net assets available for benefits. This investment is in Baillie Gifford Global Life Fund.

\*\* Within the Goldman Sachs investment total above there is an investment of £11.4m (2014 £10.5m) which exceeds 5% of net assets available for benefits. This investment is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

## Derivatives - Futures

Summary of contracts held at 31 March 2015

	Settlement Date	Economic Exposure			Net £000
		£000	Asset £000	Liability £000	
Eurx Bund	3 months	115	1	-	1
Eurx Foat	3 months	(113)	-	(1)	(1)
LIF Long Gilt	3 months	966	17	-	17
10 yr Treasury Note	3 months	(608)	-	(7)	(7)
5 yr Treasury Note	3 months	567	-	-	-
US 2 yr Treasury Note	3 months	(295)	-	(1)	(1)
		632	18	(9)	9

The economic exposure represents the nominal value of security purchased under future contracts and therefore the value subject to market movements. All future contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

## Investment Movement Summary

	Value at 01/04/2014	Purchases at Cost	Sales Proceeds	Change in Market Value	Value at 31/03/2015
	£m	£m	£m	£m	£m
Schroder Property	4.0	-	-	0.5	4.5
Baillie Gifford Global	14.4	-	(1.5)	2.9	15.8
Goldman Sachs	21.9	14.0	(14.9)	3.0	24.0
Baillie Gifford UK	14.9	1.6	(1.6)	0.6	15.5
	55.2	15.6	(18.0)	7.0	59.8
Financial Liabilities	-				(0.7)
Cash Deposits	0.8			(1.2)	0.7
Financial Debtors	0.1				1.0
Net Financial Assets	56.1			5.8	60.8

## Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £10,344 (2013/2014 £2,846).

## Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2015 was nil (2014 Nil).

## 7 - Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2015, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £54.3m (2014 £57.6m) of which £53.2m (2014 £50.6m) is vested obligation and £1.1m (2014 £7.0m) is non-vested obligation. This figure is used for statutory accounting purposes by Tayside Pension Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

## 8 - Sundry Creditors

Sundry Creditors total £0.058m as at 31 March 2015 (2014 £0.082m), this figure contains custodian fees £0.008m, investment manager fees £0.038m and investment consultancy of £0.012m.

## 9 - Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £0.744m as at 31 March 2015 (2014 £0.017m), this figure is solely for pending purchase transactions.

Financial Debtors total £1.014m as at 31 March 2015 (2014 £0.101m), this is made up of pending sales transactions £0.883m and investment income £0.131m.

## 10 - Audit Fee

The Pension Funds have been subject to a separate external audit to that of the Council. The Transport Fund incurred an audit fee of £7,013 for 2014/15 financial year.

## 11 – Management Expenses

	2013/14	2014/15
	£000	£000
Administrative costs	29	35
Investment management expenses	180	199
Oversight and governance costs	1	1
	<u>210</u>	<u>235</u>

## 12 – Investment Expenses

	2013/14	2014/15
	£000	£000
Management fees	150	161
Custody fees	20	19
Performance monitoring service	10	10
Investment consultancy	-	9
	<u>180</u>	<u>199</u>

## 13 - Nature and Extent of Risks arising from Financial Instruments

### Risk and Risk Management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flows.

New CARE scheme came into effect on 1 April 2015. There is an increased risk of error / communication failure due to lack of awareness of new scheme regulations. The Fund manages this risk through employer updates, newsletter and specialist sessions at annual forum.

Responsibility for managing the Fund's risk rests with the Pension Sub-Committee. A risk register for the Fund has been established to identify and analyse the risks that the Fund faces.

## B) Market Risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Council and its investment adviser undertake appropriate monitoring of market conditions and benchmark analysis.

### iv) Other Price Risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The Fund is exposed to share price risk, arising from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. The maximum risk resulting from financial instruments is determined by the fair value of the financial instruments.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the Council to ensure it is within limits specified in the Fund investment strategy.

### Other price risk—sensitivity analysis

Following analysis of historical data and expected investment return movements, in consultation with the Council's investment adviser it has been determined that the following movements in market price risk are reasonably possible for this reporting period.

	Potential Market Movement
	+/- per annum
<b>Equities</b>	
UK	19.00%
Emerging Market	30.00%
Global	18.00%
<b>Bonds</b>	
UK Index-Linked Gilts	9.00%
UK Gilts	11.00%
UK Corporate	9.00%
Other	13.00%
<b>Property</b>	12.50%
<b>Alternatives</b>	9.00%
<b>Cash</b>	0.00%

Potential price changes are determined based on the historical volatility of asset class returns and expected future returns. The potential volatilities are consistent with a one standard deviation movement in the change in value of the assets and are based on the investment adviser's firm's assumptions for asset class volatilities as at 31 March 2015.

If the market price of the Fund investments increases/decreases in line with the above, the change in the net assets available to pay benefits in the market price could be as follows:

	Value £	% Change	Potential change in year in the net assets available to pay benefits	
			Favourable Market Movement £	Unfavourable Market Movement £
<b>Equities</b>				
UK	15,498,644	19.00%	18,443,386	12,553,902
Emerging Market	427,357	30.00%	555,564	299,150
Global	15,400,677	18.00%	18,172,799	12,628,555
<b>Bonds</b>				
UK Index-Linked Gilts	6,812,144	9.00%	7,425,237	6,199,051
UK Gilts	3,609,297	11.00%	4,006,320	3,212,274
UK Corporate	11,919,343	9.00%	12,992,084	10,846,602
Other	1,674,614	13.00%	1,892,314	1,456,914
<b>Property</b>	4,509,663	12.50%	5,073,371	3,945,955
<b>Cash</b>	2,333,292	0.00%	2,333,292	2,333,292
<b>Total</b>	<b>62,185,031</b>	<b>10.50%</b>	<b>68,714,459</b>	<b>55,655,603</b>

#### v) Interest rate risk sensitivity analysis

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Council and its investment adviser, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Council recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits.

The Fund's direct exposure to interest rate movements as at 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

The analysis assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 Basis Points (BPS) change in interest rates:

Asset Type	Carrying amount as at 31 March 2015 (£)	Potential change in year in the net assets available to pay benefits £	
		100bps	-100 bps
Fixed Interest Securities	24,015,398	-2,869,827	3,294,222
Cash	2,333,292	0	0
<b>Total change in assets available</b>	<b>26,348,690</b>	<b>-2,869,827</b>	<b>3,294,222</b>

A 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value and vice versa. A 1% increase in interest rates does not impact the value of cash balances but will increase the interest income received on those balances by £23,333, and vice versa.

### Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund does not have a currency hedging programme but individual investment managers may hedge some currencies from time to time on a tactical basis. As any hedging could be temporary, the analysis below does not allow for any currencies that are hedged at 31 March 2015.

The Fund is invested in equities and bonds that are denominated in currencies other than £UK. The following table summarises the Fund's currency exposure at 31 March 2015:

Currency exposure - asset type	Asset value
	31-Mar-15
Overseas Index-Linked - Public Sector	£79,410
Overseas OEIC (unlisted)	£105,033
Overseas Fixed Interest - Other	£1,490,171
Overseas Pooled Investments	£15,828,034
<b>Total overseas assets</b>	<b>£17,502,648</b>

### Currency risk- sensitivity analysis

Following analysis of historical data, the likely volatility associated with foreign exchange movements on an individual currency basis is shown in the following table. The weight of each currency in relation to the total currency basket is multiplied by the change in its exchange rate (relative to GBP) to create the aggregate potential currency change of the 'basket' and the % Change in Total Currency includes the impact of correlation across the underlying currencies. The likely volatility is 2.5% (as measured by one standard deviation).

Currency exposure - asset type	Asset value	Change to net assets available to pay benefits	
	31-Mar-15	-2.50%	2.50%
Overseas Index-Linked - Public Sector	£79,410	£77,425	£81,395
Overseas OEIC (unlisted)	£105,033	£102,407	£107,659
Overseas Fixed Interest - Other	£1,490,171	£1,452,917	£1,527,425
Overseas Pooled Investments	£15,828,034	£15,432,333	£16,223,735
<b>Total overseas assets</b>	<b>£17,502,648</b>	<b>£17,065,082</b>	<b>£17,940,214</b>

# TAYSIDE TRANSPORT PENSION FUND

## Actuarial Statement for 2014/2015

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2014. This valuation revealed that the Fund's assets, which at 31 March 2014 were valued at £56.3 million, were sufficient to meet 99.9% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2014 valuation was £0.1m. Employer contributions for the period 1 April 2015 to 31 March 2018 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2015, a copy of which can be found on Tayside Superannuation Funds website ([www.dundee.gov.uk/pensions](http://www.dundee.gov.uk/pensions)).

### Method

The method adopted at this valuation is known as the "Attained Age Method". The key feature of this method is that in assessing the future service cost the Actuary calculates the contribution rate which meets the cost of benefits accruing up to retirement age. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is closed to new members.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2014 valuation were as follows:

<u>Investment Return</u>	pa
Equities	5.9%
Gilts	3.6%
Cash	3.4%
Bonds	4.1%
Property	5.5%
<u>Financial Assumptions</u>	pa
Discount Rate	3.6%
Retail Price Index	3.6% (20 year point on BoE Inflation curve)
Consumer Price Index	2.8% (RPI less 0.8%)
Pension Increases	2.8% (RPI less 0.8%)
Short-term pay increases	In line with CPI assumption for 2 years to 31/03/16
Long-term pay increases	4.6% (RPI plus 1%)

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

## Experience Over the Period Since April 2014

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2015.

Date	Transport Fund @ 99.9%				
	Net Reserve		CARE ongoing % Value of payroll	Net Reserve required to maintain current contribution	
	£'000	%	%	£'000	%
31 March 2014	2,554	4.5	33.8	-	-
31 March 2015	895	1.4	40.8	250	0.4

The results show the net excess / deficit from the set funding levels at actuarial valuation of 31 March 2014 and the requirements to maintain the current level of employer contribution considering changes to asset values and the ongoing liability costs of the scheme to employers.

These results are calculated by projecting forward from the last valuation allowing for estimated investment returns, pay and pension increases, benefits paid and contributions made and any changes in underlying market conditions. Experience in terms of factors such as retirement or mortality are not updated.

The results are therefore only a broad indication of the current position and can only give an approximate guide to the position.

The smoothed basis is derived from an average position over a six month period.

The next actuarial valuation will be carried out as at 31 March 2017. The Funding Strategy Statement will also be reviewed in March 2017.

## SCHEDULED AND ADMITTED BODIES

The employers with active members as at 31 March 2015 are as follows :-

### Scheduled Bodies (14) :-

Angus Council	Scottish Police Services Authority
Dundee City Council	TACTRAN
Dundee and Angus College	Tayplan
Perth & Kinross Council	Tay Road Bridge Joint Board
Perth College	Tayside Contracts
Scottish Fire & Rescue Service (Civilians)	Tayside Valuation Joint Board
Scottish Police Authority (Civilians)	Visit Scotland

### Admitted Bodies (30) :-

Abertay Housing Association	Live Active Ltd
Balnacraig School	Mitie PFI Ltd
Carnoustie Golf Links	Montrose Links Trust
Carolina House Trust	Montrose Port Authority
Dorward House	National Express Dundee
Dovetail Enterprises	Perth & Kinross Countryside Trust
Duncan of Jordanstone College of Art	Perth & Kinross Society for the Blind
Dundee Citizens' Advice Bureau	Perth Citizens' Advice Bureau
Dundee Contemporary Arts Ltd	Perth Theatre Co Ltd
Dundee Science Centre	Robertsons Facilities Management
Dundee Society for Visually Impaired People	Rossie School
Dundee Voluntary Action	Scottish Social Services Council
Forfar Day Care Committee	Social Care and Social Work Improvement Scotland
Highlands & Islands Airports Ltd	Tayside Community Justice Authority
Leisure and Culture Dundee	University of Abertay, Dundee

## CONTACT INFORMATION

### Key Documents Online

The following documents are on the website's ([www.dundee.gov.uk/pensions](http://www.dundee.gov.uk/pensions)) publications section :

- Actuarial Valuation Reports
- Funding Strategy Statement
- Statement of Investment Principles
- Treasury Management Strategy
- Risk Register
- Annual Report and Accounts

### Contact Details

Enquiries relating to investment matters should be addressed to:-

Tracey Russell, Financial Services and Investment Manager  
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ  
(01382) 431333

Enquiries regarding individual benefits, contributions or pensions in payment or requests for further information should be addressed to:-

Alan Mooney, Payroll and Pensions Manager  
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ  
(01382) 433707

### Other Contacts

#### The Occupational Pensions Advisory Service (OPAS)

In the event of a dispute, members have recourse initially to an internal dispute procedures and if still not satisfied to the Scottish Minister and in addition may contact the following bodies.

The Occupational Pensions Advisory Service (OPAS), 11 Belgrave Road, London, SW1V 1RB

This organisation is available to assist members and beneficiaries of occupational pension schemes in connection with difficulties, which they have been unable to resolve with the trustees or administrators of their scheme. For problems that cannot be settled through OPAS, a Pensions Ombudsman (based at the same address as OPAS) has been appointed. The Ombudsman has power to investigate and determine complaints or disputes of fact or law in relation to occupational pension schemes. The Ombudsman can only become involved after a dispute has been to the Scottish Ministers.

#### Registry of Occupational Pension Schemes

The Registry acts as a central tracing agency to help individuals keep track of any benefits they may have in previous employers' pension schemes. The Council's Scheme and the names and addresses of all current and previous participating employers have been registered with the Registrar.

Registry of Occupational Pension Schemes, PO Box 1NN, Newcastle upon Tyne, NE99 1NN

#### The Pensions Regulator ([www.thepensionsregulator.gov.uk](http://www.thepensionsregulator.gov.uk))

The Pensions Regulator is the UK regulator of work-based pension schemes. They work with trustees, employers, pension specialists and business advisers, giving guidance on what is expected of them. The principal aim is to prevent problems from developing. They use their powers flexibly, reasonably and appropriately, with the aim of putting things right and keeping schemes, and employers on the right track for the long term.