

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE FINANCE COMMITTEE - 21 FEBRUARY 2007**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2007/2008

REPORT BY: HEAD OF FINANCE

REPORT NO: 61-2007

1 PURPOSE OF REPORT

This report introduces the fourth annual business plan for the Tayside Superannuation Funds.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2007/08 Business Plan which applies to the administration and management of the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Finance Department Revenue Budget 2007/08. Investment manager fees are charged directly to the Funds, as are actuarial and investment consultancy costs.

4 SUSTAINABILITY POLICY IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom April 2002" 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 Superannuation 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 Finance Department's overall planning process.

The current plan will see the initial results from the revised asset allocations managers were asked to put in place in 2007/08. Some were also asked to increase their out-performance targets.

7 **BACKGROUND PAPERS**

None

**MARJORY M STEWART
HEAD OF FINANCE**

13 FEBRUARY 2007

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2007/08**

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" 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 Superannuation Fund and Tayside Transport Superannuation 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 2006 the value of the merged Funds was approximately £1,570m.

Within Dundee City Council's Finance Department there are two sections with responsibility for the Superannuation 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 Superannuation Fund.

The annual budget for 2007/08 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 new 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 Superannuation Investment Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2006 are shown in Appendix 3. It is expected that the manager fees will increase as they are linked to the value of funds so can rise if funds increase. In addition, some individual fee rates have increased as a result of increased performance being sought from the managers.

Contributions to the Fund will increase as the employer contribution rate moves from 275% to 295%.

5 **PERFORMANCE MANAGEMENT**

Investment Performance Measurement will continue to be provided by Northern Trust, the Fund's custodian.

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the 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. A full valuation of the Main Fund and Transport Fund was undertaken as at 31 March 2005. This set the employer contribution rates for 2006/07, 2007/08 and 2008/09. It is considered that they should be requested to provide rates for extending the contract for an additional three year period from 1 July 2007.

7 INVESTMENT CONSULTANCY

Investment advice continues to be provided by Hymans Robertson. This contract began on 1 July 2004 following a tendering exercise. They will provide an annual report to the Sub-Committee each November along with attending quarterly meetings with fund managers and providing regular advice to the Council's officers. It is considered that they should be requested to provide rates for extending the contract for an additional three year period from 1 July 2007.

8 FUNDING STRATEGY STATEMENT

The second statements for the Funds have been produced following consultation with participating bodies.

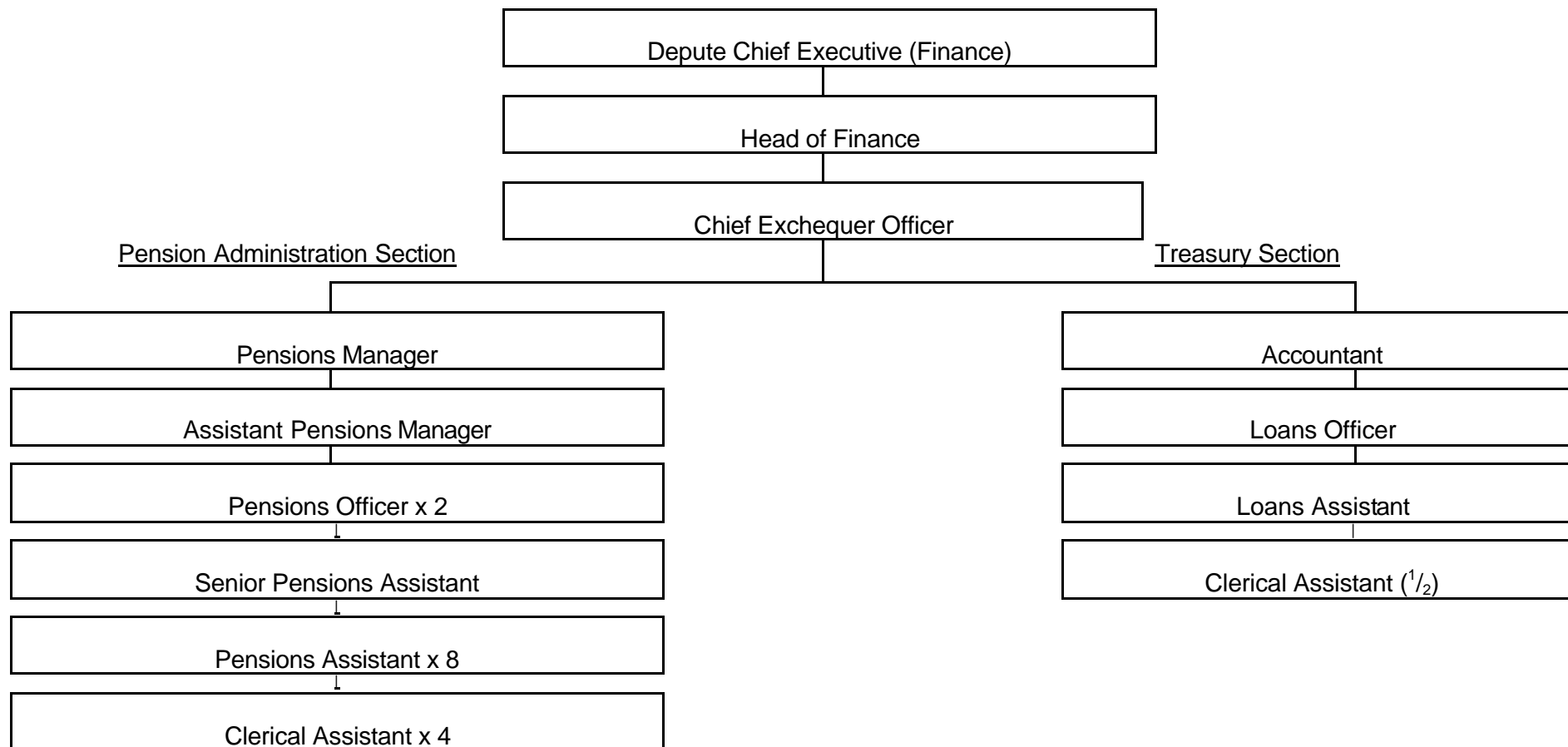
9 KEY MEASURES AND TARGETS

These are summarised in Appendix 4.

10 ADMINISTRAT ION

The administration section will be preparing for the revised Local Government Pension Scheme scheduled to start in 2009.

**DUNDEE CITY COUNCIL
FINANCE DEPARTMENT - FINANCIAL SERVICES DIVISION (EXTRACT)**



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2007/08

	<u>Treasury and Investment (£000)</u>	<u>Pension Administration (£000)</u>	<u>Total (£000)</u>
Staff Costs	76	421	497
Property	-	58	58
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
TOTAL EXPENDITURE	<u>96</u>	<u>556</u>	<u>652</u>

Tayside Superannuation Fund Accounts for Year to 31 March 2006

2004/2005 £000	<u>FUND ACCOUNT</u>	2005/2006	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
(45,602)	From employers	(53,053)	
<u>(17,215)</u>	From employees	<u>(18,444)</u>	
(62,817)			(71,497)
(27,693)	Transfers in		(7,681)
	Benefits payable:		
33,774	Pensions	35,441	
<u>5,483</u>	Lump Sums	<u>6,599</u>	
39,257			42,040
	Payments to and on account of Leavers:		
290	Refunds of Contributions	346	
<u>8,201</u>	Transfers Out	<u>5,626</u>	
8,491			5,972
<u>1,098</u>	Administration Expenses		<u>1,167</u>
(41,664)	Net Deposits from dealings with Members		(29,999)
	RETURNS ON INVESTMENTS		
	Investment Income		
(4,883)	Interest from Fixed Interest Securities	(5,226)	
(17,965)	Dividends from Equities	(22,753)	
(3,080)	Income from Index Linked Securities	(4,121)	
(5,653)	Income Pooled Investment Vehicles	(5,517)	
(1,174)	Interest on Cash Deposits	(1,392)	
(1,317)	Other Income	(1,536)	
(99,303)	Change in Market Value of Investments	(257,025)	
2,932	Investment Management Expenses	3,853	
<u>270</u>	Taxation	<u>438</u>	
<u>(130,173)</u>	Net Returns on Investments		<u>(293,279)</u>
(171,837)	NET (INCREASE) IN FUND DURING THE YEAR		(323,278)
<u>951,210</u>	OPENING NET ASSETS OF THE SCHEME		<u>1,123,047</u>
<u>1,123,047</u>	CLOSING NET ASSETS OF THE SCHEME		<u>1,446,325</u>
	NET ASSETS STATEMENT (AS AT 31 MARCH)		
		£000	2006 £000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
431,119	- UK Equities	573,366	
24,306	- UK Fixed Interest - Public Sector	57,357	
12,588	- UK Fixed Interest - Other	16,621	
31,542	- UK Index Linked	34,234	
219,206	- Overseas Equities	266,295	
14,096	- Overseas Fixed Interest - Other	19,916	
36,950	- Overseas Fixed Interest - Public Sector	19,416	
	Unlisted Investments		
9,582	- UK Unit Trusts	-	
69,278	- UK Open Ended Investment Companies	98,166	
124,238	- Overseas Open Ended Investment Companies	196,123	
101,795	- Property Unit Trusts	131,225	
<u>26,927</u>	Cash Balances held by Fund Managers	<u>19,968</u>	
1,101,627			1,432,687
	CURRENT ASSETS		
13,426	Sundry Debtors	12,167	
<u>11,614</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>6,034</u>	
25,040		18,201	
	LESS CURRENT LIABILITIES		
<u>(3,620)</u>	Sundry Creditors	<u>(4,563)</u>	
21,420	NET CURRENT ASSETS		13,638
<u>1,123,047</u>	NET ASSETS		<u>1,446,325</u>

David K Dorward CPFA
Depute Chief Executive (Finance)
Dundee City Council
22 June 2006

Tayside Transport Superannuation Fund Accounts for Year 31 March 2006

2004/2005 £000	<u>FUND ACCOUNT</u>	2005/2006	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
(238)	From employers	(282)	
<u>(123)</u>	From employees	<u>(118)</u>	
(361)			(400)
(7)	Transfers In		(11)
	Benefits payable:		
1,558	Pensions	1,603	
<u>206</u>	Lump Sums	<u>113</u>	
1,764			1,716
	Payments to and on account of Leavers:		
25	Transfers Out		44
<u>38</u>	Administration Expenses		<u>40</u>
1,459	Net Withdrawals from dealings with Members		1,389
	RETURNS ON INVESTMENTS		
	Investment Income		
(303)	Interest from Fixed Interest Securities	(300)	
(420)	Dividends from Equities	(497)	
(212)	Income from Index Linked Securities	(260)	
(169)	Income Pooled Investment Vehicles	(165)	
(58)	Interest on Cash Deposits	(47)	
(4)	Other Income	(4)	
(1,986)	Change in Market Value of Investments	(6,174)	
77	Investment Management Expenses	99	
<u>1</u>	Taxation	<u>9</u>	
<u>(3,074)</u>	Net Returns on Investments		<u>(7,339)</u>
(1,615)	NET (INCREASE) IN FUND DURING THE YEAR		(5,950)
<u>33,283</u>	OPENING NET ASSETS OF THE SCHEME		<u>34,898</u>
<u>34,898</u>	CLOSING NET ASSETS OF THE SCHEME		<u>40,848</u>
	NET ASSETS STATEMENT (AS AT 31 MARCH)		
2005 £000		2006 £000	2006 £000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
9,920	- UK Equities	12,317	
2,650	- UK Fixed Interest - Public Sector	5,590	
1,385	- UK Fixed Interest - Other	1,620	
3,439	- UK Index Linked	3,336	
5,961	- Overseas Equities	7,566	
1,549	- Overseas Fixed Interest - Other	1,892	
4,028	- Overseas Fixed Interest - Public Sector	1,941	
	Unlisted Investments		
520	- UK Unit Trusts	-	
-	- UK Open Ended Investment Companies	643	
795	- Overseas Open Ended Investment Companies	1,346	
3,051	- Property Unit Trusts	3,891	
<u>1,218</u>	Cash Balances held by Fund Managers	<u>441</u>	
34,516			40,583
	CURRENT ASSETS		
44	Sundry Debtors	61	
<u>369</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>390</u>	
413		451	
	LESS CURRENT LIABILITIES		
<u>(31)</u>	Sundry Creditors	<u>(186)</u>	
<u>382</u>	NET CURRENT ASSETS		<u>265</u>
<u>34,898</u>	NET ASSETS		<u>40,848</u>

David K Dorward CPFA
Depute Chief Executive (Finance)
Dundee City Council
22 June 2006

KEY MEASURES AND TARGETS

<u>From Finance Department Service Plan</u>		<u>2003</u>	<u>2004</u>	<u>2005</u>	<u>2006</u>	<u>2007</u>
		<u>Baseline</u>	<u>Actual</u>	<u>Actual</u>	<u>Actual</u>	<u>Target</u>
1	<u>Pension Fund Administration</u>					
	i Cost per member	£27.20	£27.93	£27.18	£26.07	£25.90
	ii Ratio of staff to membership	1:2356	1:2128	1:2205	1:2390	1:2120
2	<u>Pension Fund Investment</u>					
	i Investment performance annualised three yearly. Investment returns compared to the average pension fund as measured by WM Company.	+0.6%	-0.2%	+0.4%	+0.9%	+1.0%
	ii Cost of Investment Management	0.16%	0.35%	0.33%	0.30%	0.25%
	iii Reporting Deadlines	Achieved	Achieved	Achieved	Achieved	Achieved
	iv Review of Actuarial Services	Achieved	Achieved	Achieved	Achieved	Achieved

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)	25%
	Baillie Gifford (UK Equity)	12%
	Fidelity (Bonds)	6%
	<u>Transport Fund</u>	
	Baillie Gifford (Global Equity)	22.5%
	Goldman Sachs (Bonds)	40%
	Schroder Property	10%
	Baillie Gifford (UK Equity)	27.5%

<u>Service Providers</u>		<u>Target</u>	<u>Update</u>
5	Actuarial Services	To provide quarterly report of funding levels	Achieved
6	Investment Consultancy	To report annually to Sub-Committee each November	Achieved