

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE FINANCE COMMITTEE - 25 FEBRUARY 2004**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2004/2005

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 63-2004

1 PURPOSE OF REPORT

This report introduces the first 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 2004/05 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 2004/05. Investment manager fees are charged directly to the Funds, as are actuarial and investment consultancy costs.

4 LOCAL AGENDA 21 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.

Previously individual Service Plans for both the Pensions Administration Section and the Treasury and Investment Section have been prepared within the Finance Department's overall planning process. It is recognised that it is appropriate to extend this to cover the Superannuation Funds as a whole. This plan will be reviewed and updated annually.

The Principles also recommend that separate contracts should be placed for actuarial and investment consultancy advice and accordingly this has been included in the plan for 2004/05.

7 BACKGROUND PAPERS

No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any confidential or exempt information) were relied on to any material extend in preparing the above Report.

**DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)**

17 FEBRUARY 2004

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2004/05**

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 2003 the value of the merged Funds was £949m.

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 2004/05 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.

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 2003 are shown in Appendix 3. It is expected that the manager fees will be higher in 2004/05 as this will be the first full year of the new specialised structure which is more expensive. In addition it is anticipated that the level of funds will continue to increase which also increases fees.

Some additional revenue will be generated from the new securities lending programme which has been introduced.

Contributions to the Fund will also increase as the employer contribution rate is higher.

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 are currently provided by Hymans Robertson. A tendering exercise will be conducted to enable a new contract to begin on 1 July 2004. This will enable the Fund to show best practice by separating this from investment consultancy.

7 INVESTMENT CONSULTANCY

Investment advice is currently provided by Hymans Robertson. A Tendering exercise will be conducted to enable a new contract to begin on 1 July 2004.

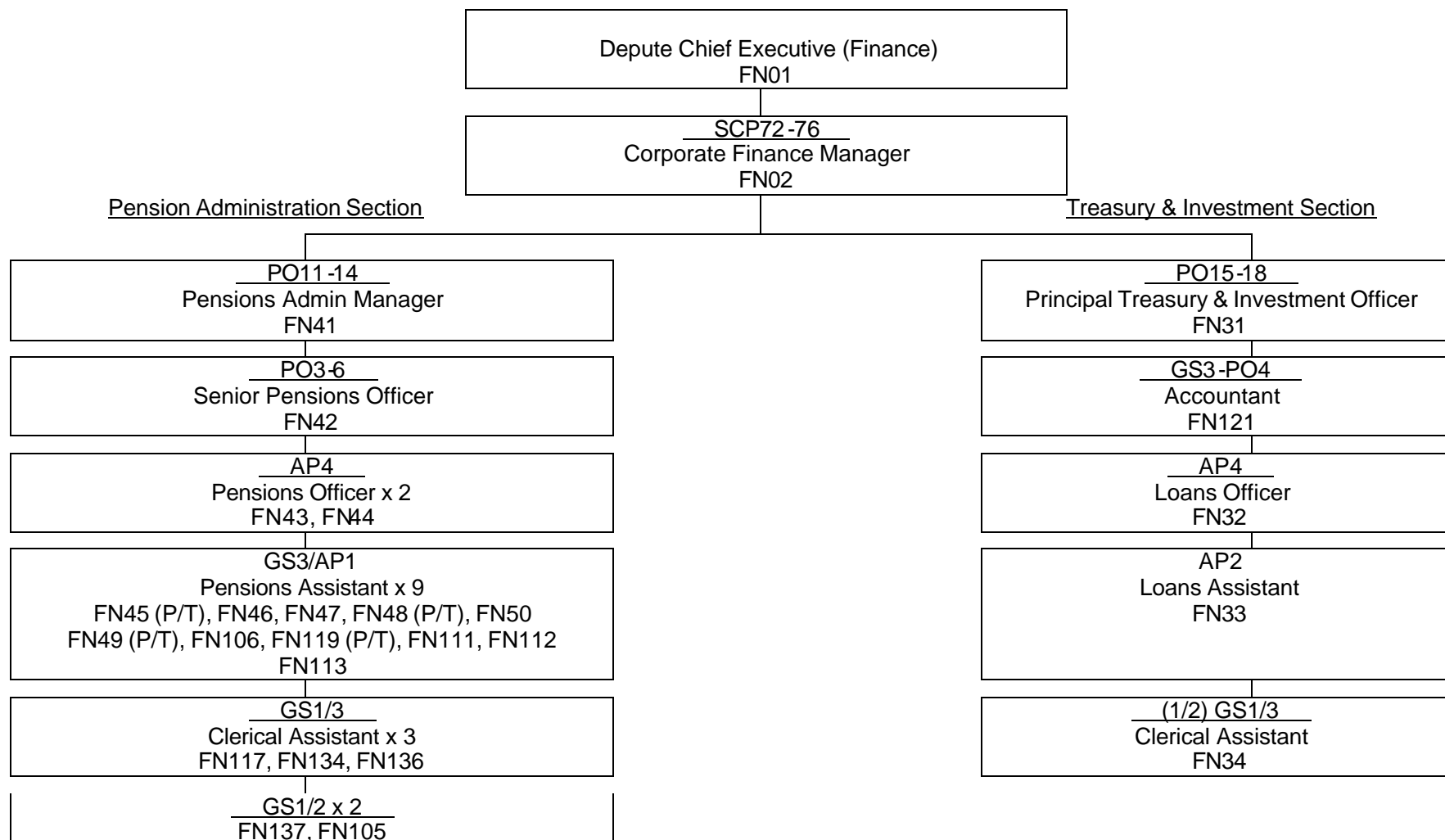
8 STAKEHOLDER SURVEY

A survey of key stakeholders will take place in April. The results from this will be used to identify areas of improvement which will be developed during the year.

9 KEY MEASURES AND TARGETS

These are summarised in Appendix 4.

**DUNDEE CITY COUNCIL
FINANCE DEPARTMENT - CORPORATE FINANCE DIVISION (EXTRACT)**



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2004/05

	<u>Treasury and Investment</u> <u>(£000)</u>	<u>Pension Administration</u> <u>(£000)</u>	<u>Total</u> <u>(£000)</u>
Staff Costs	55	376	431
Property	-	56	56
Supplies and Services	17	48	65
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
TOTAL EXPENDITURE	<u>73</u>	<u>509</u>	<u>582</u>

Tayside Superannuation Fund Accounts for Year to 31 March 2003

2001/2002 £000	<u>FUND ACCOUNT</u>	2002/2003 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
27,586	From employers	35,581	
<u>12,899</u>	From employees	<u>14,396</u>	
40,485			49,977
4,935	Transfers in		8,106
	Benefits payable:		
(30,272)	Pensions	(31,133)	
<u>(4,478)</u>	Lump Sums	<u>(4,702)</u>	
(34,750)			(35,835)
	Payments to and on account of Leavers:		
(211)	Refunds of Contributions	(226)	
<u>(3,596)</u>	Transfers Out	<u>(3,947)</u>	
(3,807)			(4,173)
<u>(900)</u>	Administration Expenses		<u>(1,026)</u>
5,963	Net (Deposits) from dealings with Members		17,049
	RETURNS ON INVESTMENTS		
26,918	Investment Income	26,471	
(28,501)	Change in Market Value of Investments	(210,484)	
<u>(2,766)</u>	Investment Management Expenses	<u>(1,299)</u>	
<u>(4,349)</u>	Net Returns on Investments		(185,312)
1,614	NET INCREASE/(DECREASE) IN FUND DURING THE YEAR		(168,263)
<u>924,708</u>	OPENING NET ASSETS OF THE SCHEME		<u>926,322</u>
<u>926,322</u>	CLOSING NET ASSETS OF THE SCHEME		<u>758,059</u>
	NET ASSETS STATEMENT (AS AT 31 MARCH)		
2002 £000		2003 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
427,545	- UK Equities	303,024	
28,499	- UK Fixed Interest - Public Sector	30,287	
12,201	- UK Fixed Interest - Other	6,031	
16,110	- UK Index Linked	17,116	
121,912	- Overseas Equities	89,076	
13,546	- Overseas Fixed Interest - Public Sector	-	
-	- Overseas Fixed Interest - Other	115	
-	- Overseas Index Linked	2,537	
	Unlisted Investments		
6,262	- UK Unit Trusts	3,606	
55,548	- UK Open Ended Investment Companies	59,074	
38,774	- Overseas Unit Trusts	28,744	
107,067	- Overseas Open Ended Investment Companies	89,619	
63,786	- Property Unit Trusts	68,922	
<u>21,819</u>	Cash Balances held by Managers	<u>31,574</u>	
913,069			729,725
	CURRENT ASSETS		
6,679	Sundry Debtors	10,983	
-	Short Term Lending	10,000	
<u>7,693</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>9,348</u>	
14,372		30,331	
	LESS CURRENT LIABILITIES		
(369)	Sundry Creditors	(1,781)	
14,003	NET CURRENT ASSETS		28,550
	LESS LONG TERM LIABILITIES		
(750)	Creditors of more than 1 Year	(216)	(216)
<u>926,322</u>	NET ASSETS		<u>758,059</u>

**APPENDIX 3
(CONT'D)**

Tayside Transport Superannuation Fund Accounts for Year 31 March 2003

2001/2002 £000	<u>FUND ACCOUNT</u>	2002/2003 £000	£000
	<u>CONTRIBUTIONS AND BENEFITS</u>		
	Contributions receivable:		
109	From employers	133	
<u>136</u>	From employees	<u>132</u>	
245			265
	Benefits payable:		
(1,492)	Pensions	(1,427)	
<u>(38)</u>	Lump Sums	<u>(114)</u>	
(1,530)			(1,541)
	Payments to and on account of Leavers:		
-	Transfers Out		(49)
<u>(40)</u>	Administration Expenses		<u>(54)</u>
(1,325)	Net Withdrawals from dealings with Members		(1,379)
	RETURNS ON INVESTMENTS		
1,117	Investment Income	1,079	
(1,742)	Change in Market Value of Investments	(6,306)	
<u>(97)</u>	Investment Management Expenses	<u>(54)</u>	
(722)	Net Returns on Investments		(5,281)
(2,047)			(6,660)
<u>38,215</u>	NET DECREASE IN FUND DURING THE YEAR		<u>(6,660)</u>
	OPENING NET ASSETS OF THE SCHEME		<u>36,168</u>
<u>36,168</u>	CLOSING NET ASSETS OF THE SCHEME		<u>29,508</u>
	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>		
2002 £000		2003 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
13,804	- UK Equities	9,146	
5,875	- UK Fixed Interest - Public Sector	7,675	
2,375	- UK Fixed Interest - Other	474	
3,003	- UK Index Linked	3,989	
5,478	- Overseas Equities	2,663	
	Unlisted Investments		
674	- UK Unit Trusts	341	
4,015	- Overseas Unit Trusts	3,399	
<u>371</u>	Cash Balances held by Managers	<u>1,449</u>	
35,595			29,136
	CURRENT ASSETS		
132	Sundry Debtors	146	
<u>460</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>247</u>	
592		393	
	LESS CURRENT LIABILITIES		
<u>(19)</u>	Sundry Creditors	<u>(21)</u>	
573	NET CURRENT ASSETS		<u>372</u>
<u>36,168</u>	NET ASSETS		<u>29,508</u>

KEY MEASURES AND TARGETS

<u>From Finance Department Service Plan</u>		<u>2003</u> <u>Baseline</u>	<u>2007</u> <u>Target</u>
1	<u>Pension Fund Administration</u>		
	i Cost per member	£27.20	£25.90
	ii Ratio of staff to membership	1:2356	1:2120
	iii Target number of days to process		
	a Pensions	4 days	9 days
	b Estimates	16 days	21 days
	c New admissions	25 days	21 days
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%	+1.0%
	ii Cost of Investment Management	0.16%	0.25%
	iii Reporting Deadlines	Achieved	Achieved
	iv Review of Actuarial Services	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 +1.5% pa (gross of fees)
	Schroder Property	HSBC IPD Pooled Property Median +0.5% pa
	Goldman Sachs	Specific Benchmark +0.5% pa (net 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 (Multi Asset)	29%
	Baillie Gifford (Global Equity)	25%
	Schroder Property	9%
	Goldman Sachs (Bonds)	12%
	Alliance Bernstein (Global Equity)	25%
	<u>Transport Fund</u>	
	Baillie Gifford (Global Equity)	50%
	Goldman Sachs (Bonds)	40%
	Schroder Property	10%
	<u>Service Providers</u>	<u>Target</u>
5	Actuarial Services	New contract start date 1 July 2004
6	Investment Consultancy	New contract start date 1 July 2004

Stakeholders

7	Survey issued	April 2004
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