

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 22 FEBRUARY 2010**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2010/2011

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 70-2010

1 PURPOSE OF REPORT

This report introduces the seventh 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 2010/11 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 2010/11. Investment manager fees are charged directly to the Funds, as are actuarial and investment consultancy costs.

4 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making 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 actuary, investment consultant and voting advisory service to the fund are all due to be separately reviewed during the year.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management.

There are no major issues.

6 CONSULTATIONS

The Chief Executive and Depute Chief Executive (Support Services) have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

**MARJORY M STEWART
DIRECTOR OF FINANCE**

17 FEBRUARY 2010

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2010/11**

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme" Principle 1 - Effective Decision Making it is necessary that an annual business plan is prepared for the Funds. This document together with the Statement of Investment Principles will set out the investment philosophy and priorities for the Funds.

2 **BACKGROUND**

The Tayside 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 2009 the value of the merged Funds was approximately £1,660m.

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 2010/11 for these sections is shown in Appendix 2.

3 **INVESTMENT MANAGERS**

As stated in the Statement of Investment Principles (SIP) the objective of the Fund is to be 100% funded and to that end individual performance targets are set for each manager. These are stated in the SIP. However, these targets can only influence the asset side of the valuation and the liability side also affects the funding level. This is considered more fully in the Funding Strategy Statement (FSS).

Given the different styles of the managers and the decision to diversify their investment strategies it is unrealistic to expect all managers to meet their targets each year. However they will continue to be monitored quarterly by the Superannuation Investment Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2009 are shown in Appendix 3. It is expected that the manager fees will increase as they are linked to the value of funds so will rise if funds increase.

Contributions to the Fund will stabilise as the employer contribution rate is unchanged at 18.5% of payroll.

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. The initial three year period was extended to an additional three year period from 1 July 2007. A full valuation of the Main Fund and Transport Fund was undertaken at 31 March 2008. This set the employer contribution rates for 2009/10, 2010/11 and 2011/12. The contract will need to be reviewed before 1 July 2010.

7 INVESTMENT CONSULTANCY

Investment advice continues to be provided by Hymans Robertson. This contract began on 1 July 2004 following a tendering exercise and was extended for an additional three year period from 1 July 2007. They provide an annual report to the Sub-Committee each November and attend quarterly meetings with fund managers and provide regular advice to the Council's Officers. This contract will need to be reviewed before 1 July 2010.

8 FUNDING STRATEGY STATEMENT

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

9 KEY MEASURES AND TARGETS

These are summarised in Appendix 4.

10 ADMINISTRATION

The administration section has trained all staff to be multi-functional and has introduced an improved monitoring of workload through a Task Management System.

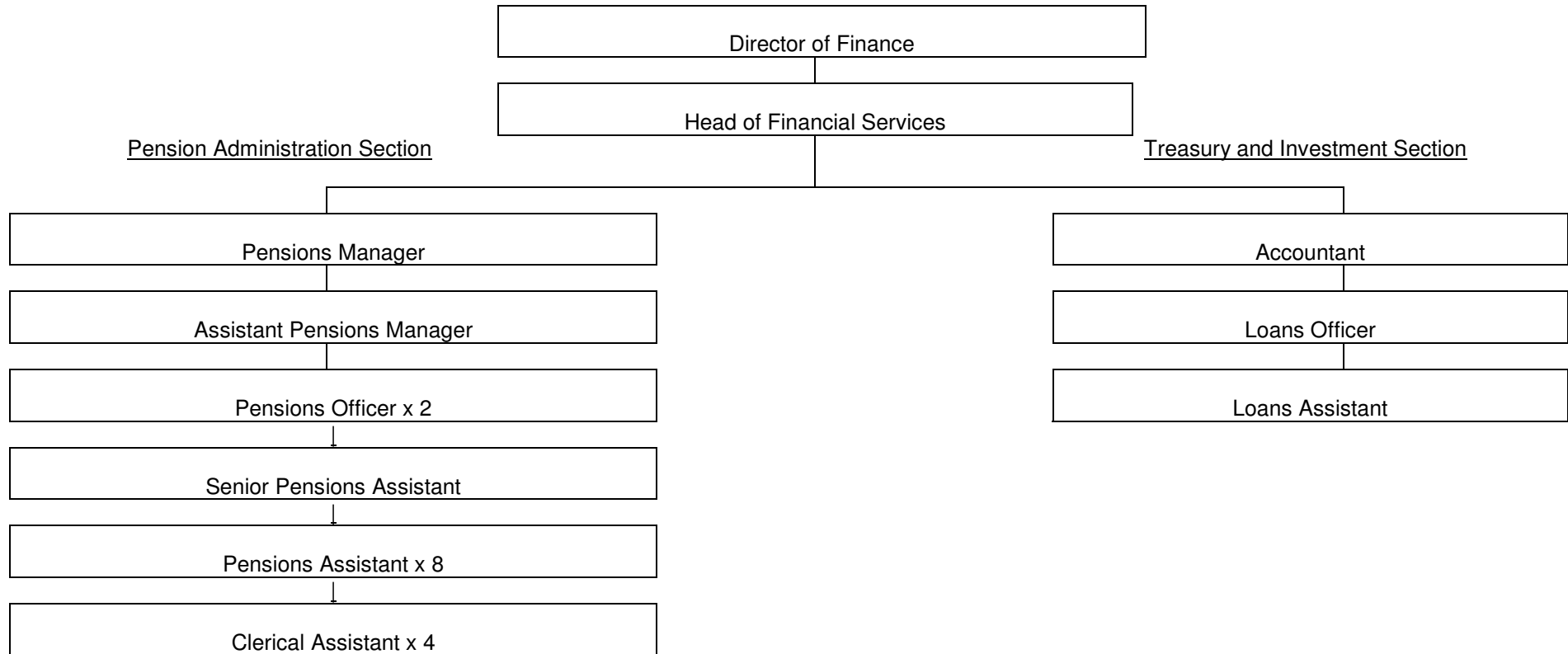
A review of the AVC provider - Standard Life is ongoing.

The existing software system Axis is scheduled to be upgraded to another package Altair provided by the same supplier.

11 TREASURY MANAGEMENT STRATEGY

From 1 December 2009 the fund has operated its own bank account. Dundee City Council has provided a treasury management service at a cost of £6,000 per annum.

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



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2010/11

	<u>Treasury and Investment</u> (£000)	<u>Pension Administration</u> (£000)	<u>Total</u> (£000)
Staff Costs	84	484	568
Property	-	61	61
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
			726
Treasury Management			6
TOTAL EXPENDITURE	<u>104</u>	<u>622</u>	<u>732</u>

TAYSIDE SUPERANNUATION FUND**MANAGEMENT ACCOUNTS FOR YEAR ENDING 31 MARCH 2009**

2007/2008 £000	FUND ACCOUNT	2008/2009	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
(59,250)	From employers	(65,915)	
<u>(19,898)</u>	From members	<u>(21,090)</u>	
(79,148)			(87,005)
(7,739)	Transfers in		(5,901)
	Benefits payable:		
40,365	Pensions	43,325	
<u>12,332</u>	Lump Sums	<u>15,789</u>	
52,697			59,114
	Payments to and on account of Leavers:		
228	Refund of Contributions to Members	242	
103	Refund of Contributions to State Scheme	100	
<u>4,526</u>	Transfers Out	<u>2,928</u>	
4,857			3,270
<u>1,178</u>	Administration Expenses		<u>1,216</u>
(28,155)	Net Additions from dealings with Members		(29,306)
	RETURNS ON INVESTMENTS		
	Investment Income		
(6,186)	Interest from Fixed Interest Securities	(7,629)	
(28,117)	Dividends from Equities	(27,549)	
(5,142)	Income from Index Linked Securities	(4,606)	
(6,206)	Income Pooled Investment Vehicles	(5,843)	
(1,613)	Interest on Cash Deposits	(1,138)	
(2,423)	Other Income	(2,052)	
108,654	Change in Market Value of Investments	382,664	
5,612	Investment Management Expenses	4,361	
638	Taxation	<u>691</u>	
<u>65,217</u>	Net Returns on Investments		<u>338,899</u>
37,062	NET (INCREASE)/DECREASE IN FUND IN THE YEAR		<u>309,593</u>
<u>1,587,567</u>	OPENING NET ASSETS OF THE SCHEME		<u>1,550,505</u>
<u>1,550,505</u>	CLOSING NET ASSETS OF THE SCHEME		<u>1,240,912</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

2008 £000	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2009 £000	2009 £000
	INVESTMENT ASSETS AT MARKET VALUE		
	FINANCIAL ASSETS		
	Quoted Investments		
383,835	- UK Equities	277,144	
61,810	- UK Fixed Interest - Public Sector	50,985	
21,663	- UK Fixed Interest - Other	24,286	
50,351	- UK Index Linked - Public Sector	46,211	
1,102	- UK Index Linked - Other	1,042	
441,193	- Overseas Equities	342,914	
41,960	- Overseas Open Ended Investment Companies	29,259	
5,309	- Overseas Fixed Interest - Other	2,445	
34,052	- Overseas Fixed Interest - Public Sector	32,445	
-	- Derivatives (Futures)	1,582	
	Unquoted Investments		
105,981	- UK Open Ended Investment Companies	96,941	
211,432	- Overseas Open Ended Investment Companies	163,976	
146,490	- Property Unit Trusts	107,740	
26,244	Cash Balances held by Fund Managers	47,437	
<u>13,106</u>	Financial Debtors	<u>8,159</u>	
1,544,528	Total Financial Assets		1,232,566
	FINANCIAL LIABILITIES		
-	Derivatives (Futures)	(262)	
<u>(3,026)</u>	Other Financial Liabilities	<u>(2,084)</u>	
<u>(3,026)</u>	Total Financial Liabilities		<u>(2,346)</u>
1,541,502	Net Financial Assets		1,230,220
	CURRENT ASSETS		
2,674	Contributions Due from Employers	3,133	
3,335	Sundry Debtors	2,235	
<u>5,597</u>	Revenue Deposit with Dundee City Council Loans Fund	<u>7,947</u>	
<u>11,606</u>		<u>13,315</u>	
	LESS CURRENT LIABILITIES		
<u>(2,603)</u>	Sundry Creditors	<u>(2,623)</u>	
<u>9,003</u>	NET CURRENT ASSETS		<u>10,692</u>
<u>1,550,505</u>	NET ASSETS		<u>1,240,912</u>

The accounts summarise the transactions and net assets of the fund for the financial year to 31 March 2009. They do not take account of liabilities to pay pensions and other benefits in the future.

FCCA, CPFA

Council

Marjory Stewart,

**Head of Finance
Dundee City**

The unaudited accounts were issued on 30 June 2009 and the audited accounts were authorised for issue on 30 September 2009.

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2007/2008	FUND ACCOUNT	2008/2009	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
(700)	From employers	(900)	
<u>(115)</u>	From members	<u>(105)</u>	
(815)			(1,005)
-	Transfers In		-
	Benefits payable:		
1,676	Pensions	1,738	
<u>236</u>	Lump Sums	<u>524</u>	
1,912			2,262
	Payments to and on account of Leavers:		
-	Refund of Contributions	-	
<u>-</u>	Transfer Out	<u>-</u>	
-			-
<u>33</u>	Administration Expenses		<u>42</u>
1,130	Net Withdrawal from dealing with Members		1,299
	RETURNS ON INVESTMENTS		
	Investment Income		
(337)	Interest from Fixed Interest Securities	(440)	
(664)	Dividends from Equities	(472)	
(315)	Income from Index Linked Securities	(283)	
(136)	Income Pooled Investment Vehicles	(125)	
(68)	Interest on Cash Deposits	(38)	
(49)	Other Income	(2)	
1,895	Change in Market Value of Investments	7,708	
117	Investment Management Expenses	128	
<u>7</u>	Taxation	<u>7</u>	
<u>450</u>	Net Returns on Investments		<u>6,483</u>
1,580	NET (INCREASE)/DECREASE IN FUND DURING THE YEAR		7,782
<u>42,031</u>	OPENING NET ASSETS OF THE SCHEME		<u>40,451</u>
<u>40,451</u>	CLOSING NET ASSETS OF THE SCHEME		<u>32,669</u>

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2008	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2009
£000		£000 £000
	INVESTMENT ASSETS AT MARKET VALUE	
	FINANCIAL ASSETS	
	Quoted Investments	
9,568	- UK Equities	6,335
5,639	- UK Fixed Interest - Public Sector	4,609
1,976	- UK Fixed Interest - Other	2,195
4,593	- UK Index Linked - Public Sector	4,177
101	- UK Index Linked - Other	94
9,579	- Overseas Equities	7,812
484	- Overseas Fixed Interest - Public Sector	221
3,106	- Overseas Fixed Interest - Other	2,933
-	- Derivates (Futures)	133
	Unquoted Investments	
405	- UK Open Ended Investment Companies	283
629	- Overseas Open Ended Investment Companies	289
3,219	- Property Unit Trusts	2,311
<u>779</u>	Cash Balances held by Fund Managers	<u>1,346</u>
40,078		32,738
	FINANCIAL LIABILITIES	
-	Derivatives (Futures)	(24)
<u>(83)</u>	Other Financial Liabilities	<u>(100)</u>
<u>(83)</u>	Total Financial Liabilities	<u>(124)</u>
39,995	Net Financial Assets	32,614
	CURRENT ASSETS	
9	Sundry Debtors	8
<u>476</u>	Revenue Deposit with Dundee City Council	<u>71</u>
485	Loans Fund	79
	LESS CURRENT LIABILITIES	
<u>(29)</u>	Sundry Creditors	<u>(24)</u>
<u>456</u>	NET CURRENT ASSETS	<u>55</u>
<u>40,451</u>	NET ASSETS	<u>32,669</u>

The accounts summarise the transactions and net assets of the fund for the financial year to 31 March 2009. They do not take account of liabilities to pay pensions and other benefits in the future.

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APPENDIX 4

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>2009 Actual</u>	<u>Target</u>
1 <u>Pension Fund Administration</u>						
i Cost per member	£28.88	£30.83	£28.88	£29.11	£24.69	£30.00
2 <u>Pension Fund Investment</u>						
i Investment performance relative to benchmark	+1.0%	+0.9%	+1.3%	+0.4%	-1.2%	+1.0%
ii Funding level of Superannuation fund	100%	102%	102%	98%	98%	100%

From Statement of Investment Principles

3 <u>Investment Managers</u>	<u>Performance Target (on rolling 3 year basis)</u>
Fidelity	Specific Benchmark +1.5% pa (gross of fees)
Baillie Gifford	Specific Benchmark +1.75 to 2% pa (net of fees)
Schroder Property	HSBC IPD Pooled Property Median +0.75% pa
Goldman Sachs	Specific Benchmark +1.25% pa (gross of fees)
Alliance Bernstein	Specific Benchmark +1.5% to 2% pa (net of fees)
4 <u>Asset Allocation</u>	<u>Target</u>
<u>Main Fund</u>	
Fidelity (Global Equity)	21%
Baillie Gifford (Global Equity)	12%
Schroder Property	12%
Goldman Sachs (Bonds)	12%
Alliance Bernstein (Global Equity)	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%

Service Providers

Target - 2010

5 Actuarial Services	To continue quarterly monitoring of funding levels.
6 Investment Consultancy	To continue to monitor performance of managers.