

ITEM No ...20.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 8 MARCH 2021**

REPORT ON: TAYSIDE PENSION FUND BUSINESS PLAN 2021/2022

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 84-2021

1 PURPOSE OF REPORT

This report introduces the annual business plan for the Tayside Pension Fund.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2021/2022 Business Plan which applies to the administration and management of the Tayside Pension Fund.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2021/2022. Investment manager fees are charged directly to the Fund, as are actuarial and investment consultancy costs.

4 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom". A Guide to the Application of the Myners Principles (December 2009) suggests that as one of the means of achieving effective decision making an annual business plan for the pension fund should be prepared and submitted.

This plan is prepared for the Pension Fund as a whole. This is over and above an individual Service Plan for the Financial Services Section as part of Corporate Service's overall planning process.

5 POLICY IMPLICATIONS

This report has been screened for any policy implications in respect of Sustainability, Strategic Environmental Assessment, Anti-Poverty, Equality Impact Assessment and Risk Management. There are no major issues.

6 CONSULTATIONS

The Chief Executive and Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

28 FEBRUARY 2021



BUSINESS PLAN

2021-2022

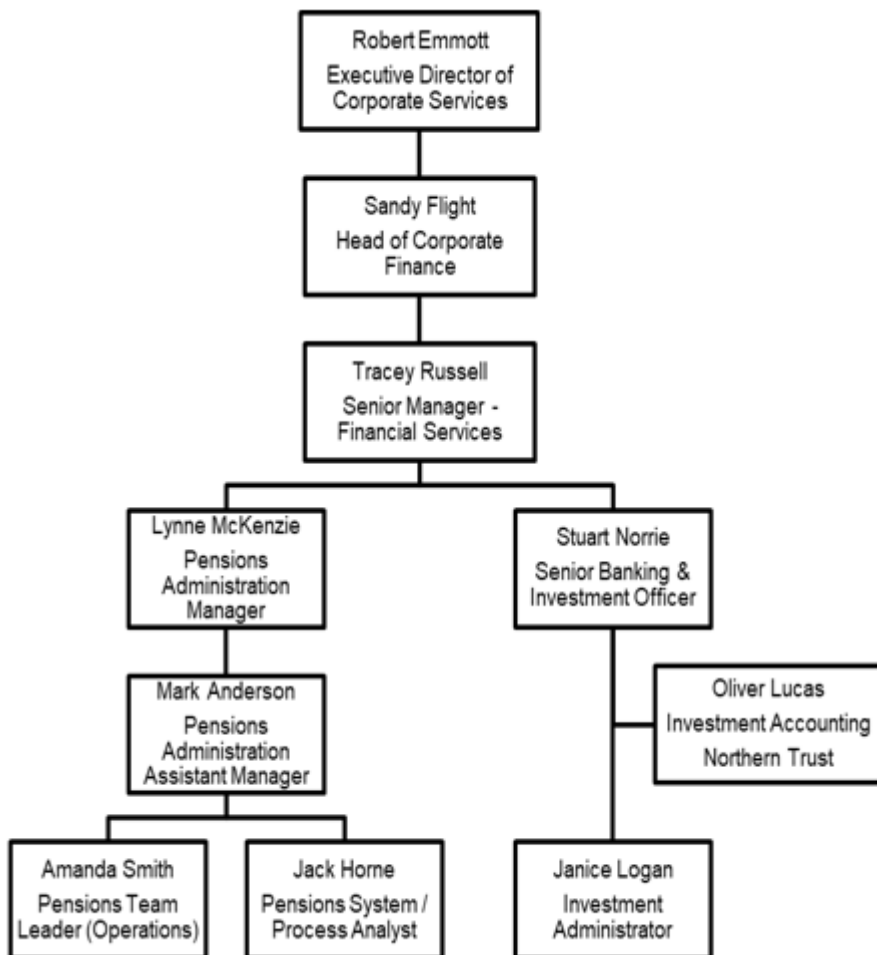
1 **INTRODUCTION**

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**

At 31 December 2020 the value of the Fund was approximately £4,740.9m.

Within Dundee City Council's Corporate Finance service the responsibility for the Pension Fund lies within Financial Services, the management structure is shown below.



An analysis of the Fund's management costs can be found in Appendix 1.

Over the course of the year a review of staffing requirements will be undertaken to ensure that the Fund continues to meet its statutory requirements and service levels. Any resultant staffing and recruitment exercises will be undertaken within the year.

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).

Following the outcome of the 2020 actuarial valuation, a review of investment strategy is planned for 2021/22, with recommendations actioned if market conditions favour.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2020 are shown in Appendix 2. It is possible that investment manager fees will be subject to increase due to their linkage with the value of funds under management.

Contributions rates are 17.0% of payroll for the 3-year period from 2021/2022.

In respect of Fund outflows, it is possible that Lump Sum payments may increase as some employers in the scheme continue to offer Early Retirement Schemes.

5 **PERFORMANCE MANAGEMENT**

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

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the LGPS Scotland Investment & Governance Group.

The Fund's performance will also be subject to periodic review by both internal and external audit.

6 **INTERNAL AUDIT**

PricewaterhouseCoopers (PwC) were appointed as the fund's internal auditor during 2020 to carry out 2019/20 and 2020/21 internal audit requirements. A subsequent procurement award, was made under the Crown Commercial Service Framework, for provision of a full internal audit service in January 2021 for the next three years with an option to extend for a further two one year periods.

7 **ACTUARIAL SERVICES**

These have been provided from 1 July 2004 by Barnett Waddingham (previously Punter Southall), following a tendering exercise. A procurement exercise is planned for 2021/2022 following triennial valuation and the outcome of this exercise may result in a change of provider.

8 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by ISIO Ltd (formerly KPMG). This contract began on 2 July 2018 following a tendering exercise using the new LGPS Procurement Framework. The period of the contract is for an initial 3 years with an option to extend for a further 1 year plus 1 year, based upon satisfactory performance. ISIO provide an annual report to the sub-committee each March (covering the managers and fund performance for the previous full calendar year) and should attend quarterly meetings with fund managers and provide regular advice to the Council's Officers. They will undertake the review of investment strategy in 2021/22.

9 **FUNDING STRATEGY STATEMENT**

This is produced annually following consultation with the actuary and employers. The funding strategy has been subject to revision following the 2020 valuation to specifically accommodate changes in employer status.

10 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

11 **ADMINISTRATION**

Online employer and member services.

Following the cessation of the contact with Civica for their Pensionsweb portal, additional modules from the core Altair system are to be introduced from April 2021. The provider, Aquila Heywood provides the current Pensions Administration and Imaging System. The additional modules provide the following services:

- I-Connect - This secure online portal, purpose built for the public sector, will provide employers with a secure, swift and efficient way to issue the essential information required for the Fund to ensure that member records are created and maintained as accurately as possible. Data to be collected, monthly from employers will include new starters, leavers (including retirements) and changes in circumstances and all data will automatically uploaded onto the Altair pension administration system and a such reduces the risk to members personal data and be auditable.
- Member Self Service - This secure online portal, will provide active, deferred and pensioner / dependent scheme members the ability to access their pension details. It allows members the ability view, and amend where necessary, their details in real time and this allows the Fund to ensure that data quality is maintained. The portal will allow members to carry out simple voluntary retirement calculations and be provided with their estimated benefits without needing to contact their employer or the Fund and will also key pace with changes in the Regulations. Another key feature will also be the ability to allow the issue of electronic letters and documents to members, including their annual benefits statement, thus reducing printing and postage costs and also and improving the member service as they will be able to view and print this as and when required.

McCloud / Sargeant Judgement

At the start of February 2021, the UK government published its approach to remedying the age discrimination found in the 2015 pension reforms. The decision is to implement a 'deferred choice underpin'. This means that members will remain in, or be returned to, their legacy schemes for service between 1 April 2015 and 31 March 2022. This has been described as the Remedy Period.

Although at present there is no action required on the part of the members, as the process of introducing the necessary legislative changes has yet to begin, the Fund must begin to prepare for the necessary adjustments to member records required to fulfil their obligations in terms of the Judgement.

Members of the scheme between 31 March 2012 and 31 March 2015, are most likely to be affected by these changes, but those scheme members who joined the scheme on or after 1 April 2012 will not be affected by the reforms to be brought in.

To provide affected members with their underpin choice, that is to provide them with calculations prepared both under the final salary basis and also under the move the CARE with 1st April 2015, it will be necessary to engage with scheme employers to obtain full-service history including all changes in working hours and p/t additional hours worked and also service breaks for the affected members from 1st April 2015 and this data must then be collated and uploaded into member records. This will be a huge resource undertaking both on the part of the scheme employers and the Fund, and this will be a key consideration when reviewing the staffing adequacy.

GMP Rectification

Following the completed reconciliation exercise, Equiniti have designed a system which will take the reconciled GMP data and the current pensioner payroll data and carry out a comparison to highlight any cases where incorrect GMP data has led to an under or overpayment in the actual value of individual pensions in payment. During 2021/2022 all identified pensioners affected will be contacted to advise them of the actions taken in respect of the pension payments. The actions taken will be to advise that for those pensions are being underpaid, due to the incorrect application of GMP, these will be corrected and all arrears due paid, for those pensions which are being overpaid no repayment of the overpaid pension is required however a new scheme award known as an Increased Pension Entitlement (IPE) will be applied to these records to identify and record the amount by which the pension is being overpaid.

12 **TREASURY MANAGEMENT**

Dundee City Council provides a treasury management service for the Pension Fund, these costs are incorporated within a service level agreement with the administered authority.

Three Year Analysis of Tayside Pension Funds Costs

	2019/20 Actual £000	2020/21 Estimate £'000	2021/22 Budget £'000
Administrative costs *			
DCC Management charge	1,157	1,192	1,227
System costs	280	259	170
Audit fee	62	65	65
Actuary	14	35	20
Outsourcing	146	100	100
Other expenses	120	125	125
	1,779	1,776	1,707
Oversight and Governance costs **	105	107	110
Investment Management expenses			
Management fees	8,634	9,000	9,500
Transactions costs	829	925	925
Custody fees	90	100	100
Performance monitoring service	25	30	30
Investment consultancy	27	30	30
	9,605	10,085	10,585
Total	11,489	11,968	12,402

* Administration costs are a combination of direct and indirect costs. Indirect costs, those borne by Dundee City Council, are a management charge for services provided by the administering authority. Direct costs include pension administration system, administration consultancy, audit fee, actuary, training and other fund expenses.

** Oversight and Governance costs relate to support costs incurred by the administering authority, namely Corporate and Democratic Core.

TAYSIDE PENSION FUND - FUND ACCOUNT

2018/2019 £000		2019/2020 £000
	Dealings with Members, Employers and other directly involved in the fund	
72,110	Employers' contributions	73,736
24,631	Employees' contributions	25,890
1,919	Transfers in from other pension funds	4,551
<u>98,660</u>		<u>104,177</u>
(111,252)	Benefits	(116,008)
(6,314)	Payments to and on account of leavers	(5,825)
<u>(117,566)</u>		<u>(121,833)</u>
<u>(18,906)</u>	Net Withdrawals from dealings with members	<u>(17,656)</u>
(1,932)	Administration Expenses	(1,884)
<u>(20,838)</u>	Net Withdrawals from dealings with Members including Administration Expenses	<u>(19,540)</u>
	Returns on Investments	
94,450	Investment Income	86,738
137,914	Change in Market Value of Investments	(278,393)
(9,028)	Investment Management Expenses	(9,605)
<u>223,336</u>	Net Returns on Investments	<u>(201,260)</u>
<u>202,498</u>	Net increase in Fund during the year	<u>(220,800)</u>
<u>3,690,623</u>	Opening Net Assets of the scheme	<u>3,893,121</u>
<u><u>3,893,121</u></u>	Closing Net Assets of the scheme	<u><u>3,672,321</u></u>

The Fund Account shows payments to pensioners, pension contributions from employers and scheme members, and the income, expenditure and change in market value of the Fund's investments.

TAYSIDE PENSION FUND NET ASSETS STATEMENT

2018/19		2019/20
£000		£000
3,902,965	Investment Assets	3,702,723
(21,653)	Investment Liabilities	(36,249)
3,881,312	Total Net Investments	3,666,474
17,025	Current Assets	9,997
3,898,337		3,676,471
(5,216)	Current Liabilities	(4,150)
3,893,121	Net assets of the fund available to fund benefits at the end of the reporting period	3,672,321
3,893,121		3,672,321

Gregory Colgan BAcc (Hons), ACMA, CGMA
 Executive Director of Corporate Services
 Dundee City Council
 21 September 2020

The Net Asset Statement represents the value and liabilities as at 31 March 2020 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 22 June 2020 and the Audited Accounts were authorised for issue on 21 September 2020.

KEY MEASURES AND TARGETS

	<u>2015/16</u> <u>Actual</u>	<u>2016/17</u> <u>Actual</u>	<u>2017/18</u> <u>Actual</u>	<u>2018/19</u> <u>Actual</u>	<u>2019/20</u> <u>Actual</u>	<u>Target</u>
1 Pension Fund Administration						
(i) Cost per member	£26.27	£28.22	£28.91	£36.73	£34.55	£30.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	+0.51%	-0.57%	+1.71%	-0.21%	+0.29%	+1.0%
(ii) Funding level of Pension Fund	99.8%*	107%**	107%**	107%**	109%**	109%**

* does not include 5% volatility reserve.

** does not include 10% volatility reserve.

Statement of Investment Principles

3 Investment Managers

Performance Target (on rolling 3 year basis)

Fidelity	100% MSCI AC World Index +1.5% pa (gross of fees)
Baillie Gifford Global	100% MSCI AC World Index +1.75% to 2% pa (net of fees)
Baillie Gifford UK	100% FTSE All World Index +1.75% to 2% pa (net of fees)
Schroder Property	HSBC IPD Pooled Property Median +0.75% pa
Goldman Sachs	Yield to maturity of 3%+1.25% pa (gross of fees)
LGIM	100% FTSE AW Index +/-0.5%pa (2 out of 3 yrs)

4 Asset Allocation

Tayside Pension Fund - Target Future Asset Allocation		
Asset Class	Current Allocation	Agreed Allocation
Equities	70%	65%
Fixed Income	18%	13%
Property	12%	12%
Local and Alternative Opportunities	0%	10%

Service Providers

Target – 2021/22

5	Actuarial Services	To continue quarterly monitoring of funding levels.
6	Investment Consultancy	To continue to monitor performance and fees of managers, and advise as required; remain vigilant of asset allocation in relation to required returns; and to support the fund in building the local and alternative opportunities portfolio.