

ITEM No ...12.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 5 MARCH 2018**

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2018/2019

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 88-2018

1 PURPOSE OF REPORT

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

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2018-2019 Business Plan which applies to the administration and management of the Tayside Pension Funds.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2018/2019. 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 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 Funds as a whole. This is over and above individual Service Plans for both the Financial Services Section as part of the Corporate Services Department'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

**GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

23 FEBRUARY 2018



BUSINESS PLAN 2018-2019

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**

With effect from 30 June 2017 the Tayside Transport Pension Fund was repatriated into the Tayside Pension Fund. The completion of repatriation will now allow streamlining within committee reporting, accounts preparation and actuarial valuation. At 31 December 2017 the value of the Funds was approximately £3,810m.

Within Dundee City Council's Corporate Services Department the responsibility for the Pension Funds lies now within Financial Services following retirement of the Pensions & Payroll Manager. The Financial Services structure is currently under review.

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

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 Pension Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2017 are shown in Appendix 2. It is possible that the manager fees will increase as they are linked to the value of funds so will rise if funds increase.

Contributions rates are 17.0% of payroll for the 3 year period from 2018/2019.

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. A procurement exercise, completed in May 2017, has resulted in the Fund achieving efficiencies.

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 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. This has been further extended and a tender exercise was postponed until after the triennial valuation at 31 March 2017. A procurement exercise is planned for 2018/2019 and the outcome of this exercise may result in a change of provider.

7 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by AON Hewitt. This contract began on 1 October 2013 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 contract period for a further two years. This will be re-tendered in 2018/19. Aon Hewitt currently 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.

8 **FUNDING STRATEGY STATEMENT**

These are produced following consultation with the actuary.

9 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

10 **ADMINISTRATION**

Pensionsweb

The Pensionsweb service has now been in place for employers since 2015 and uptake has not been as successful as anticipated. Exercises are currently underway to get the remaining employers on-boarded prior to the end of the final year so as to benefit the full efficiencies in 2018/19. To support this objective, an independent review of utilisation is being undertaken by KPMG in the coming months as part of their internal audit review and this will be considered also by Audit Scotland.

A historical reconciliation of Resourcelink (payroll system) to Altair is underway as it considered good practice to undertake this prior to implementing the self-service member module later in 2018/19.

GMP

Equiniti were awarded the contract to undertake the HMRC reconciliation exercise. This is now underway with ongoing communication meetings planned commencing April 2018 to ensure that the exercise will be completed within timescale.

Employer Covenant Review

Following the latest actuarial valuation, the fund will tender for an independent service provider to undertake this task and this will also be supported by issue of revised admission agreements for all employers to ensure consistency.

Task Management

To build from the implementation of the Pensionsweb system and further improve service through faster processes which are more easily monitored, this system is due for implementation in April 2018. This will enable the fund to better manage workload and to monitor performance in relation to the Administration Strategy through service requirements of both the fund and the employers.

11 **TREASURY MANAGEMENT STRATEGY**

Dundee City Council provides a treasury management service at a cost of £7,000 per annum.

TAYSIDE PENSION FUNDS

Management Expenses of the Funds

	2016/17 Actual £'000	2017/18 Estimate £'000	2018/19 Budget £'000
Administrative costs *	1,327	1,330	1,360
DCC Management charge	968	970	975
System costs	200	200	200
Audit fee	30	30	30
Actuary	28	30	30
Other expenses	101	100	125
Oversight and Governance costs **	98	100	100
Investment Management expenses	8,736	9,291	9,800
Management fees	8,452	9,000	9,500
Custody fees	180	152	160
Performance monitoring service	36	33	35
Investment consultancy	44	46	45
Broker Commission	24	60	60
Total	<u>10,161</u>	<u>10,721</u>	<u>11,260</u>

* 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 ACCOUNTS

2015/2016 £000	FUND ACCOUNT	Note	2016/2017	
			£000	£000
	CONTRIBUTIONS AND BENEFITS			
	<u>Contributions receivable :-</u>			
67,576	From employers		69,594	
<u>23,036</u>	From members		<u>23,518</u>	
90,612				93,112
2,547	Transfers in			2,310
	<u>Benefits payable :-</u>			
(72,335)	Pensions		(75,312)	
<u>(20,337)</u>	Lump Sums		<u>(22,564)</u>	
(92,672)				(97,876)
	<u>Payments to and on account of Leavers :-</u>			
(207)	Refund of Contributions to Members		(214)	
(133)	Refund of Contributions to State Scheme		(94)	
<u>(2,256)</u>	Transfers Out		<u>(8,047)</u>	
(2,596)				(8,355)
<u>(1,323)</u>	Administration Expenses			<u>(1,378)</u>
(3,432)	Net (Withdrawals)/Deposits from dealings with Members			(12,187)
	RETURNS ON INVESTMENTS			
58,956	Investment Income		62,227	
(51,468)	Change in Market Value of Investments		563,997	
<u>(7,589)</u>	Investment Management Expenses		<u>(8,516)</u>	
(101)	Net Returns on Investments			<u>617,708</u>
(3,533)	Net (decrease)/increase in Fund during the year			605,521
<u>2,843,135</u>	OPENING NET ASSETS OF THE SCHEME			<u>2,839,602</u>
<u>2,839,602</u>	CLOSING NET ASSETS OF THE SCHEME			<u>3,445,123</u>

TAYSIDE PENSION FUND ACCOUNTS

2016	NET ASSETS STATEMENT (AS AT 31 MARCH)	2017	
£000	INVESTMENT ASSETS AT MARKET VALUE	£000	£000
	<u>Listed Investments</u>		
640,093	UK Equities	770,788	
61,984	UK Pooled Funds	21,095	
35,949	UK Fixed Interest - Public Sector	65,024	
7,373	UK Fixed Interest – Other	93,909	
95,125	UK Index Linked - Public Sector	83,863	
642,836	Overseas Equities	817,367	
207,676	Overseas Pooled Funds	323,590	
326,858	Overseas Open Ended Investment Companies	408,478	
28,980	Overseas Fixed Interest – Other	131,290	
1,270	Derivatives (Futures)	910	
	<u>Unlisted Investments</u>		
340,845	UK Open Ended Investment Companies	249,666	
9,445	M&G Fund	4,097	
67,176	Overseas Open Ended Investment Companies	80,750	
335,209	Property Unit Trusts	346,275	
22,723	Cash Balances held by Fund Managers	30,965	
<u>7,876</u>	Financial Debtors	<u>22,458</u>	
2,831,418			3,450,525
	INVESTMENT LIABILITIES		
(264)	Derivatives (Futures)	(309)	
<u>(1,100)</u>	Other Financial Liabilities	<u>(16,045)</u>	
<u>(1,364)</u>	Total Financial Liabilities		<u>(16,354)</u>
2,830,054	Net Financial Assets		3,434,171
	CURRENT ASSETS		
7,176	Contributions Due from Employers	7,705	
2,005	Sundry Debtors	2,133	
<u>5,867</u>	Cash and Bank	<u>4,396</u>	
<u>15,048</u>		<u>14,234</u>	
	LESS CURRENT LIABILITIES		
(5,500)	Sundry Creditors	<u>(3,282)</u>	
<u>9,548</u>	NET CURRENT ASSETS		<u>10,952</u>
<u>2,839,602</u>	NET ASSETS		<u>3,445,123</u>

**Gregory Colgan BAcc (Hons),
ACMA, CGMA**
Executive Director of Corporate Services
Dundee City Council
27 September 2017

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2015/2016	FUND ACCOUNT	2016/2017	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable:-</u>		
404	From employers	369	
<u>82</u>	From members	<u>71</u>	
486			440
	<u>Benefits payable:-</u>		
(2,032)	Pensions	(2,029)	
<u>(436)</u>	Lump Sums	<u>(125)</u>	
(2,468)			(2,154)
	<u>Payments to and on account of Leavers:-</u>		
-	Transfers Out	-	
-			-
<u>(30)</u>	Administration Expenses		<u>(47)</u>
(2,012)	Net Withdrawals from dealings with Members		(1,761)
	RETURNS ON INVESTMENTS		
833	Investment Income	611	
(47)	Change in Market Value of Investments	10,912	
<u>(207)</u>	Investment Management Expenses	<u>(217)</u>	
<u>579</u>	Net Returns on Investments		<u>11,306</u>
(1,433)	Net (decrease)/increase in Fund during the year		9,545
<u>62,134</u>	OPENING NET ASSETS OF THE SCHEME		<u>60,701</u>
<u>60,701</u>	CLOSING NET ASSETS OF THE SCHEME		<u>70,246</u>

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2016 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2017 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	<u>Listed Investments</u>		
13,902	UK Equities	17,985	
3,019	UK Fixed Interest - Public Sector	4,109	
546	UK Fixed Interest - Other	176	
7,208	UK Index Linked - Public Sector	7,962	
15,625	Overseas Equities	15,719	
1,982	Overseas Fixed Interest - Other	2,105	
87	Derivatives (Futures)	65	
	<u>Unlisted Investments</u>		
12,094	UK Open Ended Investment Companies	14,030	
209	Overseas Open Ended Investment Companies	226	
4,854	Property Unit Trusts	4,984	
943	Cash Balances held by Fund Managers	2,539	
<u>133</u>	Financial Debtors	<u>594</u>	
60,602			70,494
	INVESTMENT LIABILITIES		
(2)	Derivatives (Futures)	(31)	
<u>(2)</u>	Other Financial Liabilities	<u>(362)</u>	
<u>(4)</u>	Total Financial Liabilities		<u>(393)</u>
60,598	Net Financial Assets		70,101
	CURRENT ASSETS		
43	Contributions Due from Employers	34	
-	Sundry Debtors	-	
<u>108</u>	Cash and Bank	<u>209</u>	
151		243	
	LESS CURRENT LIABILITIES		
(48)	Sundry Creditors	<u>(98)</u>	
<u>103</u>	NET CURRENT ASSETS		<u>145</u>
<u>60,701</u>	NET ASSETS		<u>70,246</u>

Gregory Colgan BAcc (Hons), ACMA, CGMA
 Executive Director of Corporate Services
 Dundee City Council
 27 September 2017

KEY MEASURES AND TARGETS

<u>Baseline</u>	<u>2011/12 Actual</u>	<u>2012/13 Actual</u>	<u>2013/14 Actual</u>	<u>2014/15 Actual</u>	<u>2015/16 Actual</u>	<u>2016/17 Actual</u>	<u>Target</u>
1 Pension Fund Administration							
(i) Cost per member							
£28.88	£23.90	£23.00	£26.92	£25.62	£26.27	£28.22	£30.00
2 Pension Fund Investment							
(i) Annual Investment performance relative to benchmark							
+1.0%	-0.7%	+1.6%	+2.71	+1.0%	+0.51%	+0.57%	+1.0%
(ii) Funding level of Pension Fund							
100%	98%	98%	99.8%*	99.8%*	99.8%*	107%**	107%**

* 99.8% does not include 5% volatility reserve.

** 107% does not include 10% volatility reserve.

From Current Statement of Investment Principles

3 Investment Managers	Performance Target (on rolling 3 year basis)
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)
LGIM	100% FTSE AW Index +/-0.5%pa (2 out of 3 yrs)
4 Asset Allocation	
<u>Main Fund</u>	<u>Target</u>
Fidelity (Global Equity)	21%
Baillie Gifford (Global Equity)	12%
Schroder Property	12%
Goldman Sachs (Bonds)	9%
Alliance Bernstein (Global Equity)	15%
Baillie Gifford (UK Equity)	12%
Fidelity (Bonds)	9%
Legal & General (Global Equity)	10%

Service Providers

Target – 2017

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

