

ITEM No ...3.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 6 MARCH 2017**

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2017/2018

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 91-2017

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 2017-2018 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 2017/2018. 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



BUSINESS PLAN 2017-2018

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 Pension Fund and Tayside Transport Pension 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 2016 the value of the merged Funds was approximately £3,348m.

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 2016 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 2015/2016.

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 is due to commence and the outcome of this exercise may result in a change of provider, but should result in 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 2017/2018 and the outcome of this exercise may result in a change of provider.

7 **INVESTMENT CONSULTANCY**

Investment advice is 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. Aon Hewitt provide an annual report to the Sub-Committee each March (covering the managers and fund performance for the previous full calendar year) and will 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**

The new LGPS scheme and regulations became effective 1 April 2015 and included revised governance arrangements.

The new scheme moves to benefits being worked out using career average (CARE) rather than final salary and built up at a rate of 1/49th on annual pensionable pay.

The self-service pension administration employer module is now well utilised, however transfer from Hymans Robertson to Civica has delayed the uptake from tranche 2 and 3 employers, but we are engaging with them over the next few months to complete full system implementation for start of financial year 2017/18. The employee module is due to be rolled out from July 2017 for active member, and it is anticipated that the service for deferred and pensioners will be rolled out from August 2017.

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

	2015/16 Actual £'000	2016/17 Estimate £'000	2017/18 Budget £'000
Administrative costs *	1,259	1,250	1,260
DCC Management charge	984	978	978
System costs	142	150	150
Audit fee	34	28	28
Actuary	9	10	20
Other expenses	90	84	84
Oversight and Governance costs **	95	95	95
Investment Management expenses	7,796	8,245	8,750
Management fees	7,543	8,000	8,500
Custody fees	184	175	175
Performance monitoring service	35	35	35
Investment consultancy	34	35	40
Total	<u>9,150</u>	<u>9,590</u>	<u>10,105</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

2014/2015 £000	FUND ACCOUNT	2015/2016	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable :-</u>		
68,776	From employers	67,576	
<u>22,636</u>	From members	<u>23,036</u>	
91,412			90,612
3,324	Transfers in		2,547
	<u>Benefits payable :-</u>		
(68,545)	Pensions	(72,335)	
<u>(21,104)</u>	Lump Sums	<u>(20,337)</u>	
(89,649)			(92,672)
	<u>Payments to and on account of Leavers :-</u>		
(233)	Refund of Contributions to Members	(207)	
(115)	Refund of Contributions to State Scheme	(133)	
<u>(4,890)</u>	Transfers Out	<u>(2,256)</u>	
(5,238)			(2,596)
<u>(1,232)</u>	Administration Expenses		<u>(1,323)</u>
(1,383)	Net (Withdrawals)/Deposits from dealings with Members		(3,432)
	RETURNS ON INVESTMENTS		
56,574	Investment Income	58,956	
336,802	Change in Market Value of Investments	(51,468)	
<u>(11,921)</u>	Investment Management Expenses	<u>(7,589)</u>	
<u>381,455</u>	Net Returns on Investments		<u>(101)</u>
380,072			(3,533)
<u>2,463,063</u>			<u>2,843,135</u>
<u>2,843,135</u>			<u>2,839,602</u>

TAYSIDE PENSION FUND ACCOUNTS

2015 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	2016 £000	£000
	<u>Listed Investments</u>		
656,278	UK Equities	640,093	
64,398	UK Pooled Funds	61,984	
47,561	UK Fixed Interest - Public Sector	35,949	
7,850	UK Fixed Interest – Other	7,373	
91,285	UK Index Linked - Public Sector	95,125	
654,486	Overseas Equities	642,836	
208,047	Overseas Pooled Funds	207,676	
352,658	Overseas Open Ended Investment Companies	326,858	
17,877	Overseas Fixed Interest – Other	28,980	
286	Derivatives (Futures)	1,270	
	<u>Unlisted Investments</u>		
339,194	UK Open Ended Investment Companies	340,845	
11,782	M&G Fund	9,445	
68,140	Overseas Open Ended Investment Companies	67,176	
304,428	Property Unit Trusts	335,209	
16,093	Cash Balances held by Fund Managers	22,723	
<u>19,691</u>	Financial Debtors	<u>7,876</u>	
2,860,054			2,831,418
	INVESTMENT LIABILITIES		
(77)	Derivatives (Futures)	(264)	
<u>(15,823)</u>	Other Financial Liabilities	<u>(1,100)</u>	
<u>(15,900)</u>	Total Financial Liabilities		<u>(1,364)</u>
2,844,154	Net Financial Assets		2,830,054
	CURRENT ASSETS		
7,903	Contributions Due from Employers	7,176	
1,471	Sundry Debtors	2,005	
<u>1,340</u>	Cash and Bank	<u>5,867</u>	
<u>10,714</u>		<u>15,048</u>	
	LESS CURRENT LIABILITIES		
(11,733)	Sundry Creditors	<u>(5,500)</u>	
<u>(1,019)</u>	NET CURRENT ASSETS		<u>9,548</u>
<u>2,843,135</u>	NET ASSETS		<u>2,839,602</u>

Marjory Stewart, FCCA, CPFA
 Executive Director of Corporate Services
 Dundee City Council
 28 September 2016

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2014/2015 £000	FUND ACCOUNT	2015/2016 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable:-</u>		
840	From employers	404	
<u>76</u>	From members	<u>82</u>	
916			486
	<u>Benefits payable:-</u>		
(2,036)	Pensions	(2,032)	
<u>(515)</u>	Lump Sums	<u>(436)</u>	
(2,551)			(2,468)
	<u>Payments to and on account of Leavers:-</u>		
<u>(78)</u>	Transfers Out	-	-
(78)			
<u>(36)</u>	Administration Expenses		<u>(30)</u>
(1,749)	Net Withdrawals from dealings with Members		(2,012)
	RETURNS ON INVESTMENTS		
810	Investment Income	833	
6,981	Change in Market Value of Investments	(47)	
<u>(199)</u>	Investment Management Expenses	<u>(207)</u>	
<u>7,592</u>	Net Returns on Investments		<u>579</u>
5,843	Net (decrease)/increase in Fund during the year		(1,433)
<u>56,291</u>	OPENING NET ASSETS OF THE SCHEME		<u>62,134</u>
<u>62,134</u>	CLOSING NET ASSETS OF THE SCHEME		<u>60,701</u>

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2015 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2016 £000	2016 £000
	INVESTMENT ASSETS AT MARKET VALUE		
	<u>Listed Investments</u>		
14,811	UK Equities	13,902	
3,609	UK Fixed Interest - Public Sector	3,019	
515	UK Fixed Interest - Other	546	
6,892	UK Index Linked - Public Sector	7,208	
15,827	Overseas Equities	15,625	
1,490	Overseas Fixed Interest - Other	1,982	
18	Derivatives (Futures)	87	
	<u>Unlisted Investments</u>		
12,092	UK Open Ended Investment Companies	12,094	
105	Overseas Open Ended Investment Companies	209	
4,510	Property Unit Trusts	4,854	
700	Cash Balances held by Fund Managers	943	
<u>1,014</u>	Financial Debtors	<u>133</u>	
61,583			60,602
	INVESTMENT LIABILITIES		
(9)	Derivatives (Futures)	(2)	
<u>(744)</u>	Other Financial Liabilities	<u>(2)</u>	
<u>(753)</u>	Total Financial Liabilities		<u>(4)</u>
60,830	Net Financial Assets		60,598
	CURRENT ASSETS		
6	Contributions Due from Employers	43	
1	Sundry Debtors	-	
<u>1,355</u>	Cash and Bank	<u>108</u>	
1,362		151	
	LESS CURRENT LIABILITIES		
(58)	Sundry Creditors	<u>(48)</u>	
<u>1,304</u>	NET CURRENT ASSETS		<u>103</u>
<u>62,134</u>	NET ASSETS		<u>60,701</u>

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KEY MEASURES AND TARGETS

<u>Baseline</u>	<u>2010/11</u> <u>Actual</u>	<u>2011/12</u> <u>Actual</u>	<u>2012/13</u> <u>Actual</u>	<u>2013/14</u> <u>Actual</u>	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Actual</u>	<u>Target</u>
1 Pension Fund Administration							
(i) Cost per member							
£28.88	£27.68	£23.90	£23.00	£26.92	£25.62	£26.27	£30.00
2 Pension Fund Investment							
(i) Annual Investment performance relative to benchmark							
+1.0%	-1.4%	-0.7%	+1.6%	+2.71	+1.0%	+0.51	+1.0%
(ii) Funding level of Pension Fund							
100%	98%	98%	98%	99.8%*	99.8%*	99.8%*	99.8%*

*Estimated prior to valuation at 106.9%. 99.8% does not include 5% 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%
<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 – 2016

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

