

ITEM No ...18.....

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 21 MARCH 2022**

REPORT ON: TAYSIDE PENSION FUND BUSINESS PLAN 2022/2023

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 95-2022

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 2022/2023 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 2022/2023. 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**

11 MARCH 2022



BUSINESS PLAN

2022-2023

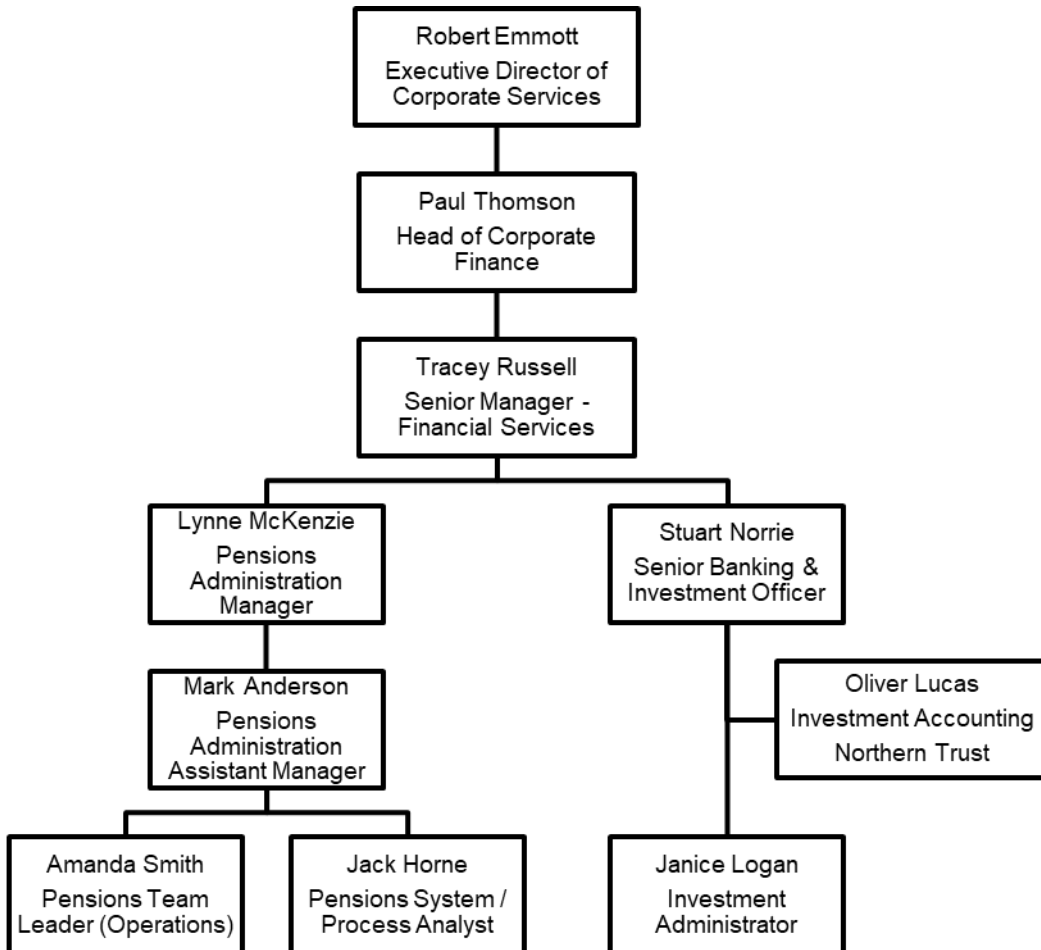
1 **INTRODUCTION**

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 2021 the value of the Fund was approximately £5,332.5m.

The Pension Fund lies within Financial Services as part of Dundee City Council's Corporate Finance service, 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**

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 took place in 2021/22, with recommendations actioned in 2022/23 if market conditions favour.

4 FINANCIAL POSITION

Accounts for the year to 31 March 2021 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 to 2023/2024.

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 under the Crown Commercial Service Framework, for provision of a full internal audit service in January 2021 for a period of three years with an option to extend for a further two one year periods. During 2021/22, audits undertaken reviewed Risk Management and Regulatory Compliance, as well as Outsourcing & 3rd Party Management. The recommendations made have been accepted and are in the process of implementation now and will be complete during 2022/23.

Audits planned for 2022/23 are as follows:

- Employer contributions- A review to assess the adequacy of the design and operating effectiveness of the key controls supporting the employer contributions process.
- Business resilience – A review to assess the processes and controls in place including for the risk of overreliance on key officers.
- TPR New Consolidated Code of practice - Perform an assurance mapping exercise to assess compliance with the new consolidated code of practice, highlighting any potential gaps.
- Pension Dashboard readiness - Advisory review and assessment of readiness.

7 ACTUARIAL SERVICES

These have been provided from 1 July 2004 by Barnett Waddingham. The procurement exercise planned for 2021/2022 following triennial valuation result has been subject to delay as a result of operational priorities, and this is now a priority for 22/23. The outcome of this procurement 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 undertook a review of investment strategy in 2021/22 and will continue to assist with the implementation of their recommendations during 2022/23.

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, and cessation valuation criteria.

10 KEY MEASURES AND TARGETS

These are summarised in Appendix 3.

11

ADMINISTRATION

Online employer and member services

Additional modules from the core Altair system were introduced in 2021/22, providing the following services:

- I-Connect - This online portal provides employers with a secure, swift and efficient way to issue the essential information required for the Fund to ensure accuracy of member records.

With initial implementation phase now complete, the fund are committed to working with employers through 2022/23 to maximise system utilisation and increase efficiency.

- Member Self Service - This secure online portal, provides active, deferred and pensioner / dependent scheme members the ability to access and amend their pension details. The portal allows members to carry out simple voluntary retirement calculations and be provided with their estimated benefits without needing to contact their employer or the Fund.

With the aim of increasing take up, the Fund will carry out a series of employer & member communications throughout 2022/23.

In the latter period of 2021/22, a telephone contact centre was introduced to record call volumes and trends, improve customer service and enable call monitoring and training. During 2022/23 the operational performance will be analysed by Fund management and reported to Sub-Committee.

McCloud / Sargeant Judgement

Following the publication in February 2021 of the UK Government approach to remedying the age discrimination found in the 2015 pension reforms, and whilst awaiting the introduction of the necessary legislative changes, the Fund have been planning how they will address the necessary adjustments to member records required to fulfil their obligations in terms of the Judgement.

In 2021/22 a pre-exercise scope assessment was undertaken to identify the volume of members affected according to classifications advised. An outline project plan was drawn up and Employer Templates issued. Employer communication events were also hosted to assist them in completing the templates with the information necessary to progress to the next phase.

Based on known volumes, an assessment of the tasks and processes required was undertaken to estimate the additional resource required. Approval was granted to recruit this resource, and this exercise has now been started, with appointments expected early in 2022/23 to enable sufficient time for appropriate training to be undertaken.

There has been an initial outline project plan drawn up as part of this initial exercise, and this will be followed and further developed as the project progresses. This is a fundamental change in operations, and the project progression will be reported to the Sub-Committee on a quarterly basis.

GMP Rectification

The planned exercise for the rectification of pensions where an incorrect GMP data has led to an under or overpayment in the actual value of individual pensions in payment was not achieved in 2021/22, but will now be prioritised in 2022/23. This will require a comparison between reconciled GMP data and the current pensioner payroll data.

Following this exercise (which is being undertaken by Equiniti, who had undertaken the initial GMP reconciliation to HMRC data), the Fund will contact all identified pensioners affected to advise them of actions taken as follows:

- 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 will be 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

	2020/21 Actual £000	2021/22 Estimate £'000	2022/23 Budget £'000
Administrative costs *			
DCC Management charge	1,157	1,192	1,386
System costs	96	475	210
Audit fees	68	70	75
Actuary	33	25	30
Outsourcing	87	-	235
Other expenses	109	125	130
	1,550	1,887	2,066
Oversight and Governance costs **	105	107	110
Investment Management expenses			
Management fees	9,363	10,000	10,500
Transactions costs	917	925	925
Custody fees	86	100	100
Performance monitoring service	23	30	30
Investment consultancy	22	30	30
	10,411	11,085	11,585
Total	12,066	13,079	13,761

* 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

2019/2020 £000		2020/2021 £000
	Dealings with Members, Employers and other directly involved in the fund	
73,736	Employers' contributions	76,211
25,890	Employees' contributions	27,091
4,551	Transfers in from other pension funds	3,635
<u>104,177</u>		<u>106,937</u>
(116,008)	Benefits	(119,087)
(5,825)	Payments to and on account of leavers	(12,503)
<u>(121,833)</u>		<u>(131,590)</u>
<u>(17,656)</u>	Net Withdrawals from dealings with members	<u>(24,653)</u>
(1,884)	Administration Expenses	(1,655)
<u>(19,540)</u>	Net Withdrawals from dealings with Members including Administration Expenses	<u>(26,308)</u>
	Returns on Investments	
86,738	Investment Income	71,033
(278,393)	Change in Market Value of Investments	1,142,937
(9,605)	Investment Management Expenses	(10,411)
<u>(201,260)</u>	Net Returns on Investments	<u>1,203,559</u>
<u>(220,800)</u>	Net increase in Fund during the year	<u>1,177,251</u>
3,893,121	Opening Net Assets of the scheme	3,672,321
<u>3,672,321</u>	Closing Net Assets of the scheme	<u>4,849,572</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

2019/20		2020/21
£000		£000
3,702,723	Investment Assets	4,883,250
(36,249)	Investment Liabilities	(39,604)
3,666,474	Total Net Investments	4,843,646
9,997	Current Assets	11,878
3,676,471		4,855,524
(4,150)	Current Liabilities	(5,952)
3,672,321	Net assets of the fund available to fund benefits at the end of the reporting period	4,849,572

Robert Emmott BSc CPFA
 Executive Director of Corporate Services
 Dundee City Council
 20 September 2021

The Net Asset Statement represents the value and liabilities as at 31 March 2021 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 21 June 2021 and the Audited Accounts were authorised for issue on 20 September 2021.

KEY MEASURES AND TARGETS

	2016/17 Actual	2017/18 Actual	2018/19 Actual	2019/20 Actual	2020/21 Actual	Target
1 Pension Fund Administration						
(i) Cost per member	£28.22	£28.91	£36.73	£34.55	£28.67	£30.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	-0.57%	+1.71%	-0.21%	+0.29%	+8.13%	+1.0%
(ii) Funding level of Pension Fund	107%**	107%**	107%**	109%**	109%**	109%**

* does not include 5% volatility reserve.

** does not include 10% volatility reserve.

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%

5 Service ProvidersTarget – 2022/23

Actuarial Services	To continue quarterly monitoring of funding levels.
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.

