

REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 27 FEBRUARY 2012

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2012/2013

REPORT BY: DIRECTOR OF FINANCE

REPORT NO: 98-2012

1 PURPOSE OF REPORT

This report introduces the ninth 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 2012/13 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 Corporate Services Revenue Budget 2012/13. 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 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 which require to be separately reviewed will be reviewed this 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

16 FEBRUARY 2012

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2012/13**

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 2011 the value of the merged Funds was approximately £1,891m.

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 2012/13 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 2011 are shown in Appendix 3. 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 to the Fund will decrease as the employer contribution rate is reduced from 18.5% to 18.0% of payroll.

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 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. This has been further extended and a tender exercise will be undertaken by 31 March 2012. A full valuation of the Main Fund and Transport Fund was undertaken at 31 March 2011. This set the employer contribution rates for 2012/13, 2013/14 and 2014/15. The next valuation will be as at 31 March 2014.

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. This has been further extended and will be reviewed by 31 March 2012. 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.

8 **FUNDING STRATEGY STATEMENT**

The sixth 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.

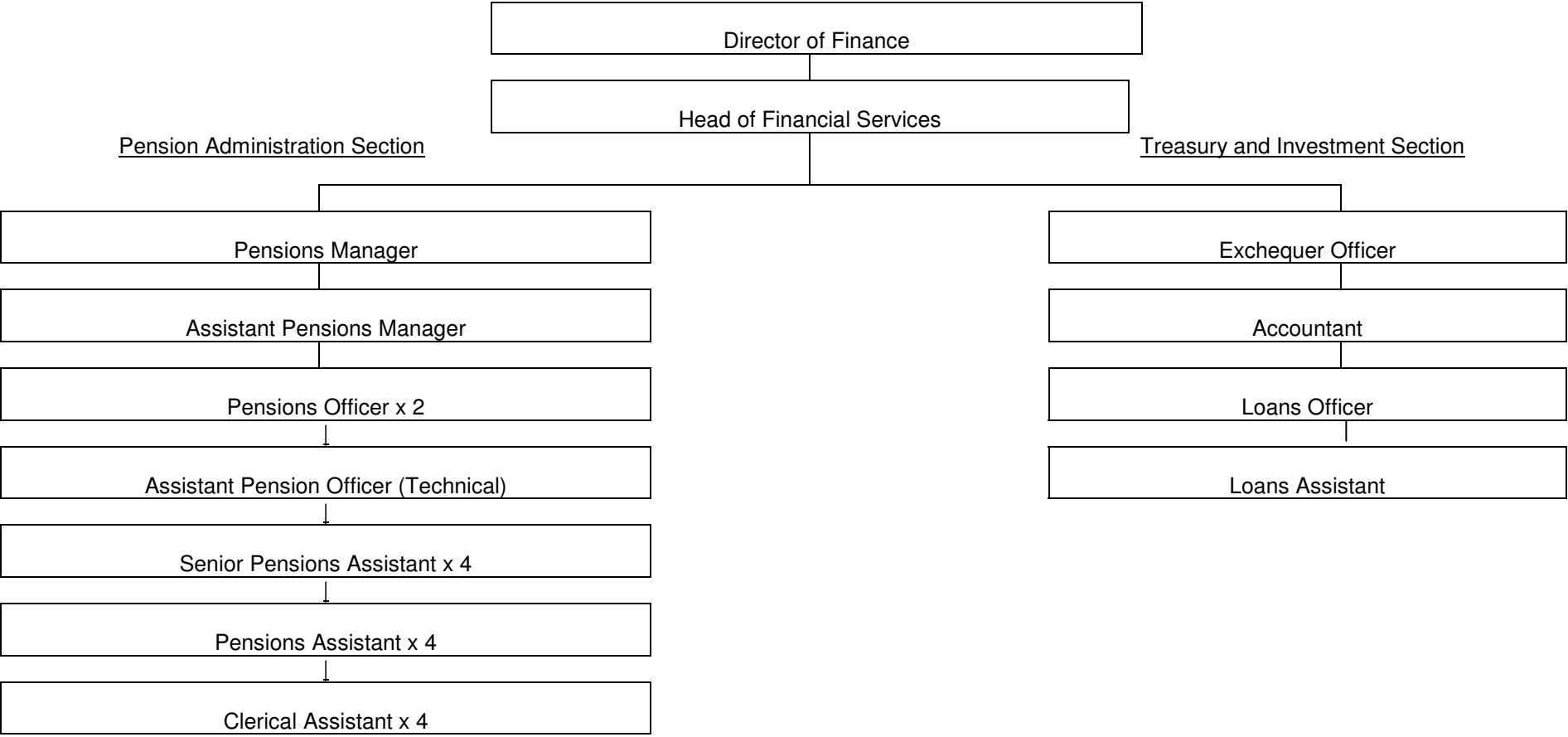
A review of the AVC provider has been completed and a second provider Prudential has been introduced.

An upgraded software system, Altair, has now been fully implemented.

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 2012/13

	<u>Treasury and Investment</u> (£000)	<u>Pension Administration</u> (£000)	<u>Total</u> (£000)
Staff Costs	58	513	571
Property	-	35	35
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>44</u>	<u>44</u>
	78	644	722
Treasury Management	6	-	6
TOTAL EXPENDITURE	<u>84</u>	<u>644</u>	<u>728</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

Restated 2009/2010 £000	FUND ACCOUNT		2010/2011 £000	£000
	CONTRIBUTIONS AND BENEFITS	Note		
	Contributions receivable:			
73,330	From employers		79,666	
<u>22,925</u>	From members		<u>23,279</u>	
96,255				102,945
9,853	Transfers in			4,679
	Benefits payable:			
(52,049)	Pensions		(54,534)	
<u>(17,094)</u>	Lump Sums		<u>(27,241)</u>	
(69,143)				(81,775)
	Payments to and on account of Leavers:			
(249)	Refund of Contributions to Members		(223)	
(117)	Refund of Contributions to State Scheme		(124)	
<u>(5,042)</u>	Transfers Out		<u>(3,346)</u>	
(5,408)				(3,693)
<u>(1,247)</u>	Administration Expenses			<u>(1,390)</u>
30,310	Net Deposits from dealings with Members			20,766
	RETURNS ON INVESTMENTS			
43,326	Investment Income		43,785	
440,773	Change in Market Value of Investments		100,206	
<u>(6,143)</u>	Investment Management Expenses		(5,307)	
<u>477,956</u>	Net Returns on Investments			<u>138,684</u>
508,266	NET INCREASE / (DECREASE) IN FUND DURING THE YEAR			159,450
<u>1,240,912</u>	OPENING NET ASSETS OF THE SCHEME			<u>1,749,178</u>
<u>1,749,178</u>	CLOSING NET ASSETS OF THE SCHEME			<u>1,908,628</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

2010 £000	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2011 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE	Note	
	<u>Listed Investments</u>		
449,631	- UK Equities		489,347
38,938	- UK Fixed Interest - Public Sector		22,327
-	- UK Fixed Interest - Other		4,919
56,786	- UK Index Linked - Public Sector		63,495
-	- UK Index Linked - Other		-
515,164	- Overseas Equities		540,608
50,824	- Overseas Open Ended Investment Companies		220,892
1,045	- Overseas Fixed Interest - Other		19,415
-	- Overseas Fixed Interest - Public Sector		-
175	- Derivatives (Futures)		2,071
	<u>Unlisted Investments</u>		
213,886	- UK Open Ended Investment Companies		230,302
-	- M&G Fund		6,689
243,980	- Overseas Open Ended Investment Companies		77,340
143,960	- Property Unit Trusts		164,437
23,803	Cash Balances held by Fund Managers		48,136
<u>6,282</u>	Financial Debtors		<u>13,835</u>
1,744,474			1,903,813
	FINANCIAL LIABILITIES		
(94)	Derivatives (Futures)	(153)	
<u>(6,408)</u>	Other Financial Liabilities	<u>(3,252)</u>	
<u>(6,502)</u>	Total Financial Liabilities		<u>(3,405)</u>
1,737,972	Net Financial Assets		1,900,408
	CURRENT ASSETS		
3,093	Contributions Due from Employers	9,203	
4,156	Sundry Debtors	3,131	
<u>8,860</u>	Cash and Bank	<u>4,119</u>	
<u>16,109</u>		<u>16,453</u>	
	LESS CURRENT LIABILITIES		
<u>(4,903)</u>	Sundry Creditors	<u>(8,233)</u>	
<u>11,206</u>	NET CURRENT ASSETS		<u>8,220</u>
<u>1,749,178</u>	NET ASSETS		<u>1,908,628</u>

Marjory Stewart, FCCA, CPFA
Director of Finance
Dundee City
Council
23 November 2011

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2009/2010 £000	FUND ACCOUNT	2010/2011 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
1,000	From employers	1,030	
<u>110</u>	From members	<u>107</u>	
1,110			1,137
-	Transfers In		-
	Benefits payable:		
(1,808)	Pensions	(1,810)	
<u>(263)</u>	Lump Sums	<u>(258)</u>	
(2,071)			(2,068)
	Payments to and on account of Leavers:		
-	Refund of Contributions	-	
<u>(36)</u>	Transfers Out	-	
(36)			-
<u>(36)</u>	Administration Expenses		<u>(38)</u>
(1,033)	Net Withdrawals from dealings with Members		(969)
	RETURNS ON INVESTMENTS		
1,017	Investment Income	1,085	
9,743	Change in Market Value of Investments	3,709	
<u>(114)</u>	Investment Management Expenses	<u>(133)</u>	
<u>10,646</u>	Net Returns on Investments		<u>4,661</u>
9,613	NET INCREASE / (DECREASE) IN FUND DURING THE YEAR		3,692
<u>32,669</u>	OPENING NET ASSETS OF THE SCHEME		<u>42,282</u>
<u>42,282</u>	CLOSING NET ASSETS OF THE SCHEME		<u>45,974</u>

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2010 £000	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2011 £000	2011 £000
INVESTMENT ASSETS AT MARKET VALUE			
	Listed Investments		
9,800	- UK Equities	11,342	
3,285	- UK Fixed Interest - Public Sector	1,873	
-	- UK Fixed Interest - Other	413	
4,791	- UK Index Linked - Public Sector	5,327	
-	- UK Index Linked - Other	-	
12,167	- Overseas Equities	10,488	
88	- Overseas Fixed Interest - Other	1,629	
-	- Overseas Fixed Interest - Public Sector	-	
14	- Derivates (Futures)	168	
	Unlisted Investments		
8,487	- UK Open Ended Investment Companies	9,122	
172	- Overseas Open Ended Investment Companies	76	
2,356	- Property Unit Trusts	2,453	
777	Cash Balances held by Fund Managers	1,650	
-	Financial Debtors	499	
<u>41,937</u>			45,040
FINANCIAL LIABILITIES			
(8)	Derivatives (Futures)	(13)	
<u>(65)</u>	Other Financial Liabilities	<u>(86)</u>	
<u>(73)</u>	Total Financial Liabilities		<u>(99)</u>
41,864	Net Financial Assets		44,941
CURRENT ASSETS			
103	Sundry Debtors	1	
<u>343</u>	Cash and Bank	<u>1,053</u>	
446		1,054	
LESS CURRENT LIABILITIES			
<u>(28)</u>	Sundry Creditors	<u>(21)</u>	
<u>418</u>	NET CURRENT ASSETS		<u>1,033</u>
<u>42,282</u>	NET ASSETS		<u>45,974</u>

Marjory Stewart, FCCA, CPFA
 Director of Finance
 Dundee City Council
 23 November 2011

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>2010 Actual</u>	<u>2011 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	£25.40	£27.68	£30.00
2 <u>Pension Fund Investment</u>								
(i) Investment performance relative to benchmark	+1.0%	+0.9%	+1.3%	+0.4%	-1.2%	-0.8%	-1.4%	+1.0%
(ii) Funding level of Superannuation Fund	100%	102%	102%	98%	98%	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

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