

**REPORT TO: PENSION SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 2 MARCH 2015**

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2015/2016

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 98-2015

1 PURPOSE OF REPORT

This report introduces the eleventh 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 2015-2016 Business Plan which applies to the administration and management of the Tayside Pension Fund and the Tayside Transport 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 2015/2016. 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 Pensions Administration Section and the Financial Services and Investment Section as part of the Corporate Services Department's overall planning process.

The actuary and voting advisory service to the fund which require to be separately evaluated 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 Head of Democratic and Legal Services have been consulted in the preparation of this report.

7 BACKGROUND PAPERS

None

**MARJORY M STEWART
DIRECTOR OF CORPORATE SERVICES**

23 FEBRUARY 2015

**TAYSIDE PENSION FUNDS
BUSINESS PLAN 2015-2016**

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 2014 the value of the merged Funds was approximately £2,655m.

Within Dundee City Council's Corporate Services Department there are two sections with responsibility for the Pension Funds – Financial Services and Investment and Pensions Administration. The structures of these sections are shown at Appendix 1. It should be noted that staff in the Financial Services and Investment section have other duties outwith the Pension Fund.

The annual budget for 2015/2016 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 Pension Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2014 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 rates will reduce to 17.0% of payroll for 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 planned for 2015/2016 and the outcome of this exercise may result in a change of provider.

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 was postponed until after the triennial valuation at 31 March 2014. A procurement exercise is planned for 2015/2016 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**

The ninth 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 new LGPS scheme and regulations become effective 1 April 2015 and include revised governance arrangements.

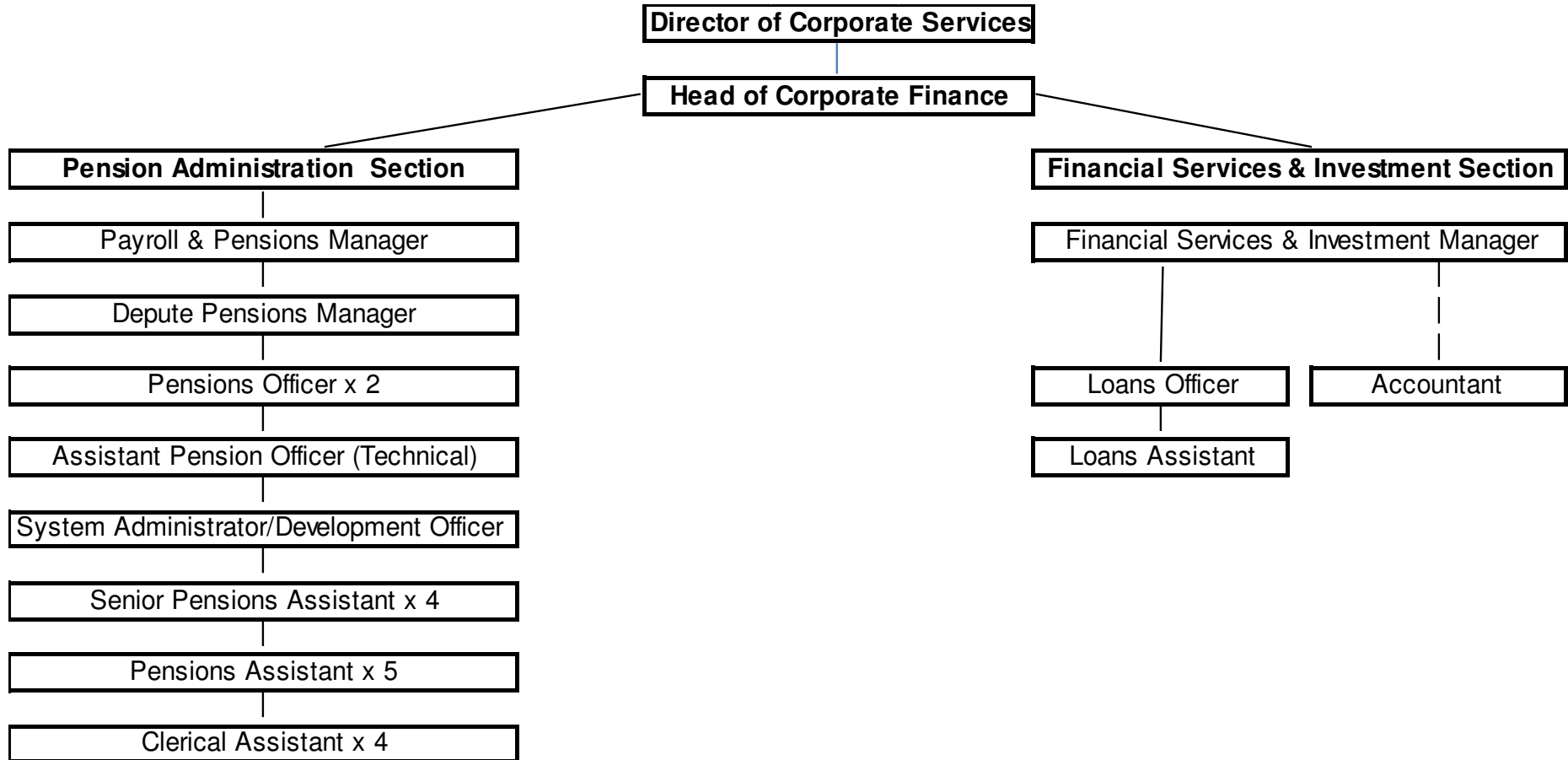
The new scheme moves to benefits being worked out using career average (CARE) rather than final salary and built up at a rate of 1/49th on annual pensionable pay.

Procurement of the self service module is currently being finalised and will be rolled out to all scheme employers throughout 2015/16.

11 **TREASURY MANAGEMENT STRATEGY**

Dundee City Council provides a treasury management service at a cost of £6,000 per annum.

DUNDEE CITY COUNCIL
CORPORATE SERVICES DEPARTMENT – CORPORATE FINANCE DIVISION (EXTRACT)



FINANCIAL SERVICES AND INVESTMENT AND PENSION ADMINISTRATION
EXTRACT OF REVENUE BUDGET 2015/2016

	<u>Financial Services and Investment</u> (£000)	<u>Pension Administration</u> (£000)	<u>Total</u> (£000)
Staff Costs	72	503	575
Property	3	40	43
Supplies and Services	19	48	67
Transport	1	3	4
Third Party Payments	<u>-</u>	<u>28</u>	<u>28</u>
	95	622	717
Treasury Management	6	-	6
TOTAL EXPENDITURE	<u>101</u>	<u>622</u>	<u>723</u>

TAYSIDE PENSION FUND ACCOUNTS

2012/2013 £000	FUND ACCOUNT	2013/2014	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable :-</u>		
66,961	From employers	67,620	
<u>22,029</u>	From members	<u>22,364</u>	
88,990			89,984
4,216	Transfers in		3,762
	<u>Benefits payable :-</u>		
(60,522)	Pensions	(64,283)	
<u>(19,651)</u>	Lump Sums	<u>(19,865)</u>	
(80,173)			(84,148)
	<u>Payments to and on account of Leavers :-</u>		
(139)	Refund of Contributions to Members	(179)	
(58)	Refund of Contributions to State Scheme	(79)	
<u>(3,213)</u>	Transfers Out	<u>(4,483)</u>	
(3,410)			(4,741)
<u>(1,198)</u>	Administration Expenses		<u>(1,220)</u>
8,425	Net Deposits from dealings with Members		3,637
	RETURNS ON INVESTMENTS		
52,578	Investment Income	59,067	
248,757	Change in Market Value of Investments	146,447	
<u>(6,543)</u>	Investment Management Expenses	<u>(8,363)</u>	
<u>294,792</u>	Net Returns on Investments		<u>197,151</u>
303,217	Net increase in Fund during the year		200,788
<u>1,959,058</u>	OPENING NET ASSETS OF THE SCHEME		<u>2,262,275</u>
<u>2,262,275</u>	CLOSING NET ASSETS OF THE SCHEME		<u>2,463,063</u>

TAYSIDE PENSION FUND ACCOUNTS

2013 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	2014 £000	£000
	<u>Listed Investments</u>		
597,595	UK Equities	593,619	
-	UK Pooled Funds	57,927	
40,584	UK Fixed Interest - Public Sector	39,579	
10,512	UK Fixed Interest – Other	11,131	
80,332	UK Index Linked - Public Sector	77,281	
625,041	Overseas Equities	564,960	
-	Overseas Pooled Funds	175,409	
273,797	Overseas Open Ended Investment Companies	290,860	
13,696	Overseas Fixed Interest – Other	12,841	
597	Derivatives (Futures)	418	
	<u>Unlisted Investments</u>		
293,822	UK Open Ended Investment Companies	296,038	
16,213	M&G Fund	14,529	
77,236	Overseas Open Ended Investment Companies	62,821	
203,370	Property Unit Trusts	232,546	
18,647	Cash Balances held by Fund Managers	25,209	
<u>8,348</u>	Financial Debtors	<u>11,598</u>	
2,259,790			2,466,766
	FINANCIAL LIABILITIES		
(727)	Derivatives (Futures)	(89)	
<u>(2,772)</u>	Other Financial Liabilities	<u>(6,998)</u>	
<u>(3,499)</u>	Total Financial Liabilities		<u>(7,087)</u>
2,256,291	Net Financial Assets		2,459,679
	CURRENT ASSETS		
6,510	Contributions Due from Employers	5,614	
1,125	Sundry Debtors	1,768	
<u>4,412</u>	Cash and Bank	<u>2,318</u>	
<u>12,047</u>		<u>9,700</u>	
	LESS CURRENT LIABILITIES		
(6,063)	Sundry Creditors	<u>(6,316)</u>	
<u>5,984</u>	NET CURRENT ASSETS		<u>3,384</u>
<u>2,262,275</u>	NET ASSETS		<u>2,463,063</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
26 September 2014

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2012/2013	FUND ACCOUNT	2013/2014	
£000		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable:-</u>		
800	From employers	899	
<u>102</u>	From members	<u>89</u>	
902			988
75	Transfers In		-
	<u>Benefits payable:-</u>		
(1,902)	Pensions	(1,958)	
<u>(133)</u>	Lump Sums	<u>(689)</u>	
(2,035)			(2,647)
	Payments to and on account of Leavers:		
-	Refund of Contributions	-	
-	Transfers Out	-	
-			-
<u>(34)</u>	Administration Expenses		<u>(30)</u>
(1,092)	Net Withdrawals from dealings with Members		(1,689)
	RETURNS ON INVESTMENTS		
653	Investment Income	799	
6,228	Change in Market Value of Investments	3,191	
<u>(164)</u>	Investment Management Expenses	<u>(180)</u>	
<u>6,717</u>	Net Returns on Investments		<u>3,810</u>
5,625	Net increase in Fund during the year		2,121
<u>48,545</u>	OPENING NET ASSETS OF THE SCHEME		<u>54,170</u>
<u>54,170</u>	CLOSING NET ASSETS OF THE SCHEME		<u>56,291</u>

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2013 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2014 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	<u>Listed Investments</u>		
12,658	UK Equities	14,230	
3,248	UK Fixed Interest - Public Sector	3,550	
518	UK Fixed Interest - Other	596	
6,699	UK Index Linked - Public Sector	6,085	
13,711	Overseas Equities	14,397	
1,481	Overseas Fixed Interest - Other	1,036	
36	Derivatives (Futures)	35	
	<u>Unlisted Investments</u>		
11,410	UK Open Ended Investment Companies	11,137	
95	Overseas Open Ended Investment Companies	92	
3,662	Property Unit Trusts	3,986	
486	Cash Balances held by Fund Managers	836	
<u>143</u>	Financial Debtors	<u>101</u>	
54,147			56,081
	FINANCIAL LIABILITIES		
(66)	Derivatives (Futures)	(8)	
-	Other Financial Liabilities	<u>(17)</u>	
<u>(66)</u>	Total Financial Liabilities		<u>(25)</u>
54,081	Net Financial Assets		56,056
	CURRENT ASSETS		
10	Contributions Due from Employers	6	
<u>144</u>	Cash and Bank	<u>311</u>	
154		317	
	LESS CURRENT LIABILITIES		
(65)	Sundry Creditors	<u>(82)</u>	
<u>89</u>	NET CURRENT ASSETS		<u>235</u>
<u>54,170</u>	NET ASSETS		<u>56,291</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
26 September 2014

APPENDIX 4

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2009 Actual</u>	<u>2010 Actual</u>	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>2013 Actual</u>	<u>2014 Actual</u>	<u>Target</u>
<u>1 Pension Fund Administration</u>								
(i) Cost per member	£28.88	£24.69	£25.40	£27.68	£23.90	£23.00	£26.92	£30.00
<u>2 Pension Fund Investment</u>								
(i) Annual Investment performance relative to benchmark	+1.0%	-1.2%	-0.8%	-1.4%	-0.7%	+1.6%	+2.71	+1.0%
(ii) Funding level of Pension Fund	100%	98%	98%	98%	98%	98%	99.8%*	100%

*Estimated prior to valuation at 106.9%. 99.8% does not include 5% volatility reserve.

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)	15%
	Baillie Gifford (UK Equity)	12%
	Fidelity (Bonds)	6%
	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 - 2015

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