

**REPORT TO:** SUPERANNUATION INVESTMENT SUB-COMMITTEE  
OF THE POLICY & RESOURCES COMMITTEE - 21 FEBRUARY 2011

**REPORT ON:** TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2011/2012

**REPORT BY:** DIRECTOR OF FINANCE

**REPORT NO:** 113-2011

1 **PURPOSE OF REPORT**

This report introduces the eighth 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 2011/12 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 Finance Department Revenue Budget 2011/12. 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 were due to be separately reviewed in 2010/11 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**

**11 FEBRUARY 2011**

**TAYSIDE SUPERANNUATION FUNDS  
BUSINESS PLAN 2011/12**

## 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 2010 the value of the merged Funds was approximately £1,935m.

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 2011/12 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 2010 are shown in Appendix 3. It is expected 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 stabilise as the employer contribution rate is unchanged at 18.5% of payroll.

Lump Sum payments may increase as some employers in the scheme have introduced 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 to 31 December 2011. A full valuation of the Main Fund and Transport Fund was undertaken at 31 March 2008. This set the employer contribution rates for 2009/10, 2010/11 and 2011/12. The next valuation will be as at 31 March 2011.

**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 to 30 June 2011. 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. This contract will need to be reviewed before 1 July 2011.

**8 FUNDING STRATEGY STATEMENT**

The fifth 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.

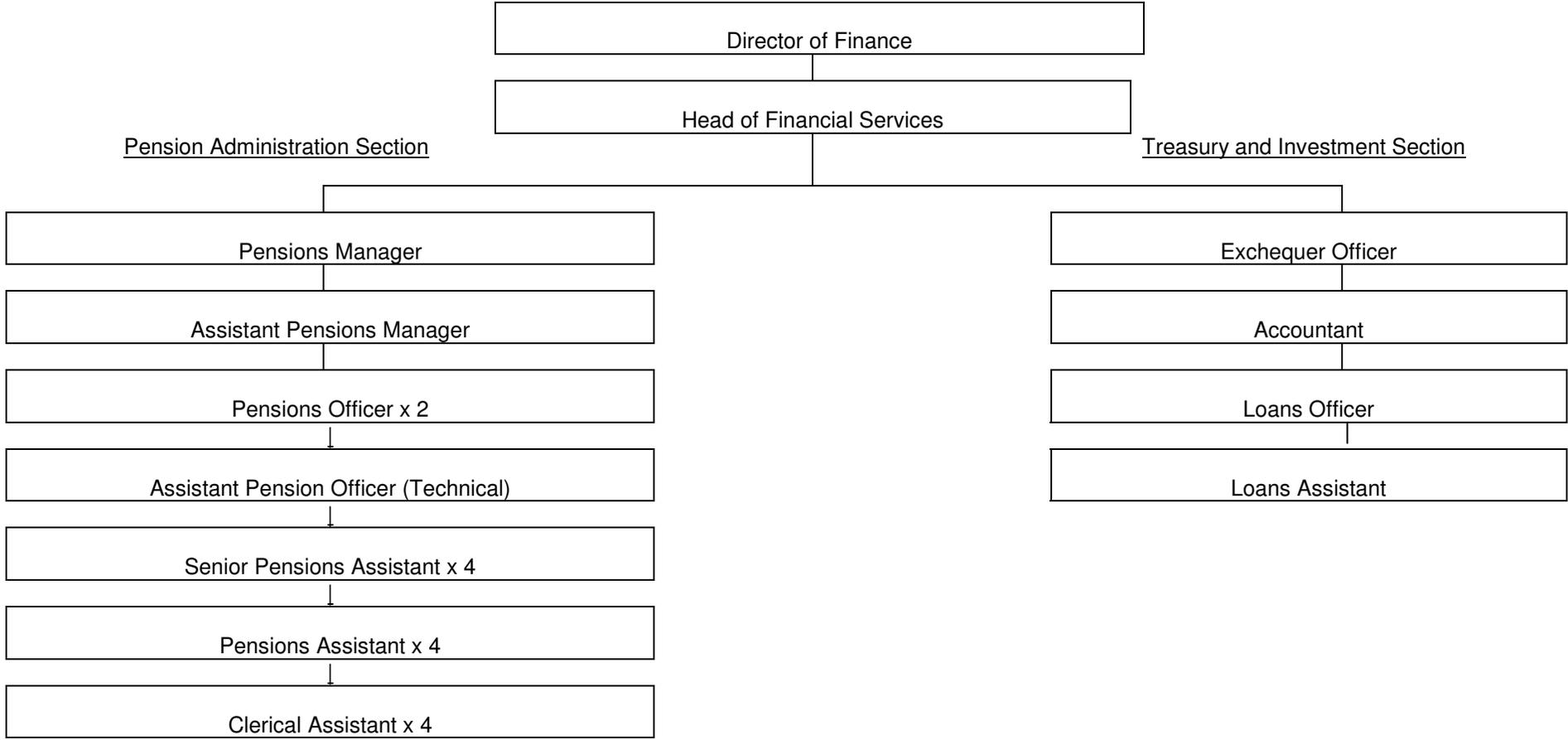
A review of the AVC provider has been completed and a second provider Prudential has been introduced.

The existing software system Axis is scheduled to be upgraded to another package Altair provided by the same supplier.

**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 2011/12**

	<b><u>Treasury and Investment</u></b> (£000)	<b><u>Pension Administration</u></b> (£000)	<b><u>Total</u></b> (£000)
Staff Costs	84	510	594
Property	-	61	61
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
	104	648	752
Treasury Management	6	-	6
<b>TOTAL EXPENDITURE</b>	<b><u>110</u></b>	<b><u>648</u></b>	<b><u>758</u></b>

**TAYSIDE SUPERANNUATION FUND****MANAGEMENT ACCOUNTS FOR YEAR ENDING 31 MARCH 2010**

2008/2009 £000	<u>FUND ACCOUNT</u>	2009/2010	
		£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	Contributions receivable:		
(65,915)	From employers	(68,398)	
<u>(21,090)</u>	From members	<u>(22,925)</u>	
(87,005)			(91,323)
(5,901)	Transfers in		(9,853)
	Benefits payable:		
43,325	Pensions	47,117	
<u>15,789</u>	Lump Sums	<u>17,094</u>	
59,114			64,211
	Payments to and on account of Leavers:		
242	Refund of Contributions to Members	249	
100	Refund of Contributions to State Scheme	117	
<u>2,928</u>	Transfers Out	<u>5,042</u>	
3,270			5,408
<u>1,216</u>	Administration Expenses		<u>1,247</u>
(29,306)	Net Additions from dealings with Members		(30,310)
	<b>RETURNS ON INVESTMENTS</b>		
	Investment Income		
(7,629)	Interest from Fixed Interest Securities	(6,261)	
(27,549)	Dividends from Equities	(26,480)	
(4,606)	Income from Index Linked Securities	(3,354)	
(5,843)	Income Pooled Investment Vehicles	(5,504)	
(1,138)	Interest on Cash Deposits	(222)	
(2,052)	Other Income	(2,210)	
382,664	Change in Market Value of Investments	(440,773)	
4,361	Investment Management Expenses	6,143	
<u>691</u>	Taxation	<u>705</u>	
<u>338,899</u>	Net Returns on Investments		<u>(477,956)</u>
309,593	<b>NET (INCREASE)/DECREASE IN FUND IN THE YEAR</b>		(508,266)
<u>1,550,505</u>	<b>OPENING NET ASSETS OF THE SCHEME</b>		<u>1,240,912</u>
<u>1,240,912</u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>		<u>1,749,178</u>

**TAYSIDE SUPERANNUATION FUND ACCOUNTS**

2009 £000	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2010 £000	2010 £000
<b>INVESTMENT ASSETS AT MARKET VALUE</b>			
<b>FINANCIAL ASSETS</b>			
Quoted Investments			
277,144	- UK Equities	449,631	
50,985	- UK Fixed Interest - Public Sector	38,938	
24,286	- UK Fixed Interest - Other	-	
46,211	- UK Index Linked - Public Sector	56,786	
1,042	- UK Index Linked - Other	-	
342,914	- Overseas Equities	515,164	
29,259	- Overseas Open Ended Investment Companies	50,824	
2,445	- Overseas Fixed Interest - Other	1,045	
32,445	- Overseas Fixed Interest - Public Sector	-	
1,582	- Derivatives (Futures)	175	
Unquoted Investments			
96,941	- UK Open Ended Investment Companies	213,886	
163,976	- Overseas Open Ended Investment Companies	243,980	
107,740	- Property Unit Trusts	143,960	
47,437	Cash Balances held by Fund Managers	23,803	
<u>8,159</u>	Financial Debtors	<u>6,282</u>	
1,232,566	Total Financial Assets		1,744,474
<b>FINANCIAL LIABILITIES</b>			
(262)	Derivatives (Futures)	(94)	
<u>(2,084)</u>	Other Financial Liabilities	<u>(6,408)</u>	
<u>(2,346)</u>	Total Financial Liabilities		<u>(6,502)</u>
1,230,220	Net Financial Assets		1,737,972
<b>CURRENT ASSETS</b>			
3,133	Contributions Due from Employers	3,093	
2,235	Sundry Debtors	4,156	
<u>7,947</u>	Cash and Bank	<u>8,860</u>	
<u>13,315</u>		<u>16,109</u>	
<b>LESS CURRENT LIABILITIES</b>			
<u>(2,623)</u>	Sundry Creditors	<u>(4,903)</u>	
<u>10,692</u>	<b>NET CURRENT ASSETS</b>		<u>11,206</u>
<u>1,240,912</u>	<b>NET ASSETS</b>		<u>1,749,178</u>

The accounts summarise the transactions and net assets of the fund for the financial year to 31 March 2010. They do not take account of liabilities to pay pensions and other benefits in the future.

**Marjory Stewart, FCCA, CPFA**  
**Director of Finance**  
**Dundee City Council**

The unaudited accounts were issued on 30 June 2010 and the audited accounts were authorised for issue on 30 September 2010.

**TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS**

2008/2009	FUND ACCOUNT	2009/2010	
£000		£000	£000
	<b>CONTRIBUTIONS AND BENEFITS</b>		
	Contributions receivable:		
(900)	From employers	(1,000)	
<u>(105)</u>	From members	<u>(110)</u>	
(1,005)			(1,110)
-	Transfers In		-
	Benefits payable:		
1,738	Pensions	1,808	
<u>524</u>	Lump Sums	<u>263</u>	
2,262			2,071
	Payments to and on account of Leavers:		
-	Refund of Contributions	-	
-	Transfer Out	<u>36</u>	
			36
<u>42</u>	Administration Expenses		<u>36</u>
1,299	Net Withdrawal from dealing with Members		1,033
	<b>RETURNS ON INVESTMENTS</b>		
	Investment Income		
(440)	Interest from Fixed Interest Securities	(205)	
(472)	Dividends from Equities	(486)	
(283)	Income from Index Linked Securities	(234)	
(125)	Income Pooled Investment Vehicles	(90)	
(38)	Interest on Cash Deposits	(8)	
(2)	Other Income	-	
7,708	Change in Market Value of Investments	(9,743)	
128	Investment Management Expenses	114	
<u>7</u>	Taxation	<u>6</u>	
<u>6,483</u>	Net Returns on Investments		<u>(10,646)</u>
7,782	<b>NET (INCREASE)/DECREASE IN FUND DURING THE YEAR</b>		<u>(9,613)</u>
<u>40,451</u>	<b>OPENING NET ASSETS OF THE SCHEME</b>		<u>32,669</u>
<u>32,669</u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>		<u>42,282</u>

**TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS**

2009 £000	<u>NET ASSETS STATEMENT (AS AT 31 MARCH)</u>	2010 £000	2010 £000
	<b>INVESTMENT ASSETS AT MARKET VALUE</b>		
	<b>FINANCIAL ASSETS</b>		
	Quoted Investments		
6,335	- UK Equities	9,800	
4,609	- UK Fixed Interest - Public Sector	3,285	
2,195	- UK Fixed Interest - Other	-	
4,177	- UK Index Linked - Public Sector	4,791	
94	- UK Index Linked - Other	-	
7,812	- Overseas Equities	12,167	
221	- Overseas Fixed Interest - Public Sector	88	
2,933	- Overseas Fixed Interest - Other	-	
133	- Derivates (Futures)	14	
	Unquoted Investments		
283	- UK Open Ended Investment Companies	8,487	
289	- Overseas Open Ended Investment Companies	172	
2,311	- Property Unit Trusts	2,356	
<u>1,346</u>	Cash Balances held by Fund Managers	<u>777</u>	
32,738			41,937
	<b>FINANCIAL LIABILITIES</b>		
(24)	Derivatives (Futures)	(8)	
<u>(100)</u>	Other Financial Liabilities	<u>(65)</u>	
<u>(124)</u>	Total Financial Liabilities		<u>(73)</u>
32,614	Net Financial Assets		41,864
	<b>CURRENT ASSETS</b>		
8	Sundry Debtors	103	
<u>71</u>	Cash and Bank	<u>343</u>	
79		446	
	<b>LESS CURRENT LIABILITIES</b>		
<u>(24)</u>	Sundry Creditors	<u>(28)</u>	
<u>55</u>	<b>NET CURRENT ASSETS</b>		<u>418</u>
<u>32,669</u>	<b>NET ASSETS</b>		<u>42,282</u>

The accounts summarise the transactions and net assets of the fund for the financial year to 31 March 2010. They do not take account of liabilities to pay pensions and other benefits in the future.

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**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>Target</u>	
1	<u>Pension Fund Administration</u>							
i	Cost per member	£28.88	£30.83	£28.88	£29.11	£24.69	£25.40	£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%	+1.0%
ii	Funding level of Superannuation fund	100%	102%	102%	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**

	<u>Target - 2010</u>	
5	Actuarial Services	To continue quarterly monitoring of funding levels.
6	Investment Consultancy	To continue to monitor performance of managers.