

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 4 MARCH 2013**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2013/2014

REPORT BY: DIRECTOR OF CORPORATE SERVICES

REPORT NO: 120-2013

1 PURPOSE OF REPORT

This report introduces the tenth 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 2013/2014 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 2013/2014. 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 Corporate Services Department's overall planning process.

The actuary, investment consultant 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**

27 FEBRUARY 2013

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2013/2014**

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 2012 the value of the merged Funds was approximately £2,044m.

Within Dundee City Council's Corporate Services 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 2013/2014 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 2012 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 remain at 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 in 2013/2014. A full valuation of the Main Fund and Transport Fund was undertaken at 31 March 2011. This set the employer contribution rates for 2012/2013, 2013/2014 and 2014/2015. 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 in 2013/2014. Hymans Robertson 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 seventh 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**

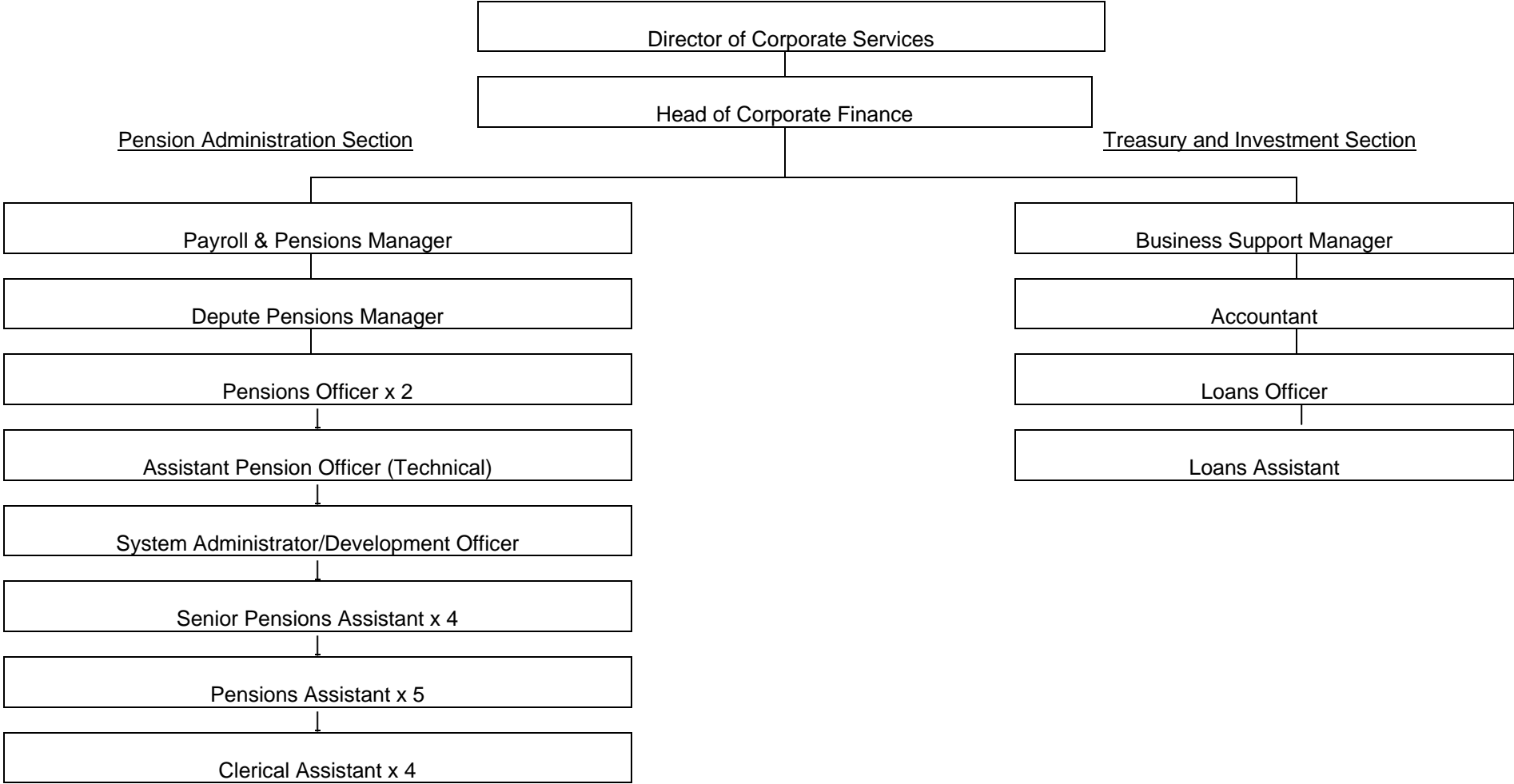
With effect from 1 July 2012, the Payroll and Pensions sections within the Corporate Services Department merged. Although each section undertakes their duties independently there are many areas of commonality which can be developed in order to provide a more efficient service.

Auto-Enrolment will be implemented from 1 May 2013. In conjunction with this, a procurement exercise to purchase an electronic interface for employers is being undertaken.

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)



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2013/2014

	<u>Treasury and Investment (£000)</u>	<u>Pension Administration (£000)</u>	<u>Total (£000)</u>
Staff Costs	59	496	555
Property	9	35	44
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>44</u>	<u>44</u>
	88	627	715
Treasury Management	6	-	6
TOTAL EXPENDITURE	<u>94</u>	<u>627</u>	<u>721</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

Restated 2010/2011 £000	FUND ACCOUNT	Note	2011/2012	
			£000	£000
	CONTRIBUTIONS AND BENEFITS			
	Contributions receivable :-			
74,664	From employers	2	69,787	
<u>23,279</u>	From members	2	<u>22,340</u>	
97,943				92,127
4,679	Transfers in	4		2,497
	Benefits payable :-			
(49,532)	Pensions		(55,487)	
<u>(27,241)</u>	Lump Sums	3	<u>(22,502)</u>	
(76,773)				(77,989)
	Payments to and on account of Leavers :-			
(223)	Refund of Contributions to Members		(242)	
(124)	Refund of Contributions to State Scheme		(112)	
<u>(3,346)</u>	Transfers Out		<u>(4,544)</u>	
(3,693)				(4,898)
<u>(1,390)</u>	Administration Expenses	1,11		<u>(1,257)</u>
20,766	Net Deposits from dealings with Members			10,480
	RETURNS ON INVESTMENTS			
43,785	Investment Income	5	48,533	
100,206	Change in Market Value of Investments	6	(3,057)	
<u>(5,307)</u>	Investment Management Expenses		<u>(5,526)</u>	
<u>138,684</u>	Net Returns on Investments			<u>39,950</u>
159,450	Net increase in Fund during the year			50,430
<u>1,749,178</u>	OPENING NET ASSETS OF THE SCHEME			<u>1,908,628</u>
<u>1,908,628</u>	CLOSING NET ASSETS OF THE SCHEME			<u>1,959,058</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

2011 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2012 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE	Note	
	<u>Listed Investments</u>		
489,347	- UK Equities		496,499
22,327	- UK Fixed Interest - Public Sector		23,709
4,919	- UK Fixed Interest - Other		8,731
63,495	- UK Index Linked - Public Sector		69,966
	- UK Index Linked - Other		-
540,608	- Overseas Equities		521,030
220,892	- Overseas Open Ended Investment Companies		224,392
19,415	- Overseas Fixed Interest - Other		23,330
	- Overseas Fixed Interest - Public Sector		-
2,071	- Derivatives (Futures)		428
	<u>Unlisted Investments</u>		
230,302	- UK Open Ended Investment Companies		265,113
6,689	- M&G Fund		13,861
77,340	- Overseas Open Ended Investment Companies		74,438
164,437	- Property Unit Trusts		198,605
48,136	Cash Balances held by Fund Managers		33,102
<u>13,835</u>	Financial Debtors	10	<u>12,966</u>
1,903,813			1,966,170
	FINANCIAL LIABILITIES		
(153)	Derivatives (Futures)		(927)
<u>(3,252)</u>	Other Financial Liabilities	10	<u>(11,497)</u>
<u>(3,405)</u>	Total Financial Liabilities		<u>(12,424)</u>
1,900,408	Net Financial Assets		1,953,746
	CURRENT ASSETS		
9,203	Contributions Due from Employers		6,653
3,131	Sundry Debtors	9	1,214
<u>4,119</u>	Cash and Bank		<u>1,752</u>
<u>16,453</u>			<u>9,619</u>
	LESS CURRENT LIABILITIES		
(8,233)	Sundry Creditors	9	<u>(4,307)</u>
<u>8,220</u>	NET CURRENT ASSETS		<u>5,312</u>
<u>1,908,628</u>	NET ASSETS		<u>1,959,058</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2012

The unaudited accounts were issued on 29 June 2012 and the audited accounts were authorised for issue on 24 September 2012.

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2010/2011 £000	FUND ACCOUNT	Note	2011/2012 £000	£000
	CONTRIBUTIONS AND BENEFITS			
	Contributions receivable:-			
1,030	From employers		1,060	
<u>107</u>	From members		<u>107</u>	
1,137				1,167
-	Transfers In			-
	Benefits payable:-			
(1,810)	Pensions		(2,033)	
<u>(258)</u>	Lump Sums		<u>(16)</u>	
(2,068)				(2,049)
	Payments to and on account of Leavers:			
-	Refund of Contributions		-	
-	Transfers Out		-	
-				-
<u>(38)</u>	Administration Expenses	7		<u>(41)</u>
(969)	Net Withdrawals from dealings with Members			(923)
	RETURNS ON INVESTMENTS			
1,085	Investment Income	2	984	
3,709	Change in Market Value of Investments	3	2,647	
<u>(133)</u>	Investment Management Expenses		<u>(137)</u>	
<u>4,661</u>	Net Returns on Investments			<u>3,494</u>
3,692	Net increase in Fund during the year			2,571
<u>42,282</u>	OPENING NET ASSETS OF THE SCHEME			<u>45,974</u>
<u>45,974</u>	CLOSING NET ASSETS OF THE SCHEME			<u>48,545</u>

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2011 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2012 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments	Note	
11,342	- UK Equities		11,783
1,873	- UK Fixed Interest - Public Sector		1,986
413	- UK Fixed Interest - Other		731
5,327	- UK Index Linked - Public Sector		5,860
-	- UK Index Linked - Other		-
10,488	- Overseas Equities		10,859
1,629	- Overseas Fixed Interest - Other		1,954
-	- Overseas Fixed Interest - Public Sector		-
168	- Derivatives (Futures)		36
	Unlisted Investments		
9,122	- UK Open Ended Investment Companies		10,640
76	- Overseas Open Ended Investment Companies		80
2,453	- Property Unit Trusts		3,548
1,650	Cash Balances held by Fund Managers		1,077
<u>499</u>	Financial Debtors	6	<u>654</u>
45,040			49,208
	FINANCIAL LIABILITIES		
(13)	Derivatives (Futures)		(59)
<u>(86)</u>	Other Financial Liabilities	6	<u>(783)</u>
<u>(99)</u>	Total Financial Liabilities		<u>(842)</u>
44,941	Net Financial Assets		48,366
	CURRENT ASSETS		
1	Sundry Debtors		11
<u>1,053</u>	Cash and Bank		<u>190</u>
1,054			201
	LESS CURRENT LIABILITIES		
(21)	Sundry Creditors	5	<u>(22)</u>
<u>1,033</u>	NET CURRENT ASSETS		<u>179</u>
<u>45,974</u>	NET ASSETS		<u>48,545</u>

Marjory Stewart, FCCA, CPFA
Director of Corporate Services
Dundee City Council
24 September 2012

APPENDIX 4

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>2009 Actual</u>	<u>2010 Actual</u>	<u>2011 Actual</u>	<u>2012 Actual</u>	<u>Target</u>
<u>1 Pension Fund Administration</u>								
(i) Cost per member	£28.88	£28.88	£29.11	£24.69	£25.40	£27.68	£23.90	£30.00
<u>2 Pension Fund Investment</u>								
(i) Investment performance relative to benchmark	+1.0%	+1.3%	+0.4%	-1.2%	-0.8%	-1.4%	-0.7%	+1.0%
(ii) Funding level of Superannuation Fund	100%	102%	98%	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

		<u>Target - 2013</u>
5	Actuarial Services	To continue quarterly monitoring of funding levels.
6	Investment Consultancy	To continue to monitor performance of managers.