

ITEM No ...18.....

REPORT TO: PENSION SUB-COMMITTEE OF THE CITY GOVERNANCE COMMITTEE & PENSION BOARD– 18 MARCH 2024

REPORT ON: TAYSIDE PENSION FUND BUSINESS PLAN 2024/2025

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 85-2024

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 2024/2025 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 2024/2025. 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 subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

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**

8 MARCH 2024

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BUSINESS PLAN

2024-2025

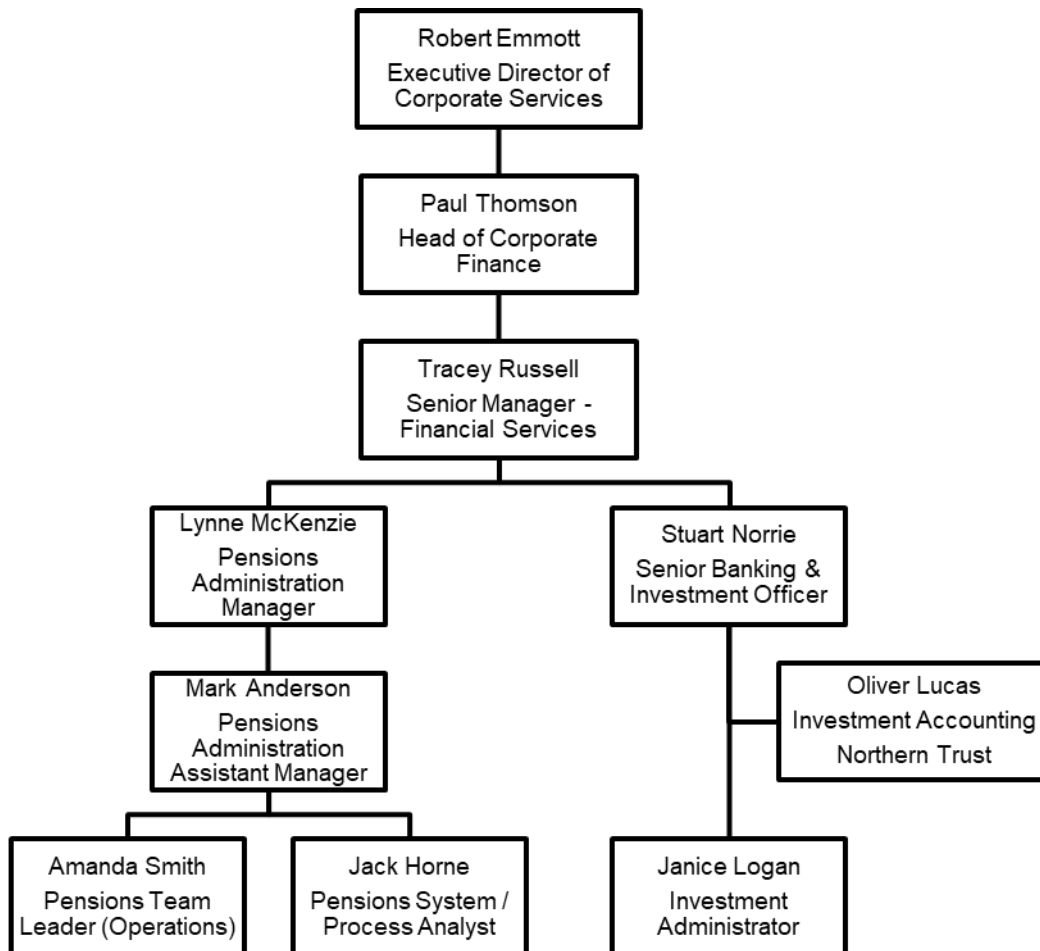
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1 **INTRODUCTION**

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 **STRUCTURE**

The Pension Fund management structure lies within Financial Services as part of Dundee City Council's Corporate Finance function, the structure is detailed below:



An analysis of the Fund's management costs can be found in Appendix 1.

The Fund are facing an increasing number of new additional legislative and governance requirements in the near future. This, coupled with recommendations of Internal Audits, have highlighted that there is a requirement to review the structure, roles and resources of the Fund to ensure that the Fund is capable of meeting these new challenges. Over the course of 2024/25 this full review will be undertaken as a priority and proposals will be brought to Pensions Committee and Board in the first part of the year, and if approved, with full implementation will follow.

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).

Whilst over 2023/24, the Fund has been transitioning assets to reach target asset allocation, there are still further transitions to be carried out in 2024/25, namely the remaining 50% of allocation to alternative assets and the further transitioning of existing equities to ESG alternatives. These exercises will be undertaken throughout the year if market conditions allow. Following the outcome of the 2023 actuarial valuation, a review of the Fund's investment strategy will take place in 2024/25, with any recommendations actioned when market conditions favour.

4 **FINANCIAL POSITION**

At 31 December 2023 the value of the Fund was approximately £5,172.5m. Accounts for the year to 31 March 2023 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.

Most employer contribution rates are 15.7% of payroll for the 3-year period from 2024/2025 to 2026/2027. There are three employers who pay higher contribution rates due to this scheme being closed to new entrants.

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) are the Fund's Internal Auditors. During 2023/24, audits undertaken reviewed Pension Administration and Liquidity Management, as well as a workshop on Environmental Social & Corporate Governance (ESG). The recommendations made have been accepted and are in the process of implementation now and will be complete during 2024/25.

Audits planned for 2024/25 are as follows:

- Investment Strategy - Review of the design of key controls and governance that lead to advising on and setting the investment strategy.
- Outsourcing / 3rd Party Management - Review of the design and operating effectiveness of key controls in respect of third party management.
- Risk Management and Regulatory Compliance – Review of the design and operating effectiveness of key controls in respect of the Fund's risk management framework.

7 **ACTUARIAL SERVICES**

These have been provided from 1 July 2004 by Barnett Waddingham. The procurement exercise planned for 2022/2023 has been subject to delay as a result of operational priorities, and will begin in March 2024.

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. This option has been actioned. 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 will be undertaking a review of investment strategy in 2024/25 and will continue to assist with the implementation of their recommendations.

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 2023 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

- 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.

In 2023/24, employers were given deadlines to onboard to IConnect for all monthly returns, and the staff have been providing support and guidance to comply. There are a small number of employers (although large in terms of membership) still non-compliant, and assisting them to overcome their issues will be a priority in the early part of 2024/25. Further enhancements to the IConnect service was also introduced to employers, allowing them to upload completed documentation for their members along with their IConnect submissions. The Fund will be working with employers in 2024/25 to fully implement as a priority to improve process times for members and efficiencies for the employer.

- Member Self Service – Take up of the member portal has been very good since its implementation in 2020/21, however the aim is to continuously improve on the initial uptake. Over 2023/24 the Fund introduced a process for all new scheme members to register for the service as part of initial communication. In addition, prior to the issue of Annual Benefit Statements, a further onboarding exercise was undertaken. This exercise will be undertaken again in 2024/25, and the Fund hopes to undertake payslip exercises with employers in the year to further increase uptake.

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. During 2023/24 the Fund worked with employers to ensure that all data required to implement the remedy was captured, with a submission deadline being set for 31st March 2024. Whilst the Fund are in receipt of a number of returns, there are still some outstanding, and the Fund will be engaging with these employers to ensure that they prioritise this on behalf of their members.

The Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023 were laid in the Scottish Parliament and came into force on 1 October 2023, however Funds had to wait on guidance on prioritisation of cases from The Scottish Public Pensions Agency and from The Government Actuary Department. The last of this guidance was received on 5th March 2024, and only following this can the Fund begin to address cases.

During 2023/24 additional functionality was added to the suite of software products used by the Fund to allow detailed analysis of member data and inbuilt validation which will assist in highlighting any inconsistencies in data received from employers prior to processing the McCloud caseload. In 2024/25 McCloud remedy processing will be integrated into operational workload and allocation as well as the commencement of the additional requirement for assessment and remedy of past cases in line with the issued prioritisation guidance.

GMP Rectification

During 2023/24, phase 2 was fully completed. This involved the closure of over one thousand complex case queries where there were discrepancies between HMRC records and Fund records. These cases now have the appropriate GMP values applied to individual records.

During 2024/2025 the final stage (phase 3) will be undertaken for the identified cases (circa 500) which require rectification. This will require each affected record to be amended to ensure that either the correct GMP and excess pension is held on the administration system with no change to the total

pension, or if the total pension is outside the rectification tolerance, a change to the total pension will be required. This can mean either an increase or decrease to a member's current pension benefit, however, if a decrease applies, there will be no impact to the pension in payment as stipulated in the guidance from SPPA.

As part of the Phase 3, a certification for each case needs to be applied to confirm that Reconciliation and Rectification (where applicable) has been completed along with details relating to any rectified GMP amounts, to ensure a robust audit trail will be placed on each member's record.

Pensions Dashboard

Pensions dashboards are digital services (apps, websites or other tools) which savers will be able to use to see their pension information in one place. This includes information on their occupational pension schemes such as the Local Government Pension Scheme. Dashboards aim to help members plan for retirement by finding their various pensions and reconnecting them with any lost pension pots and understanding the value of their pensions in terms of an estimated retirement income. The unconfirmed go live date for this requirement is September 2025, however, this may be subject to further change.

To continue with the Fund's preparation for this, during 2023/24, the Fund contracted with its existing software provider to utilise its Pensions dashboard ISP products. This will provide the Fund with a seamless connection to the Dashboard infrastructure. This product will assist in preparation in areas such as data readiness, matching rule assessment, data analytics and compliance status.

The preparation of data for dashboard connection commenced during 2023/24 with the introduction of the data cleansing toolkit. The toolkit is made up of an address and mortality screening service to ensure that the data held on all records (active, deferred and pensioner) are ready for matching with dashboard requests. During 2024/25, following testing, these services will be fully launched. Further information on the overall dashboard programme will be submitted to Sub-Committee quarterly.

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

	2022/23 Actual £000	2023/24 Estimate £'000	2024/25 Budget £'000
Administrative costs *			
DCC Management charge	1,310	1,376	1,444
System costs	297	366	300
Audit fees	66	100	100
Actuary	14	30	20
Other expenses	65	80	90
	1,752	1,952	1,954
Oversight and Governance costs **	115	121	127
Investment Management expenses			
Management fees	9,048	9,200	9,500
Transactions costs ***	765	2,000	950
Custody fees	68	75	80
Performance monitoring service	25	26	27
Investment consultancy ***	28	135	40
	9,934	11,436	10,597
Total	11,801	13,509	12,678

* 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.

*** Transaction cost and Investment Consultancy costs have increased during 2023/24 due to transition of GSAM bond portfolio into three new investment mandates.

TAYSIDE PENSION FUND - FUND ACCOUNT

2021/2022 £000		2022/2023 £000
	Dealings with Members, Employers and other directly involved in the fund	
81,241	Employers' contributions	84,524
28,363	Employees' contributions	30,210
6,221	Transfers in from other pension funds	3,954
<u>115,825</u>		<u>118,688</u>
(125,706)	Benefits	(132,928)
(5,757)	Payments to and on account of leavers	(5,076)
<u>(131,463)</u>		<u>(138,004)</u>
<u>(15,638)</u>	Net Withdrawals from dealings with members	<u>(19,316)</u>
(1,968)	Administration Expenses	(1,867)
<u>(17,606)</u>	Net Withdrawals from dealings with Members including Administration Expenses	<u>(21,183)</u>
	Returns on Investments	
79,440	Investment Income	84,205
195,064	Change in Market Value of Investments	(315,012)
(10,494)	Investment Management Expenses	(9,934)
<u>264,010</u>	Net Returns on Investments	<u>(240,741)</u>
<u>246,404</u>	Net increase in Fund during the year	<u>(261,924)</u>
4,849,572	Opening Net Assets of the scheme	5,095,976
<u>5,095,976</u>	Closing Net Assets of the scheme	<u>4,834,052</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

2021/22		2022/23
£000		£000
5,124,493	Investment Assets	4,836,157
(38,025)	Investment Liabilities	(17,965)
5,086,468	Total Net Investments	4,818,192
13,696	Current Assets	20,464
5,100,164		4,838,656
(4,188)	Current Liabilities	(4,604)
5,095,976	Net assets of the fund available to fund benefits at the end of the reporting period	4,834,052

Robert Emmott BSc CPFA
 Executive Director of Corporate Services
 Dundee City Council
 18 December 2023

The Net Asset Statement represents the value and liabilities as at 31 March 2023 (excluding liability to pay pensions).

The Unaudited Accounts were issued on 26 June 2023 and the Audited Accounts were authorised for issue on 18 December 2023.

KEY MEASURES AND TARGETS

	2018/19 Actual	2019/20 Actual	2020/21 Actual	2021/22 Actual	2022/23 Actual	Target
1 Pension Fund Administration						
(i) Cost per member	£36.73	£34.55	£28.67	£34.63	£31.64	£35.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	-0.21%	+0.29%	+8.13%	-5.87%	-1.26%	+1.0%
(ii) Funding level of Pension Fund	107%**	109%**	109%**	109%**	110%**	110%**

** 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	100% IPD All Balanced Property Funds Weighted Average Index +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 – 2024/25

Actuarial Services	To continue to monitor funding levels of the Fund and provide actuarial accounting reports to employers as required.
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.