

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE POLICY & RESOURCES COMMITTEE - 23 FEBRUARY 2009**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2009/2010

REPORT BY: HEAD OF FINANCE

REPORT NO: 43-2009

1 PURPOSE OF REPORT

This report introduces the sixth 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 2009/10 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 2009/10. 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 in the Local Government Pension Scheme in the United Kingdom April 2002" 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 current plan will cover the period when the asset allocation will be reviewed in light of the latest triennial valuation result

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, Depute Chief Executive (Support Services) and Depute Chief Executive (Finance) have been consulted in the preparation of this report.

7 **BACKGROUND PAPERS**

None

**MARJORY M STEWART
HEAD OF FINANCE**

17 FEBRUARY 2009

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2009/10**

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" 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 2008 the value of the merged Funds was approximately £1,350m.

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 2009/10 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 2008 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 relatively unchanged at 18.5% of payroll.

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. A full valuation of the Main Fund and Transport Fund was undertaken at 31 March 2008. This will set the employer contribution rates for 2009/10, 2010/11 and 2011/12.

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. 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 third statements for the Funds have been produced following consultation with participating bodies and the actuary.

9 **KEY MEASURES AND TARGETS**

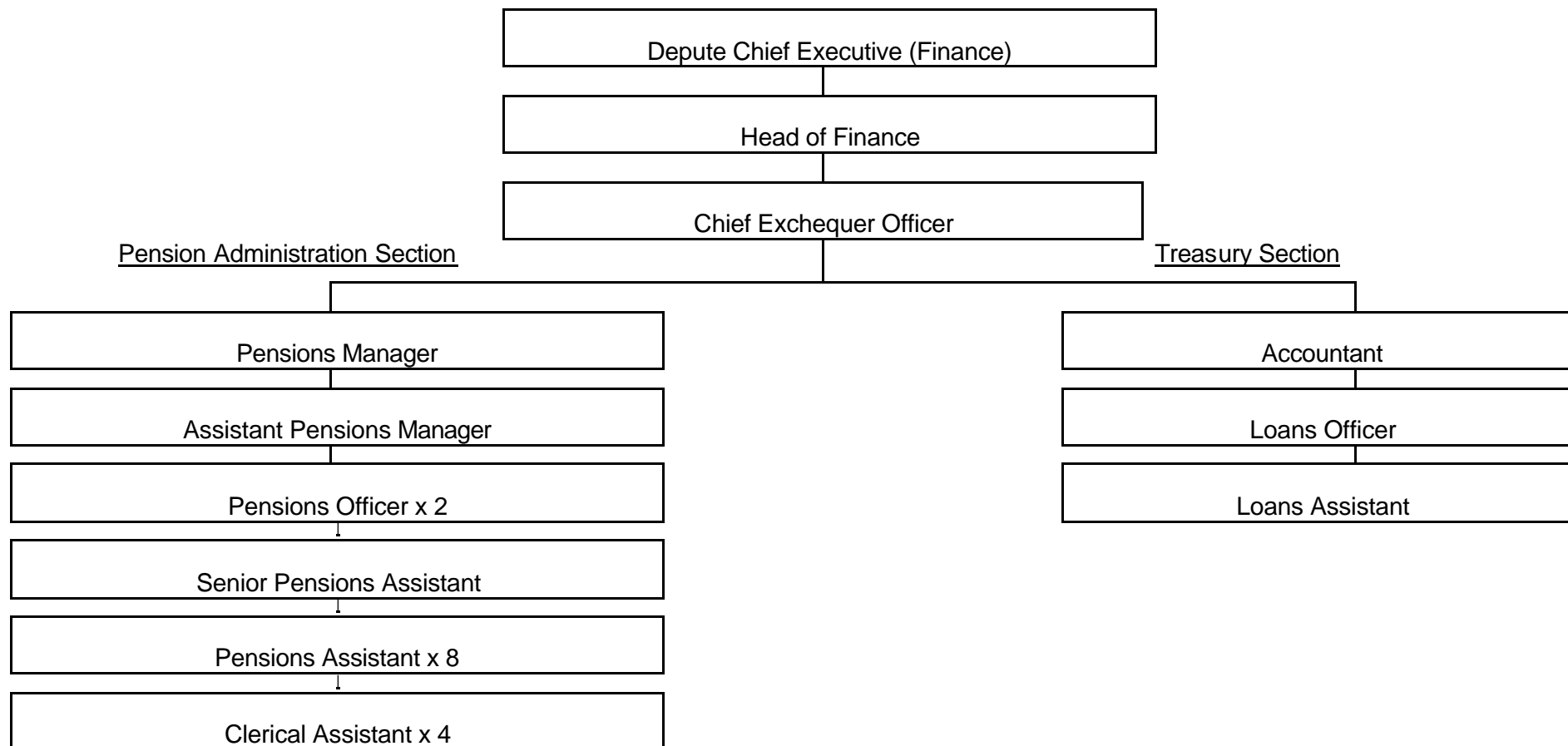
These are summarised in Appendix 4.

10 **ADMINISTRATION**

The administration section will continue to prepare for the revised Local Government Pension Scheme which starts in April 2009.

A review of the AVC provider - Standard Life will also take place.

DUNDEE CITY COUNCIL
FINANCE DEPARTMENT - FINANCIAL SERVICES DIVISION (EXTRACT)



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2009/10

	<u>Treasury and Investment (£000)</u>	<u>Pension Administration (£000)</u>	<u>Total (£000)</u>
Staff Costs	83	457	540
Property	-	61	61
Supplies and Services	19	48	67
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
TOTAL EXPENDITURE	<u>103</u>	<u>595</u>	<u>698</u>

TAYSIDE SUPERANNUATION FUND ACCOUNTS

2006/2007 £000	FUND ACCOUNT CONTRIBUTIONS AND BENEFITS	2007/2008 £000	£000
	Contributions receivable:		
(54,338)	From employers	(59,250)	
<u>(19,172)</u>	From members	<u>(19,898)</u>	
(73,510)			(79,148)
(9,796)	Transfers in		<u>(7,739)</u>
	Benefits payable:		
37,406	Pensions	40,365	
<u>10,184</u>	Lump Sums	<u>12,332</u>	
47,590			52,697
	Payments to and on account of Leavers:		
362	Refunds of Contributions	331	
<u>3,439</u>	Transfers Out	<u>4,526</u>	
3,801			4,857
<u>1,186</u>			<u>1,178</u>
(30,729)			(28,155)
	Administration Expenses		
	Net Deposit from dealings with Members		
	RETURNS ON INVESTMENTS		
	Investment Income		
(5,395)	Interest from Fixed Interest Securities	(6,186)	
(29,626)	Dividends from Equities	(28,117)	
(5,046)	Income from Index Linked Securities	(5,142)	
(2,864)	Income Pooled Investment Vehicles	(6,206)	
(1,627)	Interest on Cash Deposits	(1,613)	
(1,672)	Other Income	(2,423)	
(69,641)	Change in Market Value of Investments	108,654	
4,814	Investment Management Expenses	5,612	
<u>544</u>	Taxation	<u>638</u>	
<u>(110,513)</u>	Net Returns on Investments		<u>65,217</u>
141,242	NET (INCREASE)/DECREASE IN FUND IN THE YEAR		(37,062)
<u>1,446,325</u>	OPENING NET ASSETS OF THE SCHEME		<u>1,587,567</u>
<u>1,587,567</u>	CLOSING NET ASSETS OF THE SCHEME		<u>1,550,505</u>

Restated 2007 £000	NET ASSETS STATEMENT (AS AT 31 MARCH) INVESTMENT ASSETS AT MARKET VALUE	2008 £000	£000
	Listed Investments		
426,979	- UK Equities	383,835	
44,325	- UK Fixed Interest - Public Sector	61,810	
21,015	- UK Fixed Interest - Other	21,663	
39,998	- UK Index Linked	51,453	
440,586	- Overseas Equities	441,193	
39,704	- Overseas Open Ended Investment Companies	41,960	
31,906	- Overseas Fixed Interest - Other	5,309	
10,436	- Overseas Fixed Interest - Public Sector	34,052	
	Unlisted Investments		
104,048	- UK Open Ended Investment Companies	105,981	
207,214	- Overseas Open Ended Investment Companies	211,432	
180,325	- Property Unit Trusts	146,490	
<u>24,866</u>	Cash Balances held by Fund Managers	<u>26,244</u>	
1,571,402			1,531,422
	CURRENT ASSETS		
14,960	Sundry Debtors	19,115	
<u>6,210</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>5,597</u>	
21,170		24,712	
	LESS CURRENT LIABILITIES		
<u>(5,005)</u>	Sundry Creditors	<u>(5,629)</u>	
<u>16,165</u>	NET CURRENT ASSETS		<u>19,083</u>
<u>1,587,567</u>	NET ASSETS		<u>1,550,505</u>

FCCA, CPFA

Marjory Stewart,

Head of Finance
Dundee City Council

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2006/2007 £000	FUND ACCOUNT	2007/2008 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
(500)	From employers	(700)	
<u>(115)</u>	From members	<u>(115)</u>	
(615)			(815)
(40)	Transfers In		-
	Benefits payable:		
1,643	Pensions	1,676	
<u>101</u>	Lump Sums	<u>236</u>	
1,744			1,912
	Payments to and on account of Leavers:		
44	Transfer Out		-
<u>35</u>	Administration Expenses		<u>33</u>
1,168	Net Deposit from dealing with Members		1,130
	RETURNS ON INVESTMENTS		
	Investment Income		
(238)	Interest from Fixed Interest Securities	(337)	
(646)	Dividends from Equities	(664)	
(313)	Income from Index Linked Securities	(315)	
(65)	Income Pooled Investment Vehicles	(136)	
(45)	Interest on Cash Deposits	(68)	
(5)	Other Income	(49)	
(1,173)	Change in Market Value of Investments	1,895	
125	Investment Management Expenses	117	
<u>9</u>	Taxation	<u>7</u>	
<u>(2,351)</u>	Net Returns on Investments		450
1,183	NET INCREASE/(DECREASE) IN FUND DURING THE YEAR		1,580
<u>40,848</u>	OPENING NET ASSETS OF THE SCHEME		<u>42,031</u>
<u>42,031</u>	CLOSING NET ASSETS OF THE SCHEME		<u>40,451</u>

2007 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2008 £000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
12,381	- UK Equities	9,568	
4,187	- UK Fixed Interest - Public Sector	5,639	
1,985	- UK Fixed Interest - Other	1,976	
3,778	- UK Index Linked	4,694	
9,713	- Overseas Equities	9,579	
986	- Overseas Fixed Interest - Public Sector	484	
3,014	- Overseas Fixed Interest - Other	3,106	
	Unlisted Investments		
577	- UK Open Ended Investment Companies	405	
238	- Overseas Open Ended Investment Companies	629	
4,075	- Property Unit Trusts	3,219	
<u>974</u>	Cash Balances held by Fund Managers	<u>779</u>	
41,908			40,078
	CURRENT ASSETS		
80	Sundry Debtors	9	
<u>154</u>	Revenue Deposits with Dundee City Council Loans Fund (Cash)	<u>476</u>	
234		485	
	LESS CURRENT LIABILITIES		
<u>(111)</u>	Sundry Creditors	<u>(112)</u>	
<u>123</u>	NET CURRENT ASSETS		<u>373</u>
<u>42,031</u>	NET ASSETS		<u>40,451</u>

CPFA

Marjory Stewart, FCCA,

Head of Finance
Dundee City Council

The unaudited accounts were issued on 30 June 2008 and the audited accounts were authorised for issue on 30 September 2008.

KEY MEASURES AND TARGETS

	<u>Baseline</u>	<u>2006 Actual</u>	<u>2007 Actual</u>	<u>2008 Actual</u>	<u>Target</u>
1 <u>Pension Fund Administration</u>					
i Cost per member	£28.88	£30.83	£28.88	£29.11	£30.00
2 <u>Pension Fund Investment</u>					
i Investment performance relative to benchmark	+1.0%	+0.9%	+1.3%	+0.4%	+1.0%
ii Funding level of Superannuation fund	100%	102%	102%	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

Target - 2008

5 Actuarial Services	To continue quarterly monitoring of funding levels.
6 Investment Consultancy	To review asset allocation of Funds.