

**REPORT TO: PENSION SUB-COMMITTEE OF THE POLICY & RESOURCES
COMMITTEE & PENSION BOARD– 25 MARCH 2019**

REPORT ON: TAYSIDE PENSION FUNDS BUSINESS PLAN 2019/2020

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 131-2019

1 PURPOSE OF REPORT

This report introduces the 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 2019-2020 Business Plan which applies to the administration and management of the Tayside Pension Funds.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Corporate Services Revenue Budget 2019/2020. 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 Financial Services Section as part of the Corporate Services Department's overall planning process.

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

**GREGORY COLGAN
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

30 AUGUST 2019



BUSINESS PLAN 2019-2020

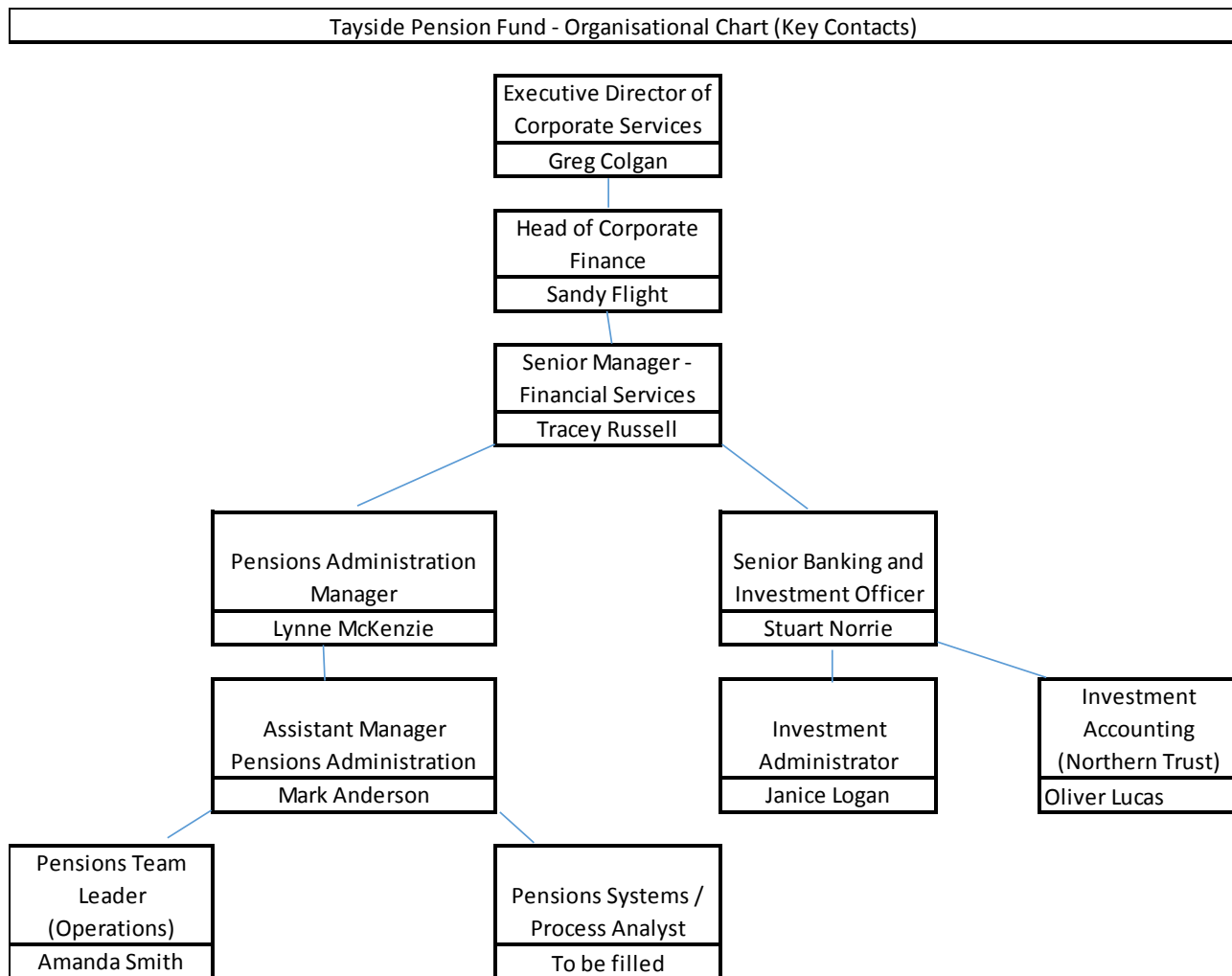
1 **INTRODUCTION**

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**

At 31 December 2018 the value of the Fund was approximately £3,618m.

Within Dundee City Council's Corporate Services the responsibility for the Pension Fund lies within Financial Services, the revised structure of Financial Services is shown below.



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

Following a review of the staffing structure within Pensions Administration, the staffing levels within this are have increased over the year and the recruitment exercise will be completed in the first half of the coming financial year.

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.

As part of our new Opportunistic portfolio in Diversified Alternatives we plan to appoint a fund manager during 2019/20. KPMG has recommended that in order to quicken the implementation of this allocation, and whilst aware of the governance burden that the management of these types of assets have that an allocation to diversified alternatives of 50% of asset allocation to Local and Alternative Opportunities be incorporated into the fund via a procurement exercise, awarding the mandate to a manager with significant market experience in this area. This type of portfolio will produce a mixed liquidity portfolio across public and private markets with differing, complimenting risk and return profile

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2018 are shown in Appendix 2 (including those of the Transport Fund which was repatriated on 30th June 2017). 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 are 17.0% of payroll for the 3 year period from 2018/2019.

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, completed in May 2017, has resulted in the Fund achieving efficiencies.

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 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 2017. A procurement exercise is planned for 2019/2020 and the outcome of this exercise may result in a change of provider.

7 **INVESTMENT CONSULTANCY**

Investment advice is currently provided by 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. KPMG will 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.

8 **FUNDING STRATEGY STATEMENT**

These are produced following consultation with the actuary.

9 **KEY MEASURES AND TARGETS**

These are summarised in Appendix 3.

10 **ADMINISTRATION**

Pensionsweb

The Pensionsweb service has now been in place for employers since 2015, but uptake has been slower than anticipated. Exercises continue to assist employers to benefit the full efficiencies in 2019/20 and we continue work with the online service provider Civica in respect of a number of system issues such as the uploading of weekly and lunar payrolls.

A historical reconciliation exercise of Resourcelink (payroll system) to Altair has been largely undertaken as we considered this good practice to undertake this prior to implementing the self-service member module. In January 2019 letters were issued to Pensioner members advising them that the issue of paper payslips would be discontinued after the issue of the month 12 (P60 substitute) and requesting members to register on Pensionsweb in order that they may view and print their payslips from this secure online service. For those members who cannot register for this service will continue to be issued with paper payslips as at present. Throughout 2019, the self-service module will be rolled out to deferred and active members following a current pilot exercise currently underway. We are coordinating with the system providers to address calculation irregularities within the program.

GMP

Equiniti were awarded the contract to undertake the HMRC reconciliation exercise. The reconciliation phase is now approximately 95% complete, and we are having ongoing communication meetings held regular to discuss issues as they arrive. In 2019/20 the final part of the project will commence with the identification and rectification of pension under and overpayments.

Employer Covenant Review

A tender for an independent service provider to undertake this task was issued in February 2019, and following contract award, the project will commence and be carried out during 2019/20, and this will also be supported by issue of revised admission agreements for all employers to ensure consistency.

Task Management

To build from the implementation of the Pensionsweb system and further improve service through faster processes which are more easily monitored, this system commenced implementation during 2018 and will be completed during 2019/20 as tasks are onboarded onto the platform. This will enable the fund to better manage workload and to monitor performance in relation to the Administration Strategy through service requirements of both the fund and the employers.

11 **TREASURY MANAGEMENT**

Dundee City Council provides a treasury management service at a cost of approximately £7,000 per annum.

TAYSIDE PENSION FUNDS

Management Expenses of the Funds

	2016/17 Actual £'000	2017/18 Actual £000	2018/19 Estimate £'000	2019/20 Budget £'000
Administrative costs *	1,327	1,424	1,825	1,605
DCC Management charge	968	1,016	1,045	1,075
System costs	200	142	150	150
Audit fee	30	33	30	30
Actuary	28	41	25	25
Outsourcing	-	66	450	200
Other expenses	101	126	125	125
Oversight and Governance costs **	98	97	100	100
Investment Management expenses	8,736	9,311	9,814	10,315
Management fees	8,452	9,030	9,500	10,000
Custody fees	180	134	170	175
Performance monitoring service	36	33	34	35
Investment consultancy	44	46	50	45
Broker Commission	24	68	60	60
Total	<u>10,161</u>	<u>10,832</u>	<u>11,739</u>	<u>12,020</u>

* 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.

TAYSIDE PENSION FUND ACCOUNTS

2016/2017 £000	FUND ACCOUNT	2017/2018	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable :-</u>		
69,594	From employers	72,684	
<u>23,518</u>	From members	<u>23,931</u>	
93,112			96,615
2,310	Transfers in		2,414
	<u>Benefits payable :-</u>		
(75,312)	Pensions	(80,427)	
<u>(22,564)</u>	Lump Sums	<u>(23,244)</u>	
(97,876)			(103,671)
	<u>Payments to and on account of Leavers :-</u>		
(214)	Refund of Contributions to Members	(211)	
(94)	Refund of Contributions to State Scheme	(17)	
<u>(8,046)</u>	Transfers Out	<u>(3,588)</u>	
(8,354)			(3,816)
<u>(1,378)</u>	Administration Expenses		<u>(1,500)</u>
(12,186)	Net Withdrawals from dealings with Members		(9,958)
	RETURNS ON INVESTMENTS		
43,225	Investment Income	83,390	
563,997	Change in Market Value of Investments	110,750	
<u>(8,516)</u>	Investment Management Expenses	<u>(9,248)</u>	
598,706	Net Returns on Investments		184,892
19,002	Net Contribution and Withdrawals		(208)
-	Repatriation of Transport Fund assets		<u>70,774</u>
605,522	Net increase in Fund during the year		245,500
<u>2,839,602</u>	OPENING NET ASSETS OF THE SCHEME		<u>3,445,123</u>
<u>3,445,123</u>	CLOSING NET ASSETS OF THE SCHEME		<u>3,690,623</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 ACCOUNTS

2017	NET ASSETS STATEMENT (AS AT 31 MARCH)	2018	
£000	<u>Listed Investments</u>	£000	£000
770,788	UK Equities	638,409	
21,095	UK Pooled Funds	-	
65,024	UK Fixed Interest - Public Sector	46,124	
93,909	UK Fixed Interest - Other	148,084	
83,863	UK Index Linked - Public Sector	-	
817,367	Overseas Equities	1,485,532	
323,590	Overseas Pooled Funds	354,622	
408,478	Overseas Open Ended Investment Companies	-	
131,290	Overseas Fixed Interest – Other	337,176	
910	Derivatives (Futures)	4,082	
	<u>Unlisted Investments</u>		
249,666	UK Open Ended Investment Companies	109,029	
4,097	M&G Fund	1,088	
80,750	Overseas Open Ended Investment Companies	47,523	
346,275	Property Unit Trusts	434,085	
-	- Alternatives	457	
30,965	Cash Balances held by Fund Managers	64,335	
<u>22,458</u>	Financial Debtors	<u>33,164</u>	
3,450,525			3,703,710
	INVESTMENT LIABILITIES		
(309)	Derivatives (Futures)	(910)	
<u>(16,045)</u>	Other Financial Liabilities	<u>(22,123)</u>	
<u>(16,354)</u>	Total Financial Liabilities		<u>(23,033)</u>
3,434,171	Net Financial Assets		3,680,677
	CURRENT ASSETS		
7,705	Contributions Due from Employers	8,537	
2,133	Sundry Debtors	2,472	
4,396	Cash and Bank	4,957	
<u>14,234</u>		<u>15,966</u>	
	LESS CURRENT LIABILITIES		
(3,282)	Sundry Creditors	(6,020)	
<u>10,952</u>	NET CURRENT ASSETS		<u>9,946</u>
<u>3,445,123</u>	NET ASSETS		<u>3,690,623</u>

Gregory Colgan BAcc (Hons), ACMA, CGMA
 Executive Director of Corporate Services
 Dundee City Council
 3 September 2018

The Net Asset Statement represents the value and liabilities as at 31 March 2018 (excluding liability to pay pensions).

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

2016/2017 £000	FUND ACCOUNT TO 30 JUNE 2017	2017/2018 £000	£000
	CONTRIBUTIONS AND BENEFITS		
	<u>Contributions receivable:-</u>		
369	From employers	100	
<u>71</u>	From members	<u>18</u>	
440			118
	<u>Benefits payable:-</u>		
(2,029)	Pensions	(507)	
<u>(125)</u>	Lump Sums	=	
(2,154)			(507)
	<u>Payments to and on account of Leavers:-</u>		
=	Transfers Out	<u>(146)</u>	
-			(146)
<u>(47)</u>	Administration Expenses		<u>(21)</u>
(1,761)	Net Withdrawals from dealings with Members		(556)
	RETURNS ON INVESTMENTS		
611	Investment Income	247	
10,912	Change in Market Value of Investments	900	
<u>(217)</u>	Investment Management Expenses	<u>(63)</u>	
<u>11,306</u>	Net Returns on Investments		<u>1,084</u>
9,545	Net (decrease)/increase in Fund during the year		528
<u>60,701</u>	OPENING NET ASSETS OF THE SCHEME		<u>70,246</u>
<u>70,246</u>	CLOSING NET ASSETS OF THE SCHEME		<u>70,774</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.

This single employer fund was repatriated to the main fund on 30th June 2017.

TAYSIDE TRANSPORT PENSION FUND ACCOUNTS

31/3/2017 £000	NET ASSETS STATEMENT	£000	30/6/2017 £000
	<u>Listed Investments</u>		
17,985	UK Equities	18,014	
4,109	UK Fixed Interest - Public Sector	4,221	
176	UK Fixed Interest - Other	171	
7,962	UK Index Linked - Public Sector	7,697	
15,719	Overseas Equities	16,401	
2,105	Overseas Fixed Interest - Other	1,971	
65	Derivatives (Futures)	50	
	<u>Unlisted Investments</u>		
14,030	UK Open Ended Investment Companies	14,143	
226	Overseas Open Ended Investment Companies	225	
4,984	Property Unit Trusts	6,330	
2,539	Cash Balances held by Fund Managers	1,227	
<u>594</u>	Financial Debtors	<u>175</u>	
70,494			70,625
	INVESTMENT LIABILITIES		
(31)	Derivatives (Futures)	(70)	
<u>(362)</u>	Other Financial Liabilities	-	
<u>(393)</u>	Total Financial Liabilities		<u>(70)</u>
70,101	Net Financial Assets		70,555
	CURRENT ASSETS		
34	Contributions Due from Employers	41	
<u>209</u>	Cash and Bank	<u>260</u>	
243		301	
	LESS CURRENT LIABILITIES		
(98)	Sundry Creditors	<u>(82)</u>	
<u>145</u>	NET CURRENT ASSETS		<u>219</u>
<u>70,246</u>	NET ASSETS		<u>70,774</u>

Gregory Colgan BAcc (Hons), ACMA, CGMA
 Executive Director of Corporate Services
 Dundee City Council
 3 September 2018

KEY MEASURES AND TARGETS

	<u>2013/14</u> <u>Actual</u>	<u>2014/15</u> <u>Actual</u>	<u>2015/16</u> <u>Actual</u>	<u>2016/17</u> <u>Actual</u>	<u>2017/18</u> <u>Actual</u>	<u>Target</u>
1 Pension Fund Administration						
(i) Cost per member	£26.92	£25.62	£26.27	£28.22	£28.91	£30.00
2 Pension Fund Investment						
(i) Annual Investment performance relative to benchmark	+2.71	+1.0%	+0.51%	-0.57%	+1.71%	+1.0%
(ii) Funding level of Pension Fund	99.8%*	99.8%*	99.8%*	107%**	107%**	107%**

* 99.8% does not include 5% volatility reserve.

** 107% does not include 10% volatility reserve.

Statement of Investment Principles

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	HSBC IPD Pooled Property Median +0.75% pa
Goldman Sachs	Yield to maturity of 3%+1.25% pa (gross of fees)
Alliance Bernstein	Specific Benchmark +1.5% to 2% pa (net of fees)
LGIM	100% FTSE AW Index +/-0.5%pa (2 out of 3 yrs)
4 Asset Allocation	

Tayside Main 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%

Service Providers**Target – 2019/20**

5 Actuarial Services	To continue quarterly monitoring of funding levels.
6 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.