

**TAYSIDE SUPERANNUATION FUNDS**

**ANNUAL REPORT AND ACCOUNTS  
FOR THE YEAR ENDED 31 MARCH 2012**

**AUDITED**

# CONTENTS

	Page
Foreword by the Director of Corporate Services	2
Introduction	3
Members and Advisors	4
Fund Administration	5
Statement of Responsibilities for the Statement of Accounts	7
<u>Tayside Superannuation Fund</u>	
Fund Account	8
Net Asset Statement	9
Notes to the Accounts	10
Actuarial Statement	14
Funding Strategy Statement	16
<u>Tayside Transport Superannuation Fund</u>	
Fund Account	25
Net Asset Statement	26
Notes to the Accounts	27
Actuarial Statement	30
Statement of Accounting Policies	32
Governance Compliance Statement	34
Risk Register	39
Valuation and Distribution of Assets	43
Performance Returns	46
Principal Equity Holdings (as at 31 March 2012)	47
Appendix 1 - Scheduled and Admitted Bodies	48
Appendix 2 - Additional Information	49
Independent Auditor's Report	50

## FOREWORD BY DIRECTOR OF CORPORATE SERVICES

Welcome to the Tayside Superannuation Funds Annual Report and Accounts produced by Dundee City Council for the year ended 31 March 2012.

The Annual Report has been produced to keep members, employers and other interested stakeholders informed about the administration and performance of the two Local Government Pension Scheme (LGPS) Funds that Dundee City Council is responsible for administering. The funds are : Tayside Superannuation Fund and Tayside Transport Superannuation Fund. The Annual Report includes a review of activities relevant to the funds in general and also provides sections dedicated to each of the funds, covering their investments, financial accounts and actuarial position.

The Main Fund value at 31 March 2012 of £1,959.1m reflected an increase of £50.5m or 2.6% on the equivalent value at 31 March 2011. The Transport Fund value at 31 March 2012 of £48.5m reflected an increase of £2.5m or 5.4% on the equivalent figure at 31 March 2011.

	2011	2012	+ / -
Main Fund value	£1,908.6m	£1,959.1	£50.5m
Transport Fund value	£46.0m	£48.5	£2.5m
Total Contributors Members	17,970	17,313	(657)
Total Pensioners	12,228	12,725	497
Scheduled Bodies	14	14	-
Admitted Bodies	34	34	-

During the year, the Funds received the results of their triennial valuation as at 31st March 2011. This showed funding levels for the Main Fund and Transport Fund of 98% and 97% respectively.

I would wish to acknowledge the efforts of Dundee City Council's Pension Section, in particular Bob Hassall who retired earlier this month, for their patience and diligence in ensuring the continuing smooth operation of the scheme and for the courteous and efficient manner in which they look after the pension needs of contributors, pensioners and deferred pensioners. Further, I would like to thank all the Trustees of the Superannuation Sub-Committee and officers of the City Council Finance Department for their effort and assistance in managing the Tayside Superannuation Funds and, in particular, the Chair, Willie Sawers for his leadership of the Investment Sub-Committee.

**Marjory Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**29 June 2012**

## INTRODUCTION

Dundee City Council is the administering authority for both the Tayside Superannuation Fund (Main Fund) and the Tayside Transport Superannuation Fund (Transport Fund). The scheme covering these Funds is statutory, approved by the Inland Revenue and contracted out of S2P (the State Second Pension).

The Scheme is a "defined benefit scheme". This means that the benefits to which members and their spouses are entitled are determined by final pensionable pay and pensionable service.

*The Tayside Superannuation Fund* is maintained for the benefit of its membership (including existing and deferred pensioners). This comprises the majority of Local Government employees within Dundee City Council, Perth and Kinross Council and Angus Council as well as 45 other "scheduled bodies" and "admitted bodies" (see appendix 1). Teachers are not included in the Scheme as they have a separate, nationally established, statutory arrangement.

*The Tayside Transport Superannuation Fund*

As a result of the 1985 Transport Act, the employees of the former Dundee City Bus Unit which formed part of Tayside Regional Council's Roads and Transport Department were transferred to a new company, Tayside Public Transport Company Ltd. A separate Superannuation Fund for those transferred employees was set up on 26 October 1986.

During 1991/92 Tayside Public Transport Company Ltd was subject to an employee buy-out. Any employees in post at the time of the buy-out may remain in the Fund, however, any new employees are not eligible for entry into the Fund.

Tayside Public Transport Company Limited was bought out by West Midlands Travel on 22 February 1997 and renamed as Travel Dundee, but this had no effect whatsoever on the Fund.

# MEMBERS AND ADVISORS

## Superannuation Investment Sub-Committee

Dundee City Council is the administering authority for the Funds. The majority of this responsibility is delegated through the Council's Policy and Resources Committee to the Superannuation Investment Sub-Committee. Membership of the Sub-Committee as at 31 March 2012 is as noted below:

### **Councillors:**

Bailie Willie Sawers (Chair)  
Bailie George Regan  
Cllr Jimmy Black  
Cllr Kevin Keenan  
Cllr Andy Dawson  
Bailie Rod Wallace

### **Representatives (non voting)**

Mr S Rice (Tayside Full-time Trade Unions Officers Group)  
Mr R MacKay (UNISON)  
Mr R McKelvie (TGWU representing Travel Dundee Ltd)

### **Fund Managers**

Baillie Gifford & Co	(Appointed November 1992)
Fidelity Pension Management	(Appointed November 1997)
Schroder Property Investment Management	(Appointed July 1997)
Goldman Sachs Asset Management	(Appointed July 2003)
Alliance Bernstein	(Appointed July 2003)
M&G Investment Management	(Appointed May 2010)

### **Investment Advisers**

Hymans Robertson

### **Actuaries**

Barnett Waddingham (Appointed July 2004)

### **Custodian**

Northern Trust (Appointed April 2002)

### **Bankers**

Royal Bank of Scotland

### **Auditors**

KPMG

### **Corporate Governance Advisors**

Pension & Investment Research Consultants Ltd (PIRC)

### **Performance Measurement**

Northern Trust

# FUND ADMINISTRATION

## Membership

The Local Government Pension Scheme is voluntary and is open to all employees of the Scheduled and Admitted Bodies (see Appendix 1).

Membership of the Tayside Funds at 31 March 2012 was:

	<u>Main Fund</u>	<u>Transport Fund</u>	<u>Total Fund</u>
Contributing Members	17,228	85	17,313
Pensioners	12,301	424	12,725
Deferred Pensioners	7,645	81	7,726
Undecided and Frozen	1,923	6	1,929
	39,097	596	39,693

## Membership Funding

The Funds are financed by the contributions made by members and their employers as well as income earned from the investment of the Funds' monies.

The contribution rates as a percentage of basic pay for 2010/2011 and 2011/2012 were as follows :

	<u>Employees</u>	<u>Main Fund Employers</u>	<u>Transport Fund Employer</u>
2010/11	5.5% - 12%	18.5%	£1,030,000
2011/12	5.5% - 12%	18.5%	£1,060,000

The employees' contribution levels are now tiered based on a percentage of pensionable pay, whereas the employers' contribution levels are reviewed every three years by the Funds' actuaries as part of their actuarial valuation of the Funds. If the actuaries believe that a surplus is likely to materialise they will recommend a reduction in the employers' contribution rate and if they believe a deficit is likely to materialise they will recommend an increase in the employers' contribution rate.

Barnett Waddingham carried out an actuarial valuation as at 31 March 2011. The result of the valuation for the two Funds were as follows :-

	<u>Main Fund</u>	<u>Transport Fund</u>
Actuarial Value of Assets	£1,922.2m	£45.5m
Actuarial Value as a percentage of Accrued Liabilities	98.2%	96.6%

Recommended Employers' Contributions as a Percentage of Pensionable Payroll for the Main Fund and as a lump sum for the Transport Fund

2012/2013	18.0%	£800,000
2013/2014	18.0%	£820,000
2014/2015	18.0%	£840,000

The common rate of contribution is the rate, which, in addition to the accumulated assets and contributions paid by members is sufficient to meet 100% of the liabilities of the Fund. This rate takes into account the deficit at 31 March 2011. The deficit is spread over the average remaining working lifetime of the existing members (approximately 12 years).

The Main Fund contribution rates following the 31 March 2011 valuation were calculated using the projected unit actuarial method.

The Transport Fund contribution rates following the 31 March 2011 valuation were calculated using the attained age actuarial method

The main actuarial assumptions were as follows:

Investment return	- Equities	6.9% per annum
	- Gilts	4.3% per annum
	- Bonds & Property	5.5% per annum
	- Discount rate (post-retirement)	4.3% per annum
	- Discount rate (pre-retirement)	6.9% per annum
Rate of general pay increases		5.0% per annum
Rate of increases to pension in payment		3.5% per annum
Valuation of assets		6 monthly smoothed market related

### **Market Value of Funds**

The market value of investments can go down, as well as up. The total market value of the investments that are under external management was £1,932.6m Main Fund and £48.3m Transport Fund as at 30 April 2012.

### **Additional Contributions**

Under Inland Revenue rules, scheme members are permitted to make contributions towards retirement and death in service benefits in addition to those, which they are required to make as members of the Local Government Pension Scheme. These contributions are known as AVCs and are treated separately from the scheme's assets under arrangement with the Standard Life Assurance Company and Prudential Assurance Company. They are not recorded in the accounts of the Tayside Funds since the AVC scheme works on a defined contribution basis (ie benefit eventually derived will depend upon the amount of the contributions made, the performance of the investments made with these monies and the annuity rates at the point of retiral).

### **Pension Increases**

Pensions and deferred pensions are increased every year under the Pension (Increase) Act 1971 in line with movements in the Retail Price Index. From April 2011, this will be linked to Consumer Price Index rather than Retail Price Index. Recent pension increases are as follows :-

2008	3.9%
2009	5.0%
2010	0.0%
2011	3.1%
2012	5.2%

# STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

## The Administering Authority's Responsibilities

The Authority is required to :

- Make arrangements for the proper administration of the financial affairs of the Superannuation Funds in its charge and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Director of Corporate Services.
- Manage its affairs to secure economic, efficient and effective use of its resources and safeguard its assets.

## The Director of Corporate Service's Responsibilities

The Director of Corporate Services is responsible for the preparation of the Superannuation Funds statement of accounts which, in terms of CIPFA / LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice) is required to present a true and fair view of the financial position of the Superannuation Funds at the accounting date and their income and expenditure for the year (ended 31 March 2012).

In preparing these statements of accounts, the Director of Corporate Services has :

- Selected suitable accounting policies and then applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice, except where stated in the Statement of Accounting Policies and Notes to the Accounts

The Director of Corporate Services has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities

## Statement of Accounts

The Statement of Accounts presents a true and fair view of the financial position of the Superannuation Funds as at 31 March 2012, and their income and expenditure for the year ending 31 March 2012.

**Marjory M Stewart, FCCA, CPFA**  
**Director of Corporate Services**  
**Dundee City Council**  
**29 June 2012**

## TAYSIDE SUPERANNUATION FUND ACCOUNTS

Restated 2010/2011 £000	FUND ACCOUNT	Note	2011/2012 £000      £000	
	<b>CONTRIBUTIONS AND BENEFITS</b>			
	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
	<b>RETURNS ON INVESTMENTS</b>			
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>	<b>OPENING NET ASSETS OF THE SCHEME</b>			<u>1,908,628</u>
<u>1,908,628</u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>			<u>1,959,058</u>

## TAYSIDE SUPERANNUATION FUND ACCOUNTS

2011 £000	NET ASSETS STATEMENT (AS AT 31 MARCH)	2012 £000	£000
	<b>INVESTMENT ASSETS AT MARKET VALUE</b>	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
	<b>FINANCIAL LIABILITIES</b>		
(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
	<b>CURRENT ASSETS</b>		
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>
	<b>LESS CURRENT LIABILITIES</b>		
(8,233)	Sundry Creditors	9	<u>(4,307)</u>
<u>8,220</u>	<b>NET CURRENT ASSETS</b>		<u>5,312</u>
<u>1,908,628</u>	<b>NET ASSETS</b>		<u>1,959,058</u>

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

# NOTES TO TAYSIDE SUPERANNUATION FUND ACCOUNTS

## 1 Related Parties

The transactions and balances with Dundee City Council disclosed in the net asset statement, details are provided below :-

	2011 £000	2012 £000
<u>Transactions</u>		
Administration Costs	1,143	1,124
<u>Balances</u>		
Due from Dundee City Council as at 31 March	4,328	1,870

## 2 Contributions

The total contributions receivable analysed between administering, other scheduled bodies and admitted bodies were as follows :-

	Administering Authority	Restated 2010/11		Total
		Other Scheduled Bodies	Admitted Bodies	
Member contributions	7,510	12,883	2,886	23,279
Employer contributions	21,911	37,807	7,946	67,664
Strain on Fund	3,953	2,182	865	7,000
<b>Total</b>	<b>33,374</b>	<b>52,872</b>	<b>11,697</b>	<b>97,943</b>

	Administering Authority	2011/2012		Total
		Other Scheduled Bodies	Admitted Bodies	
Member contributions	6,904	12,412	3,024	22,340
Employer contributions	20,261	36,615	8,386	65,262
Strain on Fund	1,655	2,633	237	4,525
<b>Total</b>	<b>28,820</b>	<b>51,660</b>	<b>11,647</b>	<b>92,127</b>

The 2010/11 employers contributions have been restated in line with 2011/12 to exclude unfunded pension contributions from employers totalling £5.002m.

## 3 Benefits

The total benefits payable analysed between administering, other scheduled bodies and admitted bodies were as follows :-

	Total Benefits Payable (incl. Lump Sums)		Lump sums (Retirement and Death Benefits)	
	Restated 2010/2011 £000	2011/2012 £000	2010/2011 £000	2011/2012 £000
Administering Authority	33,653	30,175	13,537	7,683
Other Scheduled Bodies	35,502	38,966	11,011	12,161
Admitted Bodies	7,618	8,848	2,693	2,658
<b>TOTAL</b>	<b>76,773</b>	<b>77,989</b>	<b>27,241</b>	<b>22,502</b>

The 2010/11 total benefits payable have been restated in line with 2011/12 to exclude unfunded pensions paid totalling £5.002m

## 4 Transfer Values

	Transfer Values In		Transfer Values Out	
	2010/2011	2011/12	2010/2011	2011/12
	£000	£000	£000	£000
Administering Authority	1,436	407	687	925
Other Scheduled Bodies	2,389	1,608	1,611	2,680
Admitted Bodies	854	482	1,048	939
<b>TOTAL</b>	<b>4,679</b>	<b>2,497</b>	<b>3,346</b>	<b>4,544</b>

## 5 Investment Income

	2010/11	2011/12
	£000	£000
Interest from Fixed Interest Securities	4,216	5,478
Dividends from Equities	28,504	33,218
Income from Index Linked Securities	2,943	2,169
Income Pooled Investment Vehicles	5,945	6,988
Interest on Cash Deposits	239	14
Other Income	2,459	2,411
	44,306	50,278
Irrecoverable Withholding Tax	(521)	(1,745)
	43,785	48,533

## 6 Investments

### Market Value of Investments Managed Externally

The Fund's investment assets are under the management of six external fund managers. At 31 March 2012 the market value of these investment assets was £1,953.7m (2011 £1,900.4m), managed as follows:

	2011		2012	
	£m	%	£m	%
Schroder Properties Limited	173.6	9.1	207.0	10.6
Baillie Gifford & Co	490.9	25.8	483.5	24.7
Fidelity Pensions Management Equity	415.7	21.9	412.6	21.1
Alliance Bernstein	468.5	24.7	451.3	23.1
Goldman Sachs	216.8*	11.4	251.2*	12.9
Fidelity Bond	117.7	6.2	133.7	6.8
M & G Investment Management	6.7	0.4	13.9	0.7
Financial Debtors	13.8	0.7	12.9	0.7
Financial Liabilities	(3.3)	(0.2)	(12.4)	(0.6)
<b>Net Financial Assets</b>	<b>1,900.4</b>	<b>100.0</b>	<b>1,953.7</b>	<b>100.0</b>

\* Within the Goldman Sachs investment total above there is an investment of £119.9m (2011 £102.4m) which exceeds 5% of net assets available for benefits. This is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

## Derivatives - Futures

Summary of contracts held at 31 March 2012

	Settlement Date	Economic Exposure £000	Asset £000	Liability £000	Net £000
FTSE100	3 months	423	-	46	(46)
S and P 500	3 months	4,466	-	177	(177)
Eurx E-Schatz	3 months	(246)	8	-	8
Eurx Bobl	3 months	94	-	2	(2)
Eurx Bund	3 months	5,521	78	-	78
10 yr Treasury Note	3 months	(9,881)	-	570	(570)
LIF Long Gilt	3 months	13,242	225	-	225
10 yr Treasury Note	3 months	4,256	103	-	103
5 yr Treasury Note	3 months	(521)	-	11	(11)
CBT Treasury Bonds	3 months	304	14	-	14
US Treasury Bonds	3 months	(807)	-	23	(23)
Currency Forwards	Various	154	-	98	(98)
		17,005	428	927	(499)

The economic exposure represents the nominal value of security purchased under future contracts and therefore the value subject to market movements. All future contracts are exchange traded. The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

## Investment Movement Summary

	Value at 01/04/2011 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2012 £m
Schroder Property	164.4	43.3	(7.7)	(1.4)	198.6
Baillie Gifford Global	258.6	38.9	(34.0)	(1.5)	262.0
Fidelity Equity	415.6	275.0	(263.8)	(15.2)	411.6
Alliance Bernstein	461.3	191.5	(178.5)	(31.0)	443.3
Goldman Sachs	215.3	166.9	(158.0)	22.8	247.0
Fidelity Bond	117.7	5.1	(0.3)	11.2	133.7
Baillie Gifford UK	202.3	23.0	(20.6)	5.3	210.0
M&G Fund	6.7	7.0	-	0.2	13.9
	1,841.9	750.7	(662.9)	(9.6)	1,920.1
Financial Liabilities	(3.3)				(12.4)
Cash Deposits	48.1			6.5	33.1
Financial Debtors	13.7				12.9
Net Financial Assets	1,900.4			(3.1)	1,953.7

## Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £1.157m (2011 £1.220m).

## Purchases & Sales

Purchases and Sales in 2010/2011 and 2011/2012 amounted to:-

	2010/2011 £m	2011/2012 £m
Purchases	623.5	750.7
Sales	600.7	662.9

## Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2012 was nil (2011 nil).

## **7 Additional Voluntary Contributions (AVCs)**

As AVCs are invested separately from the investments of the scheme itself and secure extra benefits on a money purchase basis for members that have elected to contribute, it has been decided in accordance with The Pensions Scheme (Management and Investment of Funds) Regulations 1998 not to include the relevant figures in the financial statements. AVCs managed by Standard Life had contributions of £352,987 in 2011/2012 (2010/2011 £414,457) and value at 5 April 2012 was £4,264,989 (5 April 2011 £4,481,860). AVCs managed by Prudential had contributions of £652,941 in 2011/2012 (2010/2011 £81,197) and a value at 31 March 2012 was £538,993.

## **8 Actuarial Present Value of Promised Retirement Benefits**

The actuarial value of the promised retirement benefits as at 31 March 2011, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £2,737.9m (2011 £2,396.1m) of which £2,141.6m is vested obligation and £596.3m is non-vested obligation. This figure is used for statutory accounting purposes by Tayside Superannuation Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

## **9 Sundry Debtors and Creditors**

Sundry Debtors total £1.214m as at 31 March 2012 (2011 £3.131m), this figure contains pending sales ledger income £0.417m, management fees rebate from Fidelity £0.632m and miscellaneous debtors £0.165m.

Sundry Creditors total £4.307m as at 31 March 2012 (2011 £8.233m), this figure contains unpaid benefits £2.696m, custodian fees £0.050m, investment Manager fees £0.864m and pending purchase ledger payments £0.629m and miscellaneous creditors £0.068m.

## **10 Other Financial Liabilities and Financial Debtors**

Other Financial Liabilities total £11.497m as at 31 March 2012 (2011 £3.252m). This wholly represents pending purchase transactions.

Financial Debtors total £12.966m as at 31 March 2012 (2011 £13.835m). This is made up of pending sales transactions £6.766m and investment income £6.200m.

## **11 Allocation of Overheads and Audit Fee**

The Pensions and Superannuation Investment sections of Dundee City Council are responsible for administering the two Pension Funds. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these sections allocate this charge to the two Pension Funds. Costs which can be directly charged to each fund during the financial year will be, costs which are shared by both Funds are allocated in proportion to the membership of the Funds as at 31 March 2012.

The Pension Funds have been subject to a separate external audit to that of the Council. The Main Fund incurred an audit fee of £39,125 for 2011/12 financial year.

# TAYSIDE SUPERANNUATION FUND

## Actuarial Statement for 2011/2012

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

### Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £1,922.2 million, were sufficient to meet 98.2% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £35.8m. Individual employers' contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

### Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2012, a copy of which can be found on Tayside Superannuation Funds website ([www.dundee.gov.uk/pensions](http://www.dundee.gov.uk/pensions)).

### Method

The method adopted at this valuation is known as the "Projected Unit Method". The key feature of this method is that in assessing the future service cost the Actuary will calculate the contribution rate which meets the cost of one year benefit accrual. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is open to new members.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2011 valuation were as follows:

<u>Investment Return</u>	Nominal %p.a.	Real %p.a.
Equities	6.9%	3.4%
Gilts	4.3%	0.8%
Bonds & Property	5.5%	2.0%
Discount Rate	6.3%	2.8%
Pay increases	5.0%	1.5%
Price Inflation / Pension Increases	3.5%	

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

## Experience Over the Period Since April 2011

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2012. It showed that the funding level (excluding the effect of any membership movements) of the fund was 95%.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed in February 2015.

# TAYSIDE SUPERANNUATION FUND

## FUNDING STRATEGY STATEMENT

### 1 OVERVIEW

- 1.1 This Funding Strategy Statement has been prepared in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (the Regulations). The Statement describes the strategy of Dundee City Council acting in its capacity as Administering Authority (the Administering Authority) for the funding of Tayside Superannuation Fund (the Fund).
- 1.2 As required by Regulation 31(3)(a), the Statement has been prepared having regard to guidance published by CIPFA in March 2004.

### 2 PURPOSES OF THE STATEMENT

- 2.1 The three main purposes of this Statement are:
- To establish a clear and transparent strategy, specific to the Fund, which will identify how employer's pension liabilities are best met going forward.
  - To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible.
  - To take a prudent longer-term view of funding the Fund's liabilities.

### 3 CONSULTATION

- 3.1 In accordance with Regulation 31(3)(b), all employers participating within the Fund have been consulted on the contents of this Statement and their views have been taken into account in formulating the Statement. However, the Statement describes a single strategy for the Fund as a whole.
- 3.2 In addition, the Administering Authority has had regard to the Fund's Statement of Investment Principles published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2010 (the Investment Regulations), as required by Regulation 31(3)(a).
- 3.3 The Fund Actuary, Barnett Waddingham, has also been consulted on the contents of this Statement.

### 4 PURPOSE AND AIMS OF THE FUND

#### Purpose of the Fund

- 4.1 The purpose of the Fund is:
- To pay out monies in respect of Local Government Pension Scheme (the Scheme) benefits, transfer values, costs, charges and expenses.
  - To receive monies in respect of contributions, transfer values and investment income and other charges, costs and expenses.

#### The Aims of the Fund in Relation to the Funding Strategy

4.2 The aims of the Fund in relation to the Funding Strategy are set out below.

***The first aim is to enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the Scheduled Bodies, Admitted Bodies and to the taxpayers.***

- 4.3 The Administering Authority recognises that the requirement to keep employer contribution rates as nearly constant as possible can run counter to the following requirements:
- the regulatory requirement to secure solvency,
  - the requirement that the costs should be reasonable, and
  - maximising income from investments within reasonable cost parameters (see the fourth aim).
- 4.4 Producing low volatility in employer contribution rates requires material investment in assets that 'match' the employer's liabilities. In this context 'match' means assets that behave in a similar manner to the liabilities as economic conditions alter. For the liabilities represented by benefits payable by the Scheme, such assets would tend to comprise gilt edged investments.
- 4.5 Other classes of assets, such as shares and property, are perceived to offer higher long-term rates of return, on average, and consistent with the requirement to maximise the returns from investments, the Administering Authority invests a substantial proportion of the Fund in such assets. However, these assets are more risky in nature and that risk can manifest itself in volatile returns over short-term periods and a failure to deliver the expected return in the long-term.
- 4.6 This short-term volatility in investment returns can produce a consequent volatility in the measured funding position of the Fund at successive valuations, with knock on effects on employer contribution rates. The impact on employer rates can be mitigated by use of smoothing adjustments at each valuation.
- 4.7 The Administering Authority recognises that there is a balance to be struck between the investment policy adopted, the smoothing mechanisms used at valuations and the resultant smoothness of employer contribution rates from one valuation period to the next.

***The second aim is to ensure that sufficient resources are available to meet all liabilities as they fall due.***

- 4.8 The Administering Authority recognises the need to ensure that the Fund has, at all times, sufficient liquid assets to be able to pay pensions, transfer values, costs, charges and other expenses. It is the Administering Authority's policy that such expenditure is met, in the first instance, from incoming employer and employee contributions to avoid the expense of disinvesting assets. The Administering Authority monitors the position on a daily basis to ensure that all cash requirements can be met.

***The third aim is to manage employers' liabilities effectively.***

- 4.9 The Administering Authority seeks to ensure that all employers' liabilities are managed effectively. In a funding context, this is achieved by seeking regular actuarial and investment advice, ensuring that employers and Superannuation Investment Sub-Committee members are properly informed and through regular monitoring of the funding position.

***The fourth aim is to maximise the income from investments within reasonable risk parameters.***

- 4.10 The Administering Authority recognises the desirability of maximising investment income within reasonable risk parameters. Investment returns higher than those available on government stocks are sought through investment in other asset classes such as shares and property. The Administering Authority ensures that risk parameters are reasonable by:
- restricting investment to the levels permitted by the Investment Regulations,
  - restricting investment to asset classes generally recognised as appropriate for UK pension funds,
  - analysing the potential risk represented by those asset classes in collaboration with the Fund's Actuary, Investment Advisors and Fund Investment Managers.

## 5 RESPONSIBILITIES OF THE KEY PARTIES

- 5.1 The three parties whose responsibilities to the Fund are of particular relevance are the Administering Authority, the Employers and the Fund Actuary.

### **Administering Authority**

- 5.2 The key responsibilities of the Administering Authority are set out below.

***The first key responsibility is to collect employer and employee contributions and, as far as the Administering Authority is able to, ensuring these contributions are paid by the due date.***

- 5.3 Individual employers must pay contributions in accordance with Regulations 35, 36 and 37 of the Regulations.

- 5.4 The Administering Authority has advised all employers of its policy on the remittance of pension contributions and the procedures which will be taken in the event of late or non payment.

- 5.5 It is a legal requirement that pension contributions be paid to the Fund by the 19th of the month following the month that they were deducted from employees' pay.

- 5.6 The Administering Authority will ensure that action is taken to recover assets from Admission Bodies whose Admission Agreement has ceased by:

- requesting that the Fund Actuary calculates the deficit at the date of the closure of the Admission Agreement,
- notifying the Admission Body that it must meet any deficit at the cessation of the Agreement.

***The second key responsibility is to invest surplus monies in accordance with the Regulations.***

- 5.7 The Administering Authority will comply with the Investment Regulations.

***The third key responsibility is to ensure that cash is available to meet liabilities as and when they fall due.***

- 5.8 The Administering Authority recognises this duty and discharges it in the manner set out in the Aims of the Fund in relation to the Funding Strategy.

***The fourth key responsibility is to manage the valuation process in consultation with the Fund Actuary.***

- 5.9 The Administering Authority ensures it communicates effectively with the Fund Actuary to:
- agree timescales for the provision of information and provision of valuation results,
  - ensure provision of data of suitable accuracy,
  - ensure that the Fund Actuary is clear about the Funding Strategy,
  - ensure that participating employers receive appropriate communication throughout the process,
  - ensure that reports are made available as required by Guidance and Regulation.

***The fifth key responsibility is to prepare and maintain a Statement of Investment Principles and a Funding Strategy Statement after due consultation with interested parties.***

- 5.10 The Administering Authority will ensure that both documents are prepared and maintained in the required manner.

***The sixth key responsibility is to monitor all aspects of the Fund's performance and funding and amend these two documents if required.***

- 5.11 The Administering Authority monitors the investment performance and the funding position of the Fund on a quarterly basis.
- 5.12 The Statement of Investment Principles and Funding Strategy Statement will be formally reviewed annually, unless circumstances dictate earlier amendment.

### **Individual Employers**

- 5.13 Individual employers are responsible for:
- deducting contributions from employees' pay,
  - paying all contributions, including their employer contribution as determined by the Actuary, promptly by the due date,
  - paying any interest due under Regulation 47 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008,
  - exercising discretions within the regulatory framework and ensuring the Administering Authority has copies of current policies covering those discretions,
  - paying for added years in accordance with agreed arrangements,
  - paying the Strain on the Fund costs resulting from early retirements or exercises of discretion allowing the early payment of deferred benefits. Payment is due immediately unless it has been agreed that payment can be spread over a short period of years,
  - notifying the Administering Authority promptly of all changes to membership, or other changes which affect future funding.
  - providing timeous returns annually or monthly, as agreed, and for valuation purposes.

### **The Fund Actuary**

- 5.14 The key responsibilities of the Fund Actuary are set out below.

***The first key responsibility is to prepare valuations.***

- 5.15 The Fund Actuary will prepare valuations, including the setting of employers' contribution rates, after agreeing assumptions with the Administering Authority and having regard to the Funding Strategy Statement and relevant admission agreements.
- 5.16 Valuations will also be prepared in accordance with generally accepted actuarial methods and reported on in accordance with Guidance Note 9 issued by the Institute and Faculty of Actuaries, to the extent that the Guidance Note is relevant to the Scheme.

***The second key responsibility is to prepare advice and calculations in connection with bulk transfers individual benefit-related matters together with any ad-hoc requirements agreed with the administering authority.***

- 5.17 Such advice will take account of the funding position and Funding Strategy Statement, along with other relevant matters.

## **6 SOLVENCY**

- 6.1 The Administering Authority will prudentially seek to secure the solvency of the Fund. For this purpose the Administering Authority defines solvency as being achieved when the value of the Fund's assets is greater than or equal to the value of the Fund's liabilities in respect of service prior to the measurement date when measured using 'ongoing' actuarial methods and assumptions.
- 6.2 Ongoing actuarial methods and assumptions are taken to be measured by use of the Projected Unit method of valuation, using assumptions generally recognised as suitable for an open, ongoing UK pension fund with a sponsoring employer of sound covenant.
- 6.3 The financial assumptions used to assess the funding level will have regard to the yields available on long-term fixed interest and index linked gilt-edged investments and an allowance for the higher long-term returns that are expected from equity type investments based on the underlying investment strategy. The Administering Authority understands the risks of such an approach if those additional returns fail to materialise.
- 6.4 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, and having regard to the risks inherent in such an approach, the Administering Authority has also agreed with the Fund Actuary the use of explicit smoothing adjustments in making the solvency measurement.

## **7 FUNDING STRATEGY**

### **Valuation Methods**

- 7.1 Consistent with the aim of enabling employer contribution rates to be kept as nearly constant as possible, contribution rates are set by use of the Projected Unit valuation method for most employers.
- 7.2 The Projected Unit method produces contribution rates which target solvency over fixed periods in the future. It will tend to produce more stable contribution rates for those employers who expect a future flow of new entrants to the Fund, which would tend to keep the age distribution of members stable.

### **Common Contribution Rates**

- 7.3 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority permits all employers to be treated as a group for the purposes of setting contribution rates.

- 7.4 An exception to this general rule will be where an employer closes access to the fund for new employees. This will have consequences for the liability profile and the actuary may set a separate rate for individual employers in this instance.
- 7.5 The Administering Authority recognises that common rates can give rise to cross subsidies from one employer to another over time. This can arise from different membership profiles of the different employers and from different experience, for example an excess of ill health retirements from one employer could lead to it being subsidised by other grouped employers. However, over longer time periods it would be expected that the experience will even out between employers and each employer will, on average, pay a fair level of contributions. The benefit of common rate is that it should produce a less volatile contribution rate on average for each individual employer.

### **Recovery Period**

- 7.6 Where a valuation reveals that the Fund is in surplus or deficiency against the solvency measure, employer contribution rates will be adjusted to target restoration of the solvent position over a period of years (the recovery period). The recovery period applicable is set by the Administering Authority in consultation with the Fund Actuary, with a view to balancing the various funding requirements against the risks involved.
- 7.7 The Administering Authority recognises that a larger proportion of the Fund's liabilities are expected to arise as benefit payments over long periods of time. However, the Administering Authority also recognises the risk in relying on long recovery periods and has agreed with the Fund Actuary to adopt prudent recovery periods consistent with the objective of keeping employer contribution rates as stable as possible.

### **Treatment and Recovery of Deficits on Closure of an Employer**

- 7.8 When an organisation participating in the Fund closes, the Fund Actuary will carry out a terminal valuation. The Administering Authority will then pursue the recovery of any deficiency from that organisation. The only exception to this is where a successor organisation which is also a participating employer in the Fund formally adopts the deficiency of the closing organisation as their own.
- 7.9 If an employer (other than a transferee admission body) fails and cannot pay the contributions due, Regulations require that all employers in the Fund must pay revised contributions to meet the shortfall.
- 7.10 In recent years the Administering Authority has adopted a policy of requiring admission bodies (other than transferee admission bodies) to obtain a guarantor. A guarantor is required to agree that it will meet the shortfall if the admission body closes and cannot pay the contributions due.
- 7.11 Some longer standing admission bodies do not have a guarantor. If one of these were to close in circumstances where they could not pay the contributions due, then all employers in the Fund would be required to pay revised contributions to meet the shortfall.
- 7.12 The position is different for transferee admission bodies. If a transferee admission body fails and cannot pay the contributions due, then the Scheme employer in relation to that transferee admission body must pay revised contributions to meet the shortfall.

### **Stepping**

- 7.13 Consistent with the requirement to keep employer contribution rates as nearly constant as possible, the Administering Authority will consider, at each valuation, whether new contribution rates should be payable immediately, or should be reached by a series of steps over future years. The Administering Authority will discuss with the Fund Actuary the risks inherent in such an approach and will examine the financial impact and risks

associated for each employer. The Administering Authority's policy is to limit the number of permitted steps to three annual steps.

### **Monitoring of the Funding Level between Valuations**

- 7.14 The Administering Authority will monitor the funding level between triennial valuations. If it is considered appropriate, an indicative interim valuation is carried out. The purpose of this monitoring process is to give employers advance warning of likely changes that may be required following the next triennial valuation. This allows improved budgeting decisions to be made and allows an employer to take an informed decision on paying additional contributions.

## **8 IDENTIFICATION OF RISKS AND COUNTER MEASURES**

- 8.1 The Administering Authority's overall policy on risk is to identify all risks to the Fund and to consider the position both in aggregate and at an individual risk level. The Administering Authority will monitor the risks to the Fund and will take appropriate action to limit the impact of these both before, and after, they emerge wherever possible. The main risks to the Fund are set out below.

### **Demographic**

- 8.2 The main demographic risks include changing retirement patterns and longevity. The Administering Authority will ensure that the Fund Actuary investigates these matters at each valuation or, if appropriate, more frequently and reports on developments. The Administering Authority will agree with the Fund Actuary any changes that are necessary to the assumptions underlying the measure of solvency to allow for observed or anticipated changes.
- 8.3 If significant demographic changes become apparent between valuations, the Administering Authority will notify all participating employers of the anticipated impact on costs that will emerge at the next valuation and will review the bonds that are in place for transferee admitted bodies.

### **Regulatory**

- 8.4 These risks relate to changes in regulations, national pension requirements or Inland Revenue rules. The Administering Authority will keep abreast of all proposed changes and, where possible and after careful consideration, express its opinion during consultation periods. The Administering Authority's policy will be to ask the Fund Actuary to assess the impact on costs of any changes and, where these are likely to be significant, the Administering Authority will notify employers of this likely impact and the timing of any change.

### **Governance**

- 8.6 The Administering Authority's policy is to require regular communication between itself and employers and to ensure regular reviews of such items as funding levels and legislative changes.

### **Statistical/Financial**

- 8.7 This covers items such as the performance of markets and the Fund's investment managers, asset reallocation in volatile markets, pay and price inflation varying from anticipated levels, or the effect of possible increases in employer contribution rates on service delivery and on employers.
- 8.8 The Administering Authority reviews each investment manager's performance quarterly and regularly considers the asset allocation of the Fund. It will also receive quarterly update on the effect of market movements on the Fund's overall funding position.

## **Solvency Measure**

- 8.9 The Administering Authority recognises that allowing for future investment returns in excess of those available on government bonds introduces an element of risk, in that those additional returns may not materialise. The Administering Authority's policy will be to monitor the underlying position assuming no such excess returns are achieved to ensure that the funding target remains realistic relative to the risk position.

## **Smoothing**

- 8.10 The Administering Authority recognises that utilisation of a smoothing adjustment introduces an element of risk, in that the smoothing adjustment does not produce the only measure of the underlying funding position. The Administering Authority's policy is to review the impact of this adjustment at each valuation to ensure that it remains within acceptable limits.

## **Recovery Period**

- 8.11 The Administering Authority recognises that permitting deficiencies to be eliminated over a recovery period rather than immediately introduces a risk that action to restore solvency is insufficient between successive measurements. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the permitted length.

## **Stepping**

- 8.12 The Administering Authority recognises that permitting contribution rate changes to be introduced by annual steps rather than immediately introduces a risk that action to restore solvency is insufficient in the early years of the process. The Administering Authority's policy is to discuss the risks inherent in each situation with the Fund Actuary and to limit the number of permitted steps to three annual steps.

## **9 LINKS TO INVESTMENT POLICY AS SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES**

- 9.1 The Administering Authority has produced this Funding Strategy Statement having taken an overall view of the level of risk in the investment policy set out in the Statement of Investment Principles and the funding policy set out in this statement.
- 9.2 In order to assist in setting the Fund's investment policy, an asset liability study is carried out. This study examines the Fund's financial position, the profile of its membership, the nature of its liabilities and includes an analysis of the expected ranges of outcomes from differing investment policies. The study is carried out at the Total Fund level, not at the level of each employer. The strategic asset allocation benchmark that is derived from the study is, therefore, set in the light of the overall liabilities of the Total Fund.
- 9.3 The current strategic asset allocation implemented is based upon a study by the Fund's Investment Advisor, Hymans Robertson, based upon the liabilities shown by the 2008 valuation. Having considered the outcome of this study, the Committee concluded that a diversified portfolio, of which about 70% is invested in the UK and overseas equities, 18% in bonds and cash and 12% in property, represented a suitable strategic asset allocation benchmark for the Fund. The degree and nature of risks attaching to such a portfolio, when taken in conjunction with the expected returns, were considered by the Committee to be appropriate for the Fund.
- 9.4 The Administering Authority will continue to monitor the suitability of the investment policy in the light of the Fund's developing liabilities and finances.

- 9.5 The Administering Authority will continue to review the Funding Strategy Statement and the Statement of Investment Principles to ensure that the overall risk profile remains appropriate. Such reviews may use asset liability modelling or other analysis techniques.

## **10 FUTURE MONITORING**

- 10.1 The Administering Authority plans to review formally this Statement as part of the triennial valuation process unless circumstances arise which require earlier action.
- 10.2 The Administering Authority will monitor the funding position of the Fund on an appropriate basis at regular intervals between valuations and will discuss with the Actuary whether any significant changes have arisen that require action.

# TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2010/2011	FUND ACCOUNT	2011/2012	£000	£000
£000				
	<b>CONTRIBUTIONS AND BENEFITS</b>	Note		
	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)
	<b>RETURNS ON INVESTMENTS</b>			
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>	<b>OPENING NET ASSETS OF THE SCHEME</b>			<u>45,974</u>
<u>45,974</u>	<b>CLOSING NET ASSETS OF THE SCHEME</b>			<u>48,545</u>

# TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

2011	NET ASSETS STATEMENT (AS AT 31 MARCH)	2012	2012
£000		£000	£000
	<b>INVESTMENT ASSETS AT MARKET VALUE</b>		
	Listed Investments		
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	<u>654</u>	
45,040			49,208
	<b>FINANCIAL LIABILITIES</b>		
(13)	Derivatives (Futures)	(59)	
<u>(86)</u>	Other Financial Liabilities	<u>(783)</u>	
<u>(99)</u>	Total Financial Liabilities		<u>(842)</u>
44,941	Net Financial Assets		48,366
	<b>CURRENT ASSETS</b>		
1	Sundry Debtors	11	
<u>1,053</u>	Cash and Bank	<u>190</u>	
1,054		201	
	<b>LESS CURRENT LIABILITIES</b>		
(21)	Sundry Creditors	<u>(22)</u>	
<u>1,033</u>	<b>NET CURRENT ASSETS</b>		<u>179</u>
<u>45,974</u>	<b>NET ASSETS</b>		<u>48,545</u>

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

# NOTES TO TAYSIDE TRANSPORT SUPERANNUATION FUND ACCOUNTS

## 1 Related Parties

There were no transactions with related parties during the year.

## 2 Investment Income

	2010/11 £'000	2011/12 £'000
Interest from Fixed Interest Securities	26	91
Dividends from Equities	693	624
Income from Index Linked Securities	272	155
Income Pooled Investment Vehicles	91	135
Interest on Cash Deposits	13	9
Other Income	(3)	(1)
	<u>1,092</u>	<u>1,013</u>
Irrecoverable Withholding Tax	(7)	(29)
	<u>1,085</u>	<u>984</u>

## 3 Investments

### Market Value of Investments Managed Externally

The Fund's investment assets are under the management of three external fund managers. At 31 March 2012 the market value of these investment assets was £48.4m (2011 £44.9m), managed as follows:

	2011		2012	
	£m	%	£m	%
Schroder Properties Limited	2.6	5.7	3.7	7.6
Baillie Gifford & Co	23.7	52.9	23.8	49.2
Goldman Sachs	18.2*	40.5	21.0*	43.4
Financial Debtors	0.5	1.1	0.7	1.4
Financial Liabilities	(0.1)	(0.2)	(0.8)	(1.6)
Net Financial Assets	<u>44.9</u>	<u>100.0</u>	<u>48.4</u>	<u>100.0</u>

\* Within the Goldman Sachs investment total above there is an investment of £10.0m (31 March 2011 £8.6m) which exceeds 5% of net assets available for benefits. This investment is in the GS Sterling Credit Portfolio. Although it is classed as a single investment, this is a pooled fund with over 300 holdings designed to ensure a diversified exposure to corporate bonds.

### Derivatives - Futures

Summary of contracts held at 31 March 2012

	Settlement Date	Economic Exposure £000	Asset £000	Liability £000	Net £000
Eurx E-Schatz	3 months	(21)	1	-	1
Eurx Bobl	3 months	8	-	-	-
Eurx Bund	3 months	462	6	-	6
10 yr Treasury Note	3 months	(828)	-	48	(48)
LIF Long Gilt	3 months	1,109	19	-	19
10 yr Treasury Note	3 months	356	9	-	9
5 yr Treasury Note	3 months	(44)	-	1	(1)
CBT Treasury Bonds	3 months	25	1	-	1
US Treasury Bonds	3 months	(68)	-	2	(2)
Currency Forwards	Various	13	-	8	(8)
		<u>1,012</u>	<u>36</u>	<u>59</u>	<u>(23)</u>

The economic exposure represents the nominal value of security purchased under future contracts and therefore the value subject to market movements. All future contracts are exchange traded.

The Fund uses futures for the purposes of efficient portfolio management and/or risk reduction.

### Investment Movement Summary

	Value at 01/04/2011 £m	Purchases at Cost £m	Sales Proceeds £m	Change in Market Value £m	Value at 31/03/2012 £m
Schroder Property	2.4	0.8	(0.1)	0.4	3.5
Baillie Gifford Global	11.9	1.8	(1.6)	0.2	12.3
Goldman Sachs	18.1	14.0	(13.2)	1.8	20.7
Baillie Gifford UK	10.4	1.2	(1.1)	0.4	10.9
	<u>42.8</u>	<u>17.8</u>	<u>(16.0)</u>	<u>2.8</u>	<u>47.4</u>
Financial Liabilities	(0.1)				(0.8)
Cash Deposits	1.7			(0.2)	1.1
Financial Debtors	0.5				0.7
Net Financial Assets	<u>44.9</u>			<u>2.6</u>	<u>48.4</u>

### Transaction Costs

Transaction costs are included in the cost of purchases and sales proceeds. Transaction costs include costs charged directly to the fund such as fees, commissions, stamp duty and other fees. The total for the year was £28,623 (2010/2011 £28,745).

### Purchases & Sales

Purchases and Sales in 2010/2011 and 2011/2012 amounted to:-

	2010/2011 £m	2011/2012 £m
Purchases	11.2	17.8
Sales	11.4	16.0

### Securities Lending

The total amount of stock released to third parties under a stock lending arrangement at 31 March 2012 was nil (2011 Nil).

## 4 Actuarial Present Value of Promised Retirement Benefits

The actuarial value of the promised retirement benefits as at 31 March 2012, calculated in line with International Accounting Standard 19 (IAS19) assumptions, is estimated to be £51.8m (2011 £57.1m) of which £47.9m is vested obligation and £3.9m is non-vested obligation. This figure is used for statutory accounting purposes by Tayside Superannuation Fund and complies with the requirements of IAS26. The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting of contributions payable to the Fund.

## 5 Sundry Creditors

Sundry Creditors total £0.022m as at 31 March 2012 (2011 £0.021m), this figure contains custodian fees £0.005m and investment manager fees £0.015m.

## 6 Other Financial Liabilities and Financial Debtors

Other Financial Liabilities total £0.783m as at 31 March 2012 (2011 £0.086m), this wholly represents pending purchase transactions.

Financial Debtors total £0.654m as at 31 March 2012 (2011 £0.499m), this is made up of pending sales transactions £0.457m and investment income £0.197m.

## **7 Allocation of Overheads and Audit Fee**

The Pensions and Superannuation Investment sections of Dundee City Council are responsible for administering the two Pension Funds. The above sections receive an allocation of the overheads of the Council, this is based on the amount of central services consumed. In turn, these sections allocate this charge to the two Pension Funds. Costs which can be directly charged to each fund during the financial year will be, costs which are shared by both Funds are allocated in proportion to the membership of the Funds as at 31 March 2012.

The Pension Funds have been subject to a separate external audit to that of the Council. The Transport Fund incurred an audit fee of £946 for 2011/12 financial year.

# TAYSIDE TRANSPORT SUPERANNUATION FUND

## Actuarial Statement for 2011/2012

This statement has been prepared in accordance with Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998.

## Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), effective from 1 April 2011. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund
- to minimise the degree of short-term change in employer contribution rates
- to ensure that sufficient cash is available to meet all liabilities as they fall due for payment
- to help employers manage their pension liabilities
- to maximise the returns from investments within reasonable and considered risk parameters, and hence minimise the cost to the employer

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

## Funding Position as at the Last Formal Funding Valuation

The most recent actuarial valuation carried out under Regulation 76 of the Local Government Pension Scheme (Scotland) (Administration) Regulations 1998 was as at 31 March 2011. This valuation revealed that the Fund's assets, which at 31 March 2011 were valued at £45.5 million, were sufficient to meet 96.6% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2011 valuation was £1.6m. Employer contributions for the period 1 April 2012 to 31 March 2015 were set in accordance with the Fund's funding policy as set out in its Funding Strategy Statement.

## Principal Actuarial Assumptions and Method Used to Value the Liabilities

Full details of the methods and assumptions used are described in the valuation report dated February 2012, a copy of which can be found on Tayside Superannuation Funds website ([www.dundee.gov.uk/pensions](http://www.dundee.gov.uk/pensions)).

## Method

The method adopted at this valuation is known as the "Attained Age Method". The key feature of this method is that in assessing the future service cost the Actuary calculates the contribution rate which meets the cost of benefits accruing up to retirement age. This is the same method adopted at the previous valuation and is an appropriate method for a Fund which is closed to new members.

## Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2011 valuation were as follows:

	Nominal %p.a.	Real %p.a.
<u>Investment Return</u>		
Equities	6.9%	3.4%
Gilts	4.3%	0.8%
Bonds & Property	5.5%	2.0%
Discount Rate - pre retirement	6.9%	-
Discount Rate - post retirement	4.3%	0.8%
Pay increases	5.0%	1.5%
Price Inflation / Pension Increases	3.5%	-

The key demographic assumption was the allowance made for longevity. The longevity assumptions adopted at this valuation were in line with standard PA92 mortality tables.

## Experience Over the Period Since April 2011

The Administering Authority monitors the funding position on a regular basis as part of its risk management programme. The most recent funding update was produced as at 31 March 2012. It showed that the funding level (excluding the effect of any membership movements) of the fund was 96%.

The next actuarial valuation will be carried out as at 31 March 2014. The Funding Strategy Statement will also be reviewed in February 2015.

# STATEMENT OF PRINCIPAL ACCOUNTING POLICIES

## 1 Basis of Preparation

Local authorities responsible for administering a pension fund that forms part of the local government pension scheme ("LGPS") are required by an amendment to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 to publish a pension fund annual report, which is required to include financial statements. Local authorities have a duty under section 12 of the Local Government in Scotland Act 2003 to observe proper accounting practices. The Scottish Government issued accounting Guidance for the LGPS financial statements in Finance Circular 1/2011, which clarified that pension fund financial statement within the annual report should be prepared in accordance with proper accounting practices set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 ("the Code").

In respect of Tayside Superannuation Fund, the 2010-11 comparatives have been restated to eliminate income and expenditure received and paid in respect of any 'added years' costs which are the liability of the employing body. The Tayside Superannuation Fund is acting as an agent in respect of these wholly reimbursed costs which are therefore netted off as an agency transaction.

A summary of the more important accounting policies, which have been consistently applied, is set out below:

### Investments

Investments are included at market values, which are assessed as follows:-

- a UK quoted securities are valued at "bid" market prices at close of business on the last working day of the financial year.
- b Overseas securities are valued at "bid" market prices from the relevant overseas stock exchanges converted at closing rates of exchange on the last day of the financial year.
- c Unlisted investments, which comprise the Fund Manager's Unit Trusts and Open Ended Investment Companies, are valued at "bid" market prices on the last working day of the financial year as supplied by the Fund Manager.

### Income and Expenditure

The accounts have been prepared on an accruals basis; that is income and expenditure is included as it is earned or incurred, not as it is received or paid, except for Transfer Values which are included when they are paid or received.

### Investment Income

Income from fixed interest, index linked securities and other interest receivable is taken into account on an accruals basis. Income from all other Marketable Securities is taken into account on the date when stocks are quoted ex-dividend.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents comprise short term lending that is repayable on demand or within 3 months of the Balance Sheet date and that is readily convertible to known amounts of cash with insignificant risk of change in value.

## **Contributions**

Contributions represents the amounts received from organisations participating in the Fund, these may be from the administering authority, other scheduled bodies or admitted bodies. Such amounts relate both to their own employer contributions and to those of their pensionable employees. Employee and employers contributions due as at 31 March 2012 have been accrued.

## **Foreign Currency**

Income and expenditure arising from transactions denominated in a foreign currency are translated into £ sterling at the exchange rate in operation on the date on which the transaction occurred. Where the transaction is to be settled at a contracted rate that rate is used.

## **Investment Management Expenses**

Investment Management expenses consist of direct charges in line with Management Agreements, Management Charges levied on pooled funds, overseas charges and non-recoverable withholding tax, less Brokers' commission rebate.

## **Acquisition Cost**

Any acquisition costs of investments are included in the Book Cost of the investment.

## **Additional Voluntary Contributions**

Additional voluntary contributions are separately invested from those of the funds. Additional voluntary contributions are not included in the financial statements in accordance with section 5(2)(c) of The Pensions Scheme (Management and Administration of Funds) Regulations 1998, but are disclosed as notes only (note 7).

## GOVERNANCE COMPLIANCE STATEMENT

Compliance Principle	Arrangements in Place/Action Taken	Compliance with Principle? Yes/No/Partial	Comments
<b>Structure</b>			
The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.	Principal responsibility for the administration of benefits and strategic management of fund assets rests with the Policy & Resources Committee.	Yes	The Superannuation Investment Sub-Committee of the Policy & Resources Committee has a remit to supervise and control the operations and investments.
That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Membership of the Superannuation Investment Sub-Committee includes 3 observer members who represent scheme members.	Partial	In addition representatives of participating LGPS employers, admitted bodies and scheme members are consulted and included in all communications relating to the Superannuation Investment Sub-Committee.
That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	Minutes of the Superannuation Investment Sub-Committee are reported to the Policy & Resources Committee.	Yes	
That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	All members of the Superannuation Investment Sub-Committee are members of the Policy & Resources Committee.	Yes	

<b>Compliance Principle</b>	<b>Arrangements in Place/Action Taken</b>	<b>Compliance with Principle? Yes/No/Partial</b>	<b>Comments</b>
<b>Representation</b>			
That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-			
i) employing authorities (including non-scheme employers, e.g. admitted bodies);		No	Regular communication is undertaken with key stakeholders. Employer Forum held annually for scheduled and admitted bodies.
ii) scheme members (including deferred and pensioner scheme members);	Membership of the Superannuation Investment Sub-Committee includes 3 observer members who represent scheme members.	Yes	
iii) where appropriate independent professional observers; and		No	No requirement for this has been identified.
iv) expert advisors (on an ad-hoc basis)	Investment Consultant	Yes	

That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	All members receive the same access to all papers and training opportunities and are given the opportunity to contribute to the decision making process.	Yes	
----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------	----------------------------------------------------------------------------------------------------------------------------------------------------------	-----	--

<b>Compliance Principle</b>	<b>Arrangements in Place/Action Taken</b>	<b>Compliance with Principle? Yes/No/Partial</b>	<b>Comments</b>
<b>Selection and Role of Lay Members</b>			
That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.	Induction and Refresher Training is provided to all members.	Yes	
That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda	Members are bound by a Code of Conduct which requires them to declare any interest related to specific matters on the agenda. This is stated at the start of each agenda.	Yes	
<b>Voting</b>			
The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Voting rights are detailed in the Tayside Superannuation Funds Statement of Investment Principles.	Yes	Statement of Investment Principles is accessible via the Council website.

<b>Compliance Principle</b>	<b>Arrangements in Place/Action Taken</b>	<b>Compliance with Principle? Yes/No/Partial</b>	<b>Comments</b>
<b>Training/Facility Time/Expenses</b>			
That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	All new members of the Superannuation Investment Sub-Committee are offered training by officers. Further training is offered periodically, generally from investment consultants, investment managers of the fund and actuaries. In addition, if other training opportunities are identified, including attendance at conferences and seminars, these are offered to members, as appropriate. Costs and expenses incurred are met by the Pension Fund.	Yes	
That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	Training policy applies to all members of the Superannuation Investment Sub-Committee.	Yes	
That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	Training is provided as needs are identified. A log of all training undertaken is maintained.	Yes	
<b>Meetings (Frequency/Quorum)</b>			
That an administering authority's main committee or committees meet at least quarterly.	Policy & Resources Committee meets monthly. Additional meetings are held when necessary.	Yes	

<b>Compliance Principle</b>	<b>Arrangements in Place/Action Taken</b>	<b>Compliance with Principle? Yes/No/Partial</b>	<b>Comments</b>
That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	Superannuation Investment Sub-Committee meets quarterly. Additional meetings are held when necessary.	Yes	
That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	Employer Forum for scheduled and admitted bodies is held annually, including presentations on topical subjects.	Yes	
<b>Access</b>			
That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	All members are treated equally in terms of access to committee papers and advice.	Yes	
<b>Scope</b>			
That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	The Superannuation Investment Sub-Committee has a remit to supervise and control operations and investments.	Yes	
<b>Publicity</b>			
That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Governance Policy Statement was approved in May 2009, following consultation with all employers.	Yes	Governance Policy Statement and Governance Compliance Statement will be available on the Council website following committee approval.

# TAYSIDE SUPERANNUATION FUNDS

## RISK REGISTER

The Funds' primary long-term risk is that the funds' assets will fall short of its liabilities. Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of assets and to maximise the opportunity for gains across the whole investment portfolio. This is achieved through asset diversification to reduce exposure to market risk (price risk, currency risk and interest risk) and credit risk to an acceptable level. In addition, liquidity risk is management to ensure sufficient resources are available to meet the forecast cash flows. Responsibility for risk management rests with the superannuation investment sub-committee of Dundee City Council's policy & resources committee. The following is a summary of the key risks and mitigating actions identified as at 31 March 2012.

Risk Number	Risk Description	Cause of Risk	Impact of Risk	Assessment of Inherent Risk			Current Risk Control Measures	Assessment of Residual Risk			Additional Control Measures Identified	Risk Owner
				Probability	Impact	Score		Probability	Impact	Residual		
01	Failure to process pension payments and lump sums on time	Non-availability of Altair pension system, ResourceLink payroll system, key staff, or error, omission, etc.	Retiring staff will be paid late which may have implications for their own finances. Reputational risk for the Fund and a financial cost to the employers if interest has to be paid to members.	3	2	6	Robust maintenance and update of Altair and ResourceLink, sufficient staff cover arrangements, staff training and checking of work.	2	2	4		Director of Finance
02	Failure to collect and account for contributions from employers and employees on time	Non-availability of Authority Financials system, key staff, error, omission, failure of employers' financial systems, failure to communicate with employers effectively.	Adverse audit opinion for failure to collect contributions by 19th of month, potential delays to employers' FRS17 year-end accounting reports	3	2	6	Robust maintenance and update of Altair and ResourceLink and Authority Financials systems, sufficient staff cover arrangements, staff training and checking of work. Ongoing communication with employers to ensure they understand their responsibilities to pay by the 19th of the month.	2	2	4		Director of Finance

03	Insufficient funds to meet liabilities as they fall due	Contributions from employees/employers too low, failure of investment strategy to deliver adequate returns, significant increases in longevity, etc.	Immediate cash injections would be required from employers. However, this would not conceivably be an issue for the Main Fund for many years to come because it is currently "immature" and very cashflow positive. This risk has increased relevance for the Transport Fund.	2	4	8	Funding Strategy Statement, Investment Strategy, Triennial Valuations, ongoing advice from investment consultants, etc.	1	4	4		Superannuation Investment Sub-Committee and Director of Finance
04	Inability to keep service going due to loss of main office, computer system or staff	Fire, bomb, flood, etc.	Temporary loss of ability to provide service.	3	4	1 2	Dundee City Council Business Continuity plan in place.	3	3	9	Obtain backup logs on a daily basis. Implement procedures to test backups on a regular basis.	Director of Finance
05	Loss of funds through fraud or misappropriation	Fraud or misappropriation of funds by an employer, agent or contractor.	Financial loss to the fund.	1	4	4	Internal and external audit regularly test that appropriate controls are in place and working effectively. Regulatory control reports from investment managers, custodian, etc are also reviewed by audit. Due diligence is carried out when a new manager is appointed. Reliance is also placed on Financial Services Authority registration.	1	4	4		Director of Finance
06	Employers can no longer afford to participate in the scheme	Scheme liabilities increase disproportionately as a result of increased longevity, falling bond yields, changing retirement patterns, etc.	Fund matures more quickly.	3	3	9	Full Actuarial Valuation undertaken every 3 years. Funding Strategy Statement identifies how employer's liabilities are best met going forward	2	3	6		Superannuation Investment Sub-Committee and Director of Finance

07	Significant rises in employer contributions due to poor/negative investment returns	Poor economic conditions, incorrect investment strategy, poor selection of investment managers.	Poor/negative investment returns leading to increased employer contribution rates.	3	3	9	Performance monitored on an ongoing quarterly basis. Diversified range of investment managers over different asset classes.	3	2	6		Superannuation Investment Sub-Committee and Director of Finance
08	Failure of global custodian	Financial collapse of global custodian or failure to safeguard assets or records.	Financial loss to the fund. Loss of information.	1	5	5	Legal agreement with custodian. Credit rating monitored on an ongoing basis. Regulated by Financial Services Authority. Assets not on custodian balance sheet.	1	4	4		Superannuation Investment Sub-Committee and Director of Finance
09	Failure of investment manager	Financial collapse of investment manager or failure to safeguard assets or records.	Financial loss to the fund.	1	4	4	Performance monitored on an ongoing quarterly basis. Regular communication with investment managers. Advice provided by Investment Consultant.	1	3	3		Superannuation Investment Sub-Committee and Director of Finance
10	Equity risk	Market sector falls substantially	Financial loss to the fund.	3	3	9	Performance monitored on an ongoing quarterly basis. Diversified range of asset classes. Advice provided by Investment Consultant.	3	2	6		Superannuation Investment Sub-Committee and Director of Finance
11	Active manager risk	Investment manager underperforms.	Financial loss to the fund.	3	3	9	Performance monitored on an ongoing quarterly basis. Targets and tolerance levels set.	3	2	6		Superannuation Investment Sub-Committee and Director of Finance
12	Failure to comply with LGPS and other regulations	Lack of technical expertise/staff resources to research regulations, IT systems not updated to reflect current legislation, etc.	Wrong pension payments made or estimates given.	2	2	4	Verification process in place within Pensions section, ongoing staff training undertaken.	1	2	2		Director of Finance

13	Failure to hold personal data securely	Insufficient security of data, inadequate data retention policy, backup and recovery procedures.	Data lost or compromised. Reputational risk.	3	3	9	Data Protection Act adhered to.	2	3	6	GSX secure email accounts have been created for all Pensions Admin staff.	Director of Finance
14	Failure to keep pension records up-to-date and accurate	Poor or non-existent notification of by employers of new starts, amendments, leavers, etc.	Incorrect records leading to incorrect estimates being issued and potentially incorrect pensions being paid.	3	3	9	Verification process in place within Pensions section. Ongoing communication with employers.	2	3	6		Director of Finance
15	Lack of expertise on Superannuation Investment Sub-Committee or amongst officers	Lack of training and continuous professional development.	Detrimental decisions made in relation to investments.	3	4	12	Regular provision of training. External investment advice. Consultation with peer groups.	2	4	8		Superannuation Investment Sub-Committee and Director of Finance
16	Over reliance on key officers	Specialist nature of work means there are relatively few experts in investments and the LGPS regulations.	If an officer leaves or falls ill knowledge gap may be difficult to fill.	3	4	12	Key officers transfer specialist knowledge to colleagues. In the short-term investment advice can be sought.	2	4	8		Director of Finance
17	Failure to communicate properly with stakeholders	Lack of clear communication of policy and actions particularly with employers and scheme members.	Scheme members not aware of their rights resulting in bad decisions. Employers not aware of regulations, procedures, etc.	3	2	6	Pensions website, quarterly update for employers, newsletter for pension scheme members, annual employer forum.	2	2	4		Director of Finance

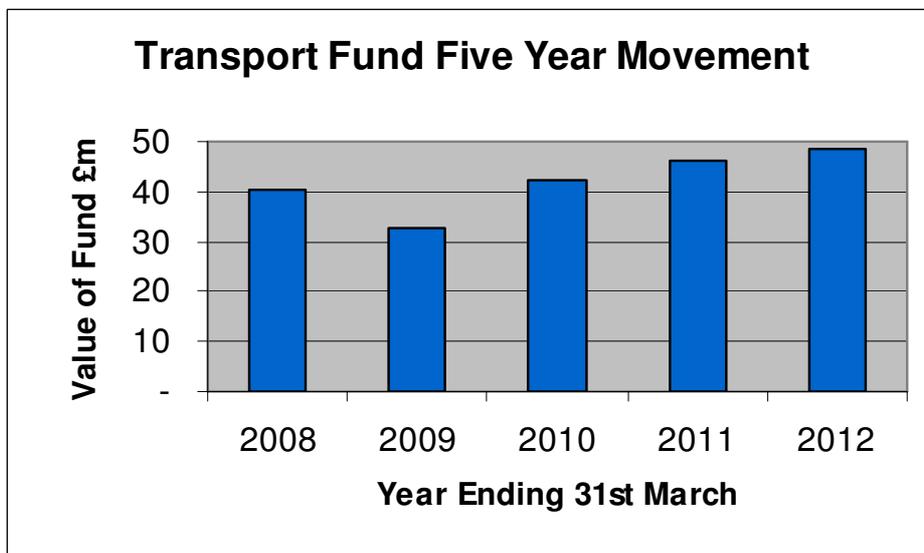
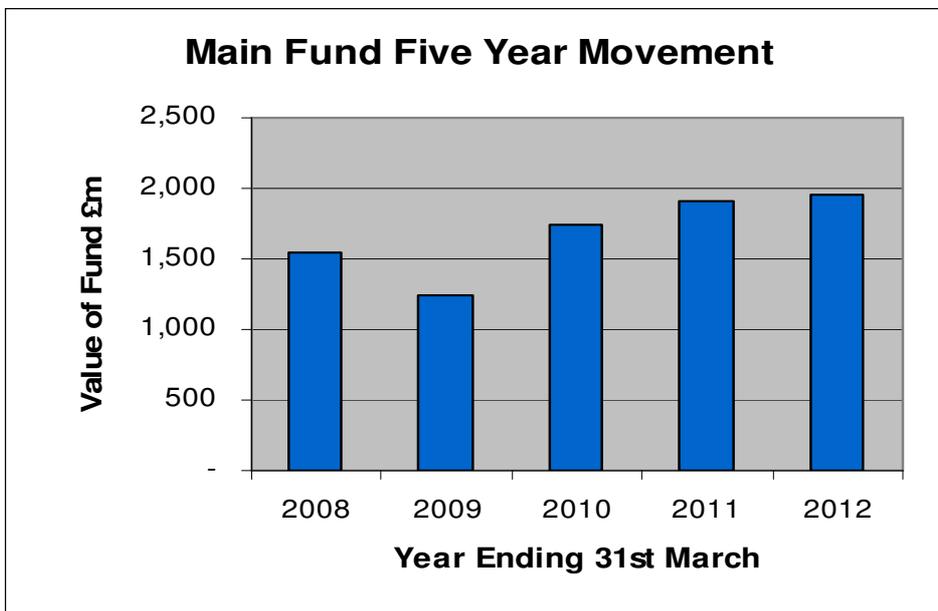
<b>PROBABILITY EVALUATION</b>	<b>IMPACT EVALUATION</b>
1 - Rare	1 - Insignificant
2 - Unlikely	2 - Minor
3 - Possible	3 - Significant
4 - Likely	4 - Major
5 - Almost Certain	5 - Catastrophic

0 - 8	Risk adequately controlled: no specific action required
9 - 17	Risk partially controlled: review controls within 24 months
18 - 25	Risk partially controlled: review controls within 12 months

# VALUATION AND DISTRIBUTION OF ASSETS OF THE SUPERANNUATION FUNDS

## Valuation

	<u>Main Fund</u>		<u>Transport Fund</u>	
	<u>2010/11</u>	<u>2011/12</u>	<u>2010/11</u>	<u>2011/12</u>
	<u>£m</u>	<u>£m</u>	<u>£m</u>	<u>£m</u>
Value at Start of Year	1,749.2	1,908.6	42.3	46.0
New Cash Inflow/(Outflow)	59.2	53.5	-	(0.1)
Appreciation/(Depreciation) during the year	100.2	(3.1)	3.7	2.6
Value at End of Year	<u>1,908.6</u>	<u>1,959.0</u>	<u>46.0</u>	<u>48.5</u>

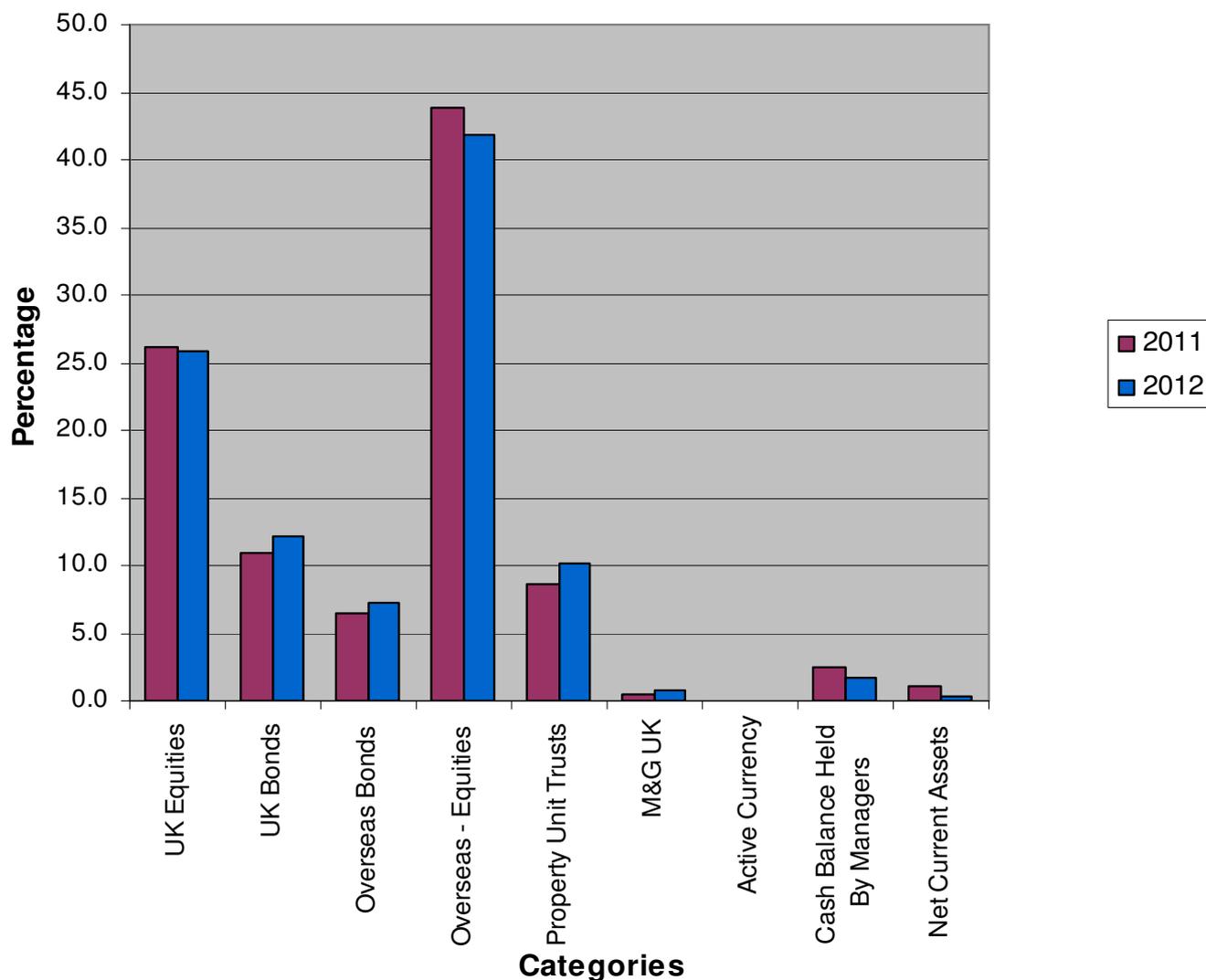


## Main Fund

### Valuation (£m) and Distribution (%)

Sector	31/03/2011		31/03/2012	
	£m	%	£m	%
UK Equities	499.6	26.2	508.0	26.0
UK Bonds	208.8	10.9	236.5	12.1
Overseas Bonds	121.9	6.4	143.2	7.3
Overseas - Equities	837.9	43.9	818.9	41.8
Property Unit Trusts	164.4	8.6	198.6	10.1
M&G Fund	6.7	0.4	13.9	0.7
Active Currency	0.9	-	0.9	-
Cash Balance Held By Managers	48.1	2.5	33.0	1.7
Net Current Assets	20.3	1.1	6.0	0.3
	<b>1,908.6</b>	<b>100.0</b>	<b>1,959.0</b>	<b>100.0</b>

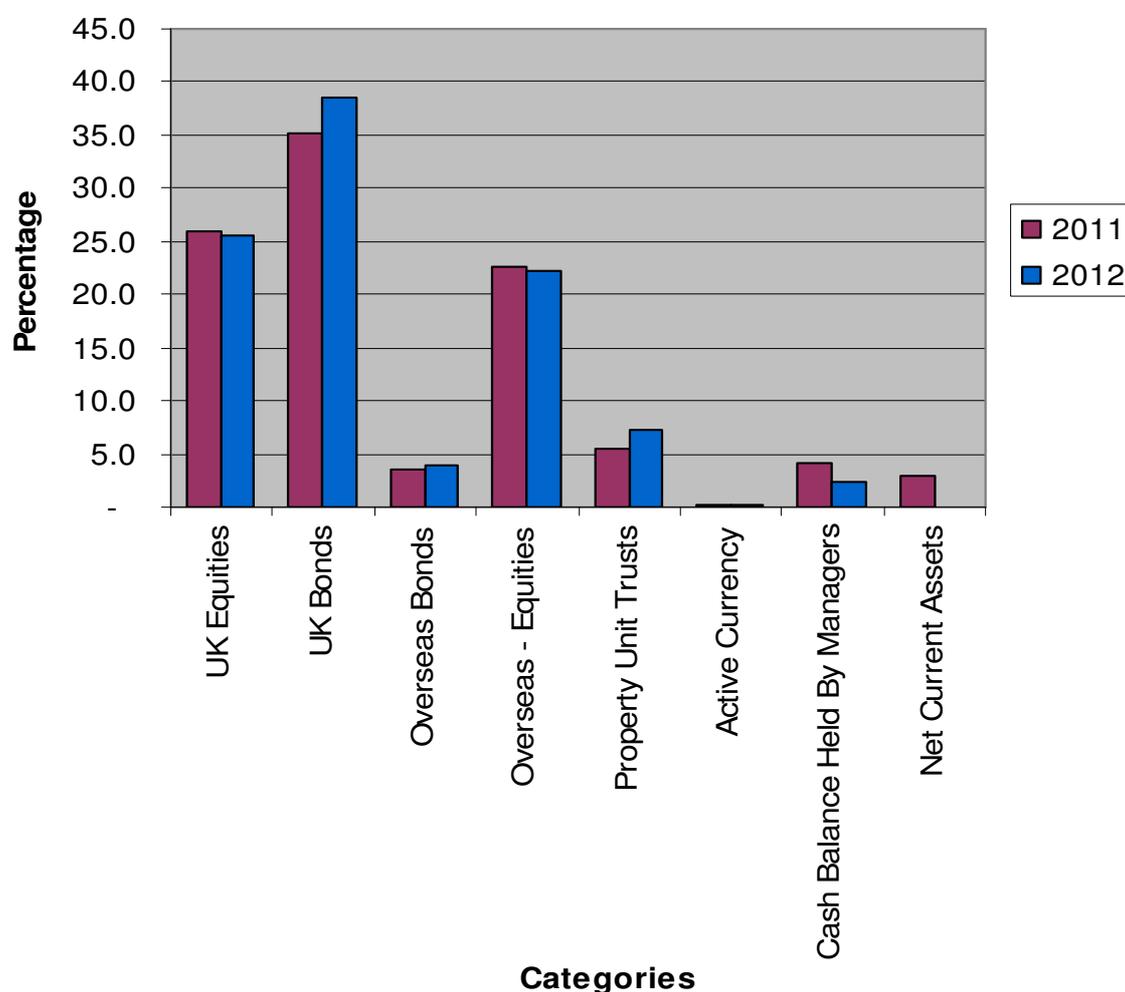
### Main Fund % Holding by Investment Category 2011/12



## Transport Fund

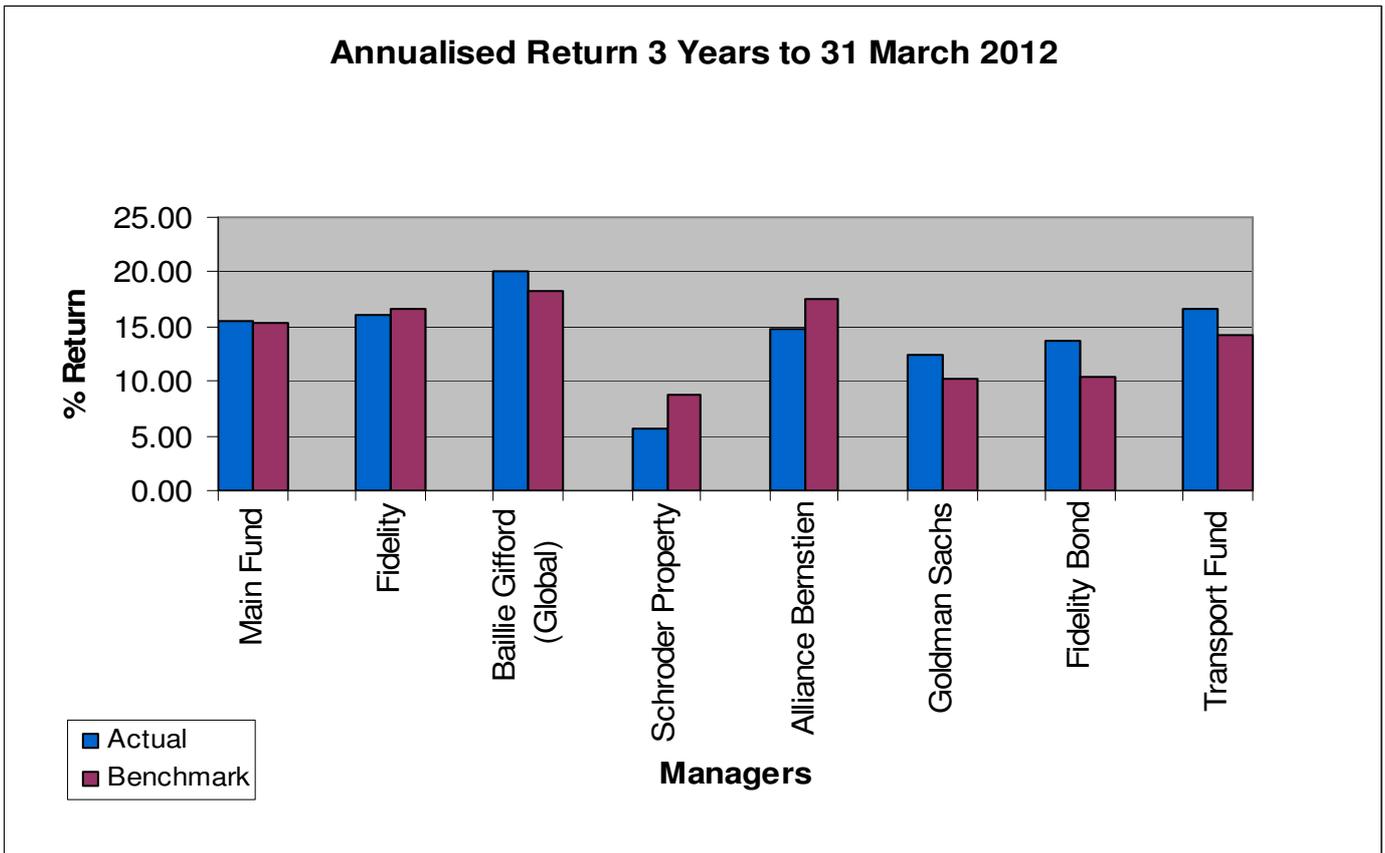
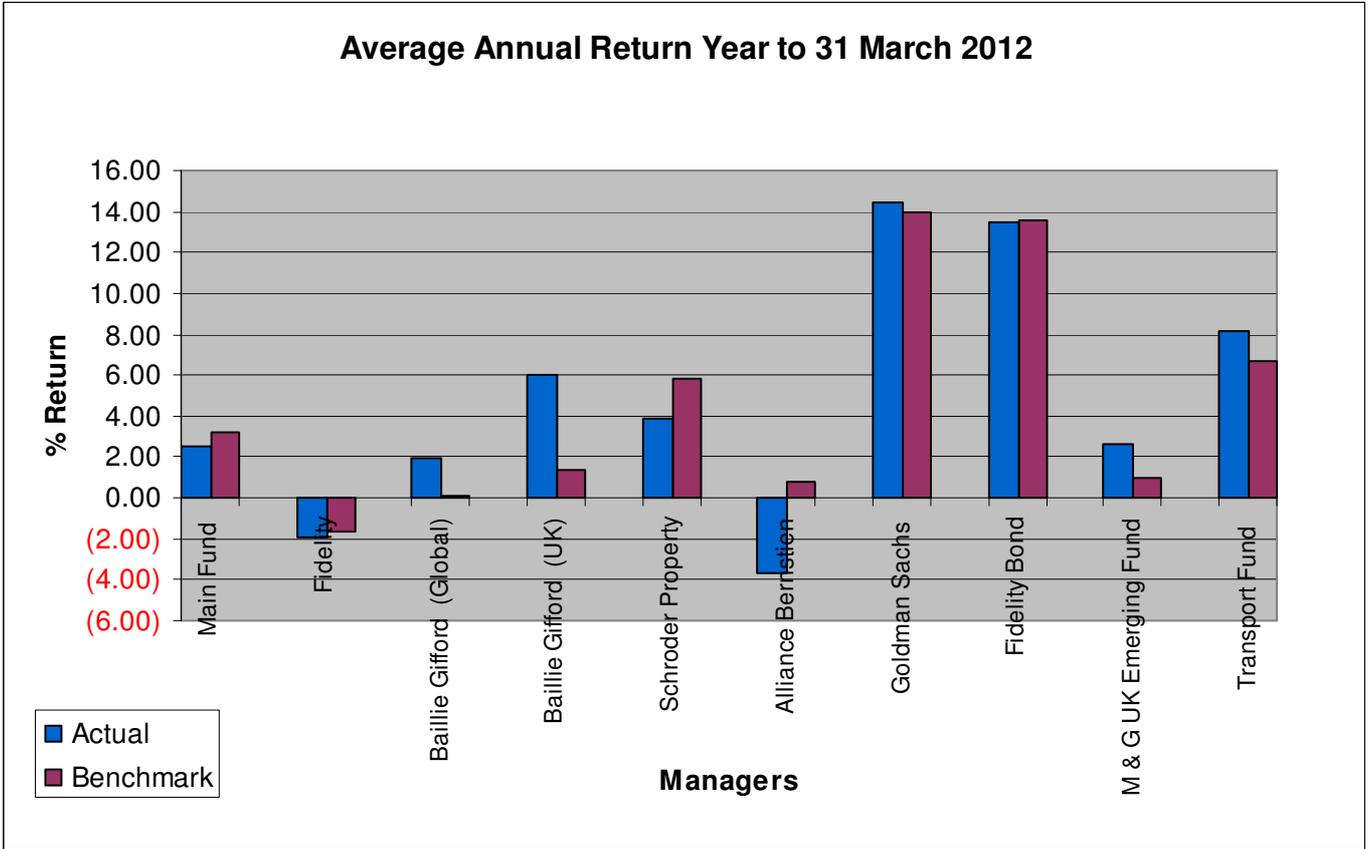
Sector	Valuation (£m) and Distribution (%)			
	31/03/2011		31/03/2012	
	£m	%	£m	%
UK Equities	11.9	25.9	12.4	25.6
UK Bonds	16.2	35.2	18.7	38.5
Overseas Bonds	1.6	3.5	1.9	3.9
Overseas - Equities	10.4	22.6	10.8	22.3
Property Unit Trusts	2.5	5.4	3.5	7.2
Active Currency	0.1	0.2	0.1	0.2
Cash Balance Held By Managers	1.9	4.2	1.1	2.3
Net Current Assets	1.4	3.0	-	-
	<b>46.0</b>	<b>100.0</b>	<b>48.5</b>	<b>100.0</b>

**Transport Fund % Holding by Investment Category  
2011/12**



## PERFORMANCE RETURNS

On a quarterly basis, the Council's Superannuation Investment Sub-Committee convenes to review the performance of the investments made with the Funds. In that connection, the Council engages Northern Trust to produce performance measurement statistics for the Main Fund and the Transport Fund. From 1 July 2003, the Funds introduced their own specific benchmark to assess performance. In the financial year to 31 March 2012 the benchmark for the Main Fund was a gain of 3.23% and for the Transport Fund 6.72%. Individual managers had their own benchmark within this and a comparison of actual performance with benchmarks is shown below :-



**PRINCIPAL EQUITY HOLDINGS (TOP TEN BY VALUE)  
AS AT 31 MARCH 2012**

**MAIN FUND AND TRANSPORT FUND COMBINED**

<u>Investment</u>	<u>Value (£000)</u>	<u>% of Total Equity Holding</u>	<u>Activities</u>
Glaxo Smithkline PLC	21,807	1.61	Pharmaceuticals
Vodafone Group PLC	21,302	1.58	Telecommunication Services
HSBC Holdings PLC	20,473	1.51	Banks
Rio Tinto	18,983	1.40	Oil and Gas
British American Tobacco	18,637	1.38	Tobacco
BG Group	18,385	1.36	Oil and Gas
Prudential	16,980	1.26	Life Insurance
BP	16,889	1.25	Oil and Gas
Imperial Tobacco	14,779	1.09	Tobacco
Royal Dutch Shell	13,345	0.99	Oil and Gas
	<hr/> <b>181,580</b> <hr/>	<hr/> <b>13.43</b> <hr/>	
Total Value of Equities	<hr/> <b>1,351,954</b> <hr/>		
Total Value of Funds	<hr/> <b>2,002,546</b> <hr/>		

**SCHEDULED AND ADMITTED BODIES AS AT 31 MARCH 2012**

**Scheduled Bodies (14) :**

Angus College  
Angus Council  
Dundee City Council  
Dundee College  
Perth & Kinross Council  
Perth College  
Scottish Police Services Authority  
TACTRAN  
Tay Road Bridge Joint Board  
Tayside Contracts  
Tayside Fire Joint Board (Civilians)  
Tayside Joint Police Board (Civilians)  
Tayside Valuation Joint Board  
Visit Scotland

**Admitted Bodies (34) :**

Abertay Housing Association  
Balnacraig School  
Carnoustie Golf Links  
Carolina House Trust  
Dorward House  
Dovetail Enterprises  
Duncan of Jordanstone College of Art  
Dundee Citizens' Advice Bureau  
Dundee Contemporary Arts Ltd  
Dundee Science Centre  
Dundee Society for Visually Impaired People  
Dundee Voluntary Action  
Forfar Day Care Committee  
Forfarshire Society for the Blind  
Highlands & Islands Airports Ltd  
Leisure and Culture Dundee  
Live Active Ltd  
Mitie PFI Ltd  
Montrose Link Trust  
Montrose Port Authority  
Perth & Kinross Countryside Trust  
Perth & Kinross Society for the Blind  
Perth Citizens' Advice Bureau  
Perth Theatre Co Ltd  
Pitlochry Leisure Company  
Robertsons Facilities Management  
Rossie School  
Scottish Commission for Regulation for Care  
Scottish Social Services Council  
Tayside Business Gateway  
Tayside Community Justice Authority  
Travel Dundee  
University of Abertay, Dundee  
University of Abertay, Students Association

## ADDITIONAL INFORMATION

### Key Documents Online

You can find further information on our website [www.dundeeecity.gov.uk/pensions](http://www.dundeeecity.gov.uk/pensions) The following documents are on the website's publications section :

- Actuarial Valuation Reports
- Funding Strategy Statement
- Statement of Investment Principles
- Treasury Management Strategy
- Annual Report and Accounts

### Contact Details

Enquiries relating to investment matters should be addressed to:

Sandy Flight, Head of Corporate Finance or Karen Beatt, Business Support Manager  
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ  
(01382) 433359 or 433196

Enquiries regarding individual benefits, contributions or pensions in payment or requests for further information should be addressed to:

Catherine Carruthers, Assistant Pensions Manager  
Dundee City Council, Floor 4, 50 North Lindsay Street, Dundee DD1 1NZ  
(01382) 307925

Enquiries regarding publications, please visit [www.dundeeecity.gov.uk/pensions](http://www.dundeeecity.gov.uk/pensions)

### Other Contacts

#### The Occupational Pensions Advisory Service (OPAS)

In the event of a dispute, members have recourse initially to an internal dispute procedures and if still not satisfied to the Scottish Minister and in addition may contact the following bodies.

The Occupational Pensions Advisory Service (OPAS), 11 Belgrave Road, London, SW1V 1RB

This organisation is available to assist members and beneficiaries of occupational pension schemes in connection with difficulties, which they have been unable to resolve with the trustees or administrators of their scheme. For problems that cannot be settled through OPAS, a Pensions Ombudsman (based at the same address as OPAS) has been appointed. The Ombudsman has power to investigate and determine complaints or disputes of fact or law in relation to occupational pension schemes. The Ombudsman can only become involved after a dispute has been to the Scottish Ministers.

#### Registry of Occupational Pension Schemes

The Registry acts as a central tracing agency to help individuals keep track of any benefits they may have in previous employers' pension schemes. The Council's Scheme and the names and addresses of all current and previous participating employers have been registered with the Registrar.

Registry of Occupational Pension Schemes, PO Box 1NN, Newcastle upon Tyne, NE99 1NN

# INDEPENDENT AUDITOR'S REPORT

## **Independent auditor's report to the members of Dundee City Council as administering body for Tayside Superannuation Fund and Tayside Transport Superannuation Fund and the Accounts Commission for Scotland**

We have audited the financial statements of Tayside Superannuation Fund and of Tayside Transport Superannuation Fund ("the Funds") for the year ended 31 March 2012. The financial statements of the Funds ("the financial statements") comprise the fund account, the net assets statement and related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 ("the 2011-12 Code").

This report is made solely to the members of Dundee City Council and the Accounts Commission for Scotland, in accordance with Part VII of the Local Government (Scotland) Act 1973. Our audit work has been undertaken so that we might state to those two parties those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Dundee City Council and the Accounts Commission for Scotland, for this report, or the opinions we have formed.

### **Respective responsibilities of the Director of Corporate Services of Dundee City Council and auditor**

As explained more fully in the Statement of Responsibilities for the Statement of Accounts set out on page seven, the Director of Corporate Services of Dundee City Council is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Corporate Services of Dundee City Council; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the annual report to identify material misstatements or inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial transactions of the Funds during the year ended 31 March 2012, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003.

## INDEPENDENT AUDITOR'S REPORT (continued)

### Opinion on other matters prescribed by the Local Government (Scotland) Act 1973

In our opinion the information given in the Foreword by the Director of Corporate Services of Dundee City Council for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Local Government (Scotland) Act 1973 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- the Governance Compliance Statement does not comply with the 2011-12 Code.

**DJ Watt**  
**for and on behalf of KPMG LLP, Statutory Auditor**

*Chartered Accountants*

Saltire Court

20 Castle Terrace

Edinburgh

EH1 2EG