

**REPORT TO: SUPERANNUATION INVESTMENT SUB-COMMITTEE
OF THE FINANCE COMMITTEE - 23 FEBRUARY 2005**

REPORT ON: TAYSIDE SUPERANNUATION FUNDS BUSINESS PLAN 2005/2006

REPORT BY: DEPUTE CHIEF EXECUTIVE (FINANCE)

REPORT NO: 73-2005

1 PURPOSE OF REPORT

This report introduces the second annual business plan for the Tayside Superannuation Funds.

2 RECOMMENDATION

The Sub-Committee are asked to note the information within the report and to approve the 2005/06 Business Plan which applies to the administration and management of the Tayside Superannuation Fund and the Tayside Transport Superannuation Fund.

3 FINANCIAL IMPLICATIONS

The costs of the Treasury and Investment and Pensions Administration section are contained within the overall Finance Department Revenue Budget 2005/06. Investment manager fees are charged directly to the Funds, as are actuarial and investment consultancy costs.

4 LOCAL AGENDA 21 IMPLICATIONS

None

5 EQUAL OPPORTUNITIES IMPLICATIONS

None

6 INTRODUCTION

The "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom April 2002" suggests that as one of the means of achieving effective decision making an annual business plan for the pension fund should be prepared and submitted.

Last year was the first time a plan was prepared for the Superannuation Funds as a whole. This is over and above individual Service Plans for both the Pensions Administration Section and the Treasury and Investment Section as part of the Finance Department's overall planning process.

One key consideration in the current plan is the triennial valuation of the Fund which will be measured at 31 March 2005.

7 BACKGROUND PAPERS

None

**DAVID K DORWARD
DEPUTE CHIEF EXECUTIVE (FINANCE)**

17 FEBRUARY 2005

**TAYSIDE SUPERANNUATION FUNDS
BUSINESS PLAN 2005/06**

1 **INTRODUCTION**

In order to comply with "CIPFA Pension Panel Principles for Investment Decision Making in the Local Government Pension Scheme in the United Kingdom" Principle 1 - Effective Decision Making it is necessary that an annual business plan is prepared for the Funds. This document together with the Statement of Investment Principles will set out the investment philosophy and priorities for the Funds.

2 **BACKGROUND**

The Tayside Superannuation Fund and Tayside Transport Superannuation Fund are merged for investment management purposes but remain separate entities subject to separate actuarial valuations and each producing their own set of accounts. At 31 December 2004 the value of the merged Funds was almost £1,100m.

Within Dundee City Council's Finance Department there are two sections with responsibility for the Superannuation Funds - Treasury and Investment and Pensions Administration. The structures of these sections are shown at Appendix 1. It should be noted that staff in the Treasury and Investment section have other duties outwith the Superannuation Fund.

The annual budget for 2005/06 for these sections is shown in Appendix 2.

3 **INVESTMENT MANAGERS**

As stated in the Statement of Investment Principles (SIP) the objective of the Fund is to be 100% funded and to that end individual performance targets are set for each manager. These are stated in the SIP. However, these targets can only influence the asset side of the valuation and the liability side also affects the funding level.

Given the different styles of the managers and the decision to diversify their investment strategies it is unrealistic to expect all managers to meet their targets each year. However they will continue to be monitored quarterly by the Superannuation Investment Sub-Committee to establish if they are performing satisfactorily.

4 **FINANCIAL POSITION**

Accounts for the year to 31 March 2004 are shown in Appendix 3. It is expected that the manager fees will begin to stabilise but they are linked to the value of funds so can rise if funds increase.

Revenue generated from the new securities lending programme is expected to increase as this becomes established.

Contributions to the Fund will again increase as the employer contribution rate is higher.

5 **PERFORMANCE MANAGEMENT**

Investment Performance Measurement will continue to be provided by Northern Trust, the Fund's custodian.

Investment and administration costs will continue to be benchmarked against national performance indicators and also against information collated by the CIPFA Scottish Branch Treasury Management Forum Pensions Sub-Group.

The Funds will also be subject to periodic review by both internal and external audit.

6 ACTUARIAL SERVICES

These are now provided from 1 July 2004 by Punter Southall, following a tendering exercise. A full valuation of the Main Fund and Transport Fund will be undertaken as at 31 March 2005. This will set the employer contribution rates for 2006/07, 2007/08 and 2008/09.

7 INVESTMENT CONSULTANCY

Investment advice continues to be provided by Hymans Robertson. This new contract began on 1 July 2004 following a tendering exercise. They will provide an annual report to the Sub-Committee and regular advice to the Council's officers.

8 STAKEHOLDER SURVEY

A survey of key stakeholders which took place last year was generally positive but some minor changes to services were made. The effect of these will continue to be monitored.

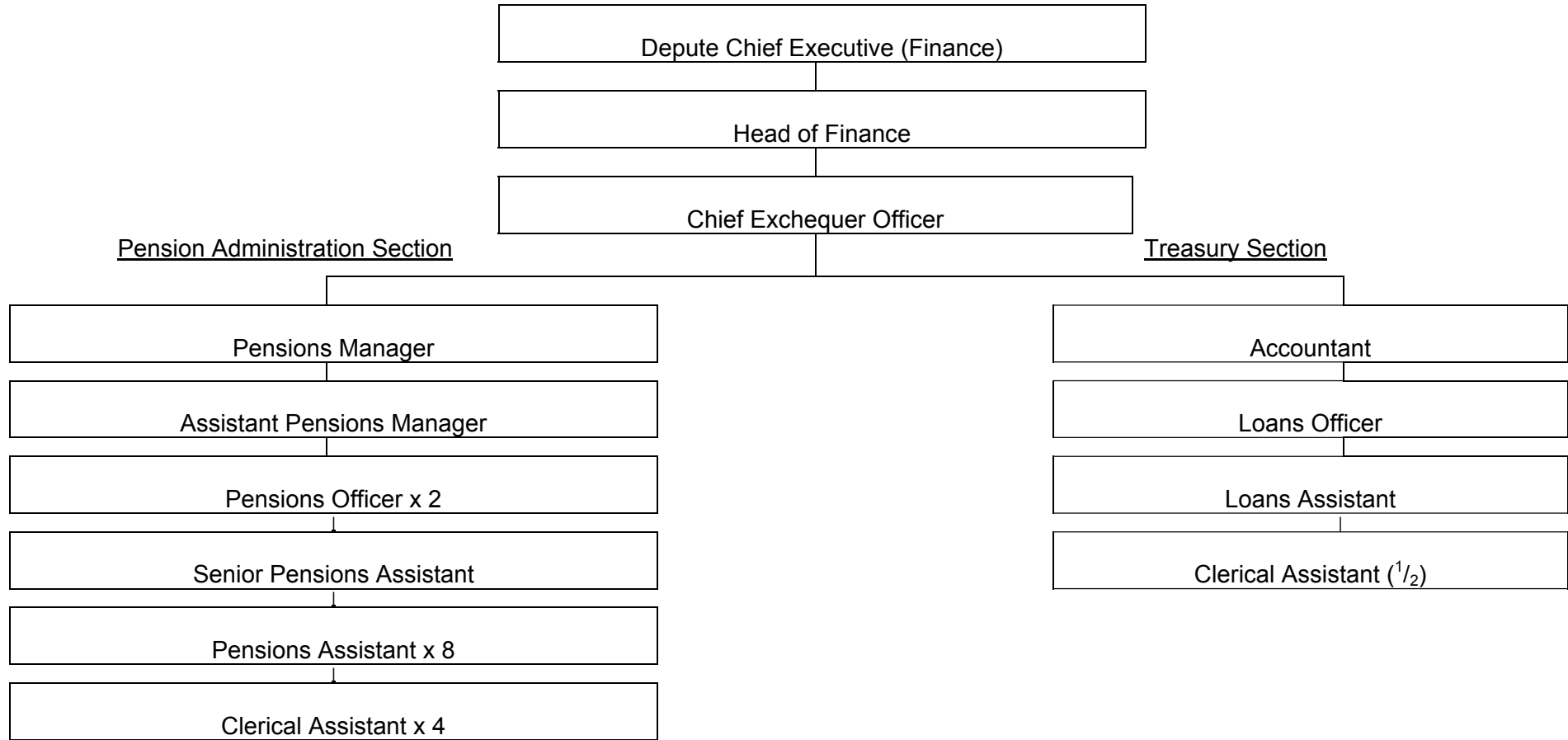
9 FUNDING STRATEGY STATEMENT

Begin consultation with bodies.

10 KEY MEASURES AND TARGETS

These are summarised in Appendix 4.

DUNDEE CITY COUNCIL
FINANCE DEPARTMENT - CORPORATE FINANCE DIVISION (EXTRACT)



TREASURY AND INVESTMENT AND PENSION ADMINISTRATION
REVENUE BUDGET 2005/06

	<u>Treasury and Investment</u> (£000)	<u>Pension Administration</u> (£000)	<u>Total</u> (£000)
Staff Costs	57	390	447
Property	-	55	55
Supplies and Services	19	50	69
Transport	1	4	5
Third Party Payments	<u>-</u>	<u>25</u>	<u>25</u>
TOTAL EXPENDITURE	<u>77</u>	<u>524</u>	<u>601</u>

Tayside Superannuation Fund Accounts for Year to 31 March 2004

2002/2003 £000	FUND ACCOUNT	2003/2004	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
35,581	From employers	40,292	
<u>14,396</u>	From employees	<u>15,865</u>	
49,977			56,157
8,106	Transfers in		12,664
	Benefits payable:		
(31,133)	Pensions	(32,251)	
<u>(4,702)</u>	Lump Sums	<u>(5,976)</u>	
(35,835)			(38,227)
	Payments to and on account of Leavers:		
(226)	Refunds of Contributions	(278)	
<u>(3,947)</u>	Transfers Out	<u>(4,934)</u>	
(4,173)			(5,212)
<u>(1,026)</u>	Administration Expenses		<u>(1,039)</u>
17,049	Net (Deposits) from dealings with Members		24,343
	RETURNS ON INVESTMENTS		
26,471	Investment Income	28,454	
(210,484)	Change in Market Value of Investments	143,742	
<u>(1,299)</u>	Investment Management Expenses	<u>(3,388)</u>	
<u>(185,312)</u>	Net Returns on Investments		<u>168,808</u>
(168,263)	NET INCREASE/(DECREASE) IN FUND DURING THE YEAR		193,151
<u>926,322</u>	OPENING NET ASSETS OF THE SCHEME		<u>758,059</u>
758,059	CLOSING NET ASSETS OF THE SCHEME		<u>951,210</u>
	NET ASSETS STATEMENT (AS AT 31 MARCH)		
2003 £000		£000	2004 £000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
303,024	- UK Equities	367,145	
30,287	- UK Fixed Interest - Public Sector	28,565	
6,031	- UK Fixed Interest - Other	22,967	
17,116	- UK Index Linked	28,689	
89,076	- Overseas Equities	179,734	
-	- Overseas Fixed Interest - Public Sector	-	
115	- Overseas Fixed Interest - Other	17,755	
2,537	- Overseas Index Linked	-	
	Unlisted Investments		
3,606	- UK Unit Trusts	-	
59,074	- UK Open Ended Investment Companies	71,400	
28,744	- Overseas Unit Trusts	-	
89,619	- Overseas Open Ended Investment Companies	115,971	
68,922	- Property Unit Trusts	85,448	
<u>31,574</u>	Cash Balances held by Managers	<u>24,487</u>	
729,725			942,161
	CURRENT ASSETS		
10,983	Sundry Debtors	9,145	
10,000	Short Term Lending	-	
<u>9,348</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>6,974</u>	
30,331		16,119	
	LESS CURRENT LIABILITIES		
(1,781)	Sundry Creditors	(7,070)	
28,550	NET CURRENT ASSETS		9,049
	LESS LONG TERM LIABILITIES		
(216)	Creditors of more than 1 Year	-	-
<u>758,059</u>	NET ASSETS		<u>951,210</u>

David K Dorward CPFA
Depute Chief Executive
(Finance)
Dundee City Council
23 June 2004

This is an extract from the Council's full Annual Accounts which have been audited by the Council's auditor, Audit Scotland and given an Unqualified Audit Certificate.

Tayside Transport Superannuation Fund Accounts for Year 31 March 2004

2002/2003 £000	FUND ACCOUNT	2003/2004	
		£000	£000
	CONTRIBUTIONS AND BENEFITS		
	Contributions receivable:		
133	From employers	195	
<u>132</u>	From employees	<u>129</u>	
265			324
	Benefits payable:		
(1,427)	Pensions	(1,501)	
<u>(114)</u>	Lump Sums	<u>(75)</u>	
(1,541)			(1,576)
	Payments to and on account of Leavers:		
(49)	Transfers Out		(28)
<u>(54)</u>	Administration Expenses		<u>(52)</u>
(1,379)	Net Withdrawals from dealings with Members		(1,332)
	RETURNS ON INVESTMENTS		
1,079	Investment Income	1,342	
(6,306)	Change in Market Value of Investments	3,877	
<u>(54)</u>	Investment Management Expenses	<u>(112)</u>	
<u>(5,281)</u>	Net Returns on Investments		<u>5,107</u>
(6,660)	NET DECREASE IN FUND DURING THE YEAR		(3,775)
<u>36,168</u>	OPENING NET ASSETS OF THE SCHEME		<u>29,508</u>
<u>29,508</u>	CLOSING NET ASSETS OF THE SCHEME		<u>33,283</u>
	NET ASSETS STATEMENT (AS AT 31 MARCH)		
2003			2004
£000		£000	£000
	INVESTMENT ASSETS AT MARKET VALUE		
	Listed Investments		
9,146	- UK Equities	9,378	
7,675	- UK Fixed Interest - Public Sector	3,588	
474	- UK Fixed Interest - Other	2,910	
3,989	- UK Index Linked	3,604	
2,663	- Overseas Equities	5,411	
	- Overseas Fixed Interest	2,230	
	Unlisted Investments		
341	- UK Unit Trusts	-	
3,399	- Overseas Unit Trusts	-	
-	- UK Open Ended Investment Companies	468	
-	- Overseas Open Ended Investment Company	912	
-	- Property Unit trusts	3,468	
<u>1,449</u>	Cash Balances held by Managers	<u>962</u>	
29,136			32,930
	CURRENT ASSETS		
146	Sundry Debtors	331	
<u>247</u>	Revenue Deposits with Dundee City Council Loans Fund	<u>49</u>	
393		380	
	LESS CURRENT LIABILITIES		
(21)	Sundry Creditors	<u>(27)</u>	
<u>372</u>	NET CURRENT ASSETS		<u>353</u>
<u>29,508</u>	NET ASSETS		<u>33,283</u>

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KEY MEASURES AND TARGETS

<u>From Finance Department Service Plan</u>		<u>2003</u> <u>Baseline</u>	<u>2004</u> <u>Actual</u>	<u>2007</u> <u>Target</u>
1	<u>Pension Fund Administration</u>			
	i Cost per member	£27.20	£27.93	£25.90
	ii Ratio of staff to membership	1:2356	1:2128	1:2120
2	<u>Pension Fund Investment</u>			
	i Investment performance annualised three yearly. Investment returns compared to the average pension fund as measured by WM Company.	+0.6%	-0.2%	+1.0%
	ii Cost of Investment Management	0.16%	0.35%	0.25%
	iii Reporting Deadlines	Achieved	Achieved	Achieved
	iv Review of Actuarial Services	Achieved	Achieved	Achieved

From Statement of Investment Principles

3	<u>Investment Managers</u>	<u>Performance Target (on rolling 3 year basis)</u>
	Fidelity	Specific Benchmark +1.5% pa (gross of fees)
	Baillie Gifford	Specific Benchmark +1.5% pa (gross of fees)
	Schroder Property	HSBC IPD Pooled Property Median +0.5% pa
	Goldman Sachs	Specific Benchmark +0.5% pa (net of fees)
	Alliance Bernstein	Specific Benchmark +1.5% to 2% pa (net of fees)
4	<u>Asset Allocation</u>	<u>Target</u>
	<u>Main Fund</u>	
	Fidelity (Multi Asset)	29%
	Baillie Gifford (Global Equity)	25%
	Schroder Property	9%
	Goldman Sachs (Bonds)	12%
	Alliance Bernstein (Global Equity)	25%
	<u>Transport Fund</u>	
	Baillie Gifford (Global Equity)	50%
	Goldman Sachs (Bonds)	40%
	Schroder Property	10%

Service Providers

	<u>Target</u>
5	Actuarial Services
	Triennial valuation as at 31 March 2005 to be completed
6	Investment Consultancy
	Now to report annually to Sub-Committee