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ABERDEEN
CITY COUNCIL

To: **Pension Committee**:- Councillor Jennifer Stewart, Convener; Councillor Reynolds, Vice Convener; Councillor Crockett, the Lord Provost, and Councillors Allard, Bell, Cooke, Delaney, MacGregor, Malik.

Pension Board:- Mr A Walker, Chair; Ms M Hart, Vice Chair; Councillor Donnelly, the Depute Provost; Councillors Cowe and McKelvie; and Ms M Lawrence and Mr K Masson.

Town House,
ABERDEEN, 23 November 2017

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 1 DECEMBER 2017 at 10.30am**.

FRASER BELL
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

DETERMINATION OF URGENT BUSINESS

1 There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

2 Members are requested to determine that any exempt business be considered with the press and public excluded

DECLARATIONS OF INTEREST

3 Members are requested to intimate any declarations of interest (Pages 5 - 6)

MINUTES OF PREVIOUS MEETINGS

4 Minute of Previous Meeting of 15 September 2017 (Pages 7 - 14)

COMMITTEE BUSINESS STATEMENT AND MOTIONS LIST

5 There are currently no motions to the Pensions Committee

FINANCE, PERFORMANCE, RISK AND SERVICE WIDE ISSUES

6 Internal Audit Report AC1725 - Pension Fund Payroll (Pages 15 - 26)

7 Budget Forecast and Projected Spend 2017-18 (Pages 27 - 34)

8 2017 Actuarial Valuation and Funding Strategy Statement - Initial Results (Pages 35 - 68)

GENERAL BUSINESS

9 Strategy (Pages 69 - 130)

10 Update on Annual Benefit Statements (Pages 131 - 134)

11 Request for Admitted Body Status (Pages 135 - 146)

12 Procurement of Pension Administration Software (Pages 147 - 152)

EXEMPT BUSINESS - NOT FOR PUBLICATION

13 Asset and Investment Manager Performance Report (Pages 153 - 172)

14 Investment Strategy Update Report (Pages 173 - 178)

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, tel 01224 522503 or email sdunsmuir@aberdeencity.gov.uk

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons ....
For example, I know the applicant / I am a member of the Board of X / I am employed by…
and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

I have considered whether I require to declare an interest in item (x) for the following reasons .... however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

OR

I declare an interest in item (x) for the following reasons .... however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

(a) a devolved public body as defined in Schedule 3 to the Act;
(b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
(c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
(d) a body being a company:-
i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

OR

I declare an interest in item (x) for the following reasons……and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval
- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority…. and I will therefore withdraw from the meeting room during any discussion and voting on that item.

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 15 September 2017. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Jennifer Stewart, Convener; Councillor Reynolds, Vice-Convener; and Councillors Allard, Bell, Delaney, MacGregor and Malik (Pensions Committee); and Mr A Walker, Chairperson; and Councillor Alan Donnelly, the Depute Provost (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Steve Whyte, Head of Finance; Graham Buntain, Investment Manager; Gillian Woolman, Assistant Director, Audit Scotland; and Colin Morrison, Senior Auditor, Audit Scotland.

The agenda and reports associated with this minute can be found at:- https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MId=4355&Ver=4

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

DETERMINATION OF URGENT BUSINESS

1. The Convener advised that there were no items of urgent business to be considered.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following items of business, which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – items 10 (Asset and Investment Manager Performance Report) and 11 (Investment Strategy Update).

The Committee resolved:-
in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of items 10 and 11, so as to avoid disclosure of exempt information of the class described in paragraph 6.

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING

4. The Committee had before it the minute of its previous meeting of 23 June 2017.

With reference to article 1, Ms Colliss advised that the NESPF had been successful at the awards in London in June, and had won the Public Sector Scheme of the Year award, the Fund's second award of the year. She added that the Fund was in contention for two further awards.

With reference to article 6 it was noted that the annual accounts which had been approved at the previous meeting were the unaudited accounts. This was highlighted in order to avoid any confusion with the audited annual accounts which were before Committee to approve at item 8.

The Committee resolved:-
(i) to note that the previous meeting had considered the unaudited annual accounts;
(ii) to congratulate the team on winning Public Sector Scheme of the Year; and
(iii) to otherwise approve the minute as a correct record.

The Board resolved:-
to note the decision of the Committee.

NORTH EAST SCOTLAND PENSION FUND 2016/17 DRAFT ANNUAL AUDIT REPORT

5. The Committee had before it a report by the External Auditor on the 2016/17 Annual Audit of the North East Scotland Pension Fund. The report noted that auditors were required to report on specific matters arising from the audit of the financial statements to those charged with governance of a body, prior to the financial statements being approved and certified. The report presented the draft annual report on the 2016/17 audit.

The key messages from the audit were that the Fund had effective arrangements in place for financial management, including the comprehensive reporting of investment performance. Pension contributions for the Main Fund continued to exceed benefits payable. The report noted that the increase in pensioners in the Transport Fund's membership would make funding pension payments increasingly challenging with a greater reliance on selling investments, however the funding levels did not give any cause for concern in the short to medium term.

The audit had found that effective governance arrangements were in place to support scrutiny of decisions made by the Pensions Committee and decisions were transparent, with committee papers and detailed minutes available on the Aberdeen City Council website. The performance of the Fund was subject to regular review and scrutiny by the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
15 September 2017

The report included an action plan containing a recommendation for improvement in respect of updating the Pensions Committee Orders of Reference by March 2018.

The Committee heard in detail from Ms Woolman and Mr Morrison in respect of the report following which Members asked a number of questions.

The Committee resolved:-
to note the audit report.

The Board resolved:-
to note the decision of the Committee.

BUDGET / FORECAST & PROJECTED SPEND 2017/18 - PC/SEPT17/BUD

6. With reference to article 8 of the minute of the previous meeting, the Committee had before it a report by the Head of Finance which provided details of the Management Expenses Budget/Forecast and Projected Spend 2017/18 for the North East Scotland Pension Fund (NESPF).

It was noted that there was currently an underspend in respect of staff costs due to the restrictions in place around recruitment. Mr Whyte explained that he was in discussions with HR in respect of this.

The report recommended:-
that Committee –
(a) note the update on the NESPF Management Expenses Budget / Forecast and Projected Spend for 2017/18;
(b) note the update on Pension Fund staff costs and staffing vacancies; and
(c) note the update on Direct Property Expenses and Transaction Costs shown in Appendix 1 to the report.

The Committee resolved:-
to approve the recommendations.

The Board resolved:-
to note the decision of the Committee.

CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT & ACCOUNTS - PC/SEPT17/ACC

7. With reference to article 5 of the minute of this meeting, the Committee had before it a report by the Head of Finance which set out the audited Annual Report and

Accounts for the North East Scotland Pensions Fund and the Aberdeen City Council Transport Fund for consideration and signing.

The report recommended:-
that Committee consider and sign the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for consideration and signing.

Mr Whyte added that he wished to thank staff and the auditors for their work throughout the process.

The Committee resolved:-
(i) to approve the recommendation; and
(ii) to thank all the staff involved for their hard work in respect of the preparation of the annual accounts, and involvement in the successful audit.

The Board resolved:-
to note the decision of the Committee.

STRATEGY - PC/SEPT17/STRATEGY

8. With reference to article 9 of the minute of its previous meeting, the Committee had before it a report by the Pensions Manager which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report contained information and updates on the review of Additional Voluntary Contributions, and the 'soft closure' of a small number of underperforming funds and addition of three new funds; an Local Government Pension Scheme Regulation update; parallel running; the proposed increase to the state pension age; an update on the Pension Fund staffing levels; an update on the percentage of annual benefit statements issued to members; an update on the EU General Data Protection Regulation and the implications for the Pension Fund; and an update on the year end / valuation process.

The report recommended:-
that the Committee note the report.

The Committee resolved:-
to approve the recommendation.

The Board resolved:-
to note the decision of the Committee.

In accordance with the decision recorded under article 2 of this minute, the following items were considered with the press and public excluded.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/SEPT17/AIMPR

9. With reference to article 11 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 June 2017.

The Committee heard from Mr Graham Buntain in respect of the detail contained in the report.

The report recommended:-
that the Committee note the report.

The Committee resolved:-
to approve the recommendation.

The Board resolved:-
to note the decision of the Committee.

INVESTMENT STRATEGY UPDATE REPORT - PC/SEPT17/INVSTRAT

10. The Committee had before it a report by the Head of Finance which provided an update on the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The Committee heard from Mr Buntain in respect of the detail outlined in the report.

The report recommended:-
that Committee –
(a) approve new investment of £100 million in the Aviva Investors Infrastructure Income fund;
(b) approve £50 million of further investment to the existing mandated Blackrock Dynamic Diversified Growth fund;
(c) in respect of the Markets in Financial Instruments Directive 2014/65 (MiFIDII), note the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018;

(d) agree the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure the continued implementation of an effective investment strategy;

(e) agree to forego the protections available to retail clients specified in Appendix 1 of the report; and

(f) approve the granting of delegated powers to the Investment Manager and Governance Manager for the purpose of completing the applications and determining the basis of application as either full or single service, to enable the Fund to be registered as a professional client ahead of the deadline of 3 January 2018.

The Committee resolved:-
to approve the recommendations.

The Board resolved:-
to note the decision of the Committee.

\- **COUNCILLOR JENNIFER STEWART, Convener**

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	1 December 2017
REPORT TITLE	Internal Audit Report AC1725 – Pension Fund Payroll
REPORT NUMBER	IA/AC1725
LEAD OFFICER	David Hughes
AUTHOR	David Hughes

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the planned Internal Audit report on the Pension Fund Payroll.

2. RECOMMENDATION

2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

3.1 Internal Audit has completed the attached report which relates to an audit of the Pension Fund Payroll.

4. FINANCIAL IMPLICATIONS

4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. IMPACT SECTION

7.1 **Economy** – The proposals in this report have no direct impact on the local economy.

7.2 **People** – There will be no differential impact, as a result of the proposals in this report, on people with protected characteristics. An equality impact assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. The proposals in this report will have no impact on improving the staff experience.

7.3 **Place** – The proposals in this report have no direct impact on the environment or how people friendly the place is.

7.4 **Technology** – The proposals in this report do not further advance technology for the improvement of public services and / or the City as a whole.

8. APPENDICES

8.1 Internal Audit report AC1725 – Pension Fund Payroll.

9. REPORT AUTHOR DETAILS

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Internal Audit Report

North East Scotland Pension Fund

Pension Fund Payroll

Issued to:
Steven Whyte, Head of Finance
Fraser Bell, Head of Legal and Democratic Services
Laura Colliss, Pensions Manager
External Audit

Date of Issue: October 2017 **Report No. AC1725**

EXECUTIVE SUMMARY

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.

The main local government fund is valued at over £3.1 billion and provides pension arrangements for 57 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has around 24,000 active members, almost 18,000 deferred members (who don't currently pay into the scheme) and pays benefits to almost 18,000 pensioners and dependents each month.

The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator. The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016.

The objective of this audit was to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate. In general this is the case, however improvements to procedures have been recommended, particularly for cases where further authorisations need to be evidenced for variations from standard practice, including write offs of minor overpayments.

1. INTRODUCTION

1.1 The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.

1.2 The ACCTF which has a market value of around £90 million closed to new members in 1994, and has only 78 active (or paying) members, pension liabilities for around 650 others and is subject to a De-Risking Strategy.

1.3 The main local government fund is valued at over £3.1 billion and provides pension arrangements for 57 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has around 24,000 active members, almost 18,000 deferred members (who don't currently pay into the scheme) and pays benefits to almost 18,000 pensioners and dependents each month.

1.4 The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator. The NESPF Pensions Manager reports to Aberdeen City Council's Head of Finance and is currently responsible for 30 Pensions' staff. A restructure is currently underway, which will see staffing increase to 35 and the service operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Information Technology. This structure was agreed in 2015.

1.5 The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Amendment Regulations 2016.

1.6 The objective of this audit was to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.

1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Steven Whyte, Head of Finance, and Laura Colliss, Pensions Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees, and provide management with assurance that correct and consistent practices are being followed, especially in the event of an experienced employee being absent or leaving.

2.1.2 The Pensions Service has a generic manual covering input to the ALTAIR payroll system, and there are written procedures covering immediate payments, pay runs and leavers (although this procedure is being revised). However, there is no comprehensive manual or set of written procedures covering all elements of pension fund payroll administration. Two training posts were created in a recent service restructure, and the remit of the officers in those posts will include drawing up procedures.

Recommendation
The Service should ensure that a comprehensive set of written procedures covering all aspects of pension payroll administration is devised.

Service Response / Action
Agreed. Procedure notes covering immediate payments, pay runs, leavers are currently in place (as noted above). Training & Development are working on updating the 'practical notes' for the admin staff for day to day which will include payroll input notes. Some updated notes are already on the emporium for the staff to access but this is an ongoing project.

Implementation Date	Responsible Officer	Grading
December 2018	Pension Fund Manager	Significant within audited area

2.1.3 Data is obtained from employers through various means, including post, email, and electronic data interchange from some employer's payroll systems. The format of this data varies by employer, particularly for cessation forms used to provide details of final salary and employment termination details. Although the key information is provided, or available through other systems, in every instance, standardising the format could improve efficiency for the Service, and reduce the risk of error – particularly if there are new staff who may be less familiar with the variations.

Recommendation
The Service should standardise data collection formats.

Service Response / Action
Agreed. All employers apart from Police Scotland have been moved to i-connect providing standardised monthly data collection. The information required in the cessation form is standard. However, as many of the larger employers have automated their systems to produce cessations the style of the forms often differs.

Completion of cessations has been a main topic of the two administration forums that have been delivered by the Fund since the introduction of the new scheme to try to ensure consistency between employers. An abbreviated cessation has been developed and made available to employers that are using i-Connect. The aim of this form is to ensure that information that is provided through i-Connect is not duplicated. The number

of employers currently using this form remains low as it will take some time for the larger employers to change their automated cessations to reflect the changes required.		
Implementation Date	**Responsible Officer**	**Grading**
Implemented	Pension Fund Manager	Important within audited area

2.2 New Pensioners

2.2.1 The pension system is configured to identify when a member has reached retirement age. No pension payments are made until the NESPF has received notification confirming the employee's decision to retire. When a member applies for early retirement further information must be gathered to ensure they are eligible before making any pension payments, depending on the nature of the reason for early retirement. For example, if the early retirement is for ill health, a doctor's letter must be obtained.

2.2.2 When a member retires, calculations are completed by the Service to determine an estimated level of benefits available under the relevant scheme Regulations. A letter is sent detailing the estimated benefits and enclosing option forms to complete. The forms enclosed are: member marital status form; bank mandate; commutation option form; early payment form and HMRC declaration form. When the forms are returned, the member is also asked to provide copies of their birth certificate and, where applicable, relevant certificates for their spouse, e.g. spouse's birth and marriage certificate for a married member, and a spouse's death certificate for a widow(er). The Service uses a checklist to track progress.

2.2.3 Once all forms and required evidence have been submitted, and the relevant information has been received from the employer, the actual benefits are re-calculated and input onto the payroll system. These may vary from the original estimate due to changes and additional information obtained in the intervening period. A notification letter is sent to the member to let them know the final figures and payment dates.

2.2.4 A sample of twelve new pensioners was selected from the available payroll reports, and their records were checked to ensure that the Service had been notified of the member's intention to retire and, where the retiral was on the grounds of ill health, that the opinion of a health professional supported the retiral and the relevant 'tier' of ill health in accordance with the scheme. Checks were also made to ensure that all of the relevant forms had been completed and submitted by the members, that the information submitted was appropriately verified, and that calculations were based on the information provided. The paperwork completed by staff was reviewed to ensure that both the calculations of the benefits payable and the input to the payroll system had been checked, and that payments are being made into bank accounts per the completed bank mandates and in line with the benefits calculated. With the exception of the following issues, the results of testing were satisfactory.

2.2.5 One new pensioner's benefits were not calculated in accordance with the Regulations. The member was retiring on the grounds of ill health. She was latterly unable to work full-time as a result of her illness, and had reduced her hours to part-time. However, this had a significant negative impact on her pension entitlement, and it was agreed that, because she had reduced her hours to try to continue working, her benefits would be calculated as though she had continued to work full-time. This is not in accordance with the Regulations, which require the pension to be calculated on the basis of the last three month's pay prior to sickness absence. The Service has no written evidence that this was approved at an appropriate level (there is only a 'free format' memo held in the system on which the initials of the two officers with whom the decision was discussed have been recorded).

Recommendation Any deviation from the Regulations when calculating members' benefits should be authorised at the appropriate level. **Service Response / Action** Agreed. Any deviation will be authorised by the Pension Fund Manager and reported to Committee. The Committee will be asked to re-confirm formal delegation to make these decisions.

Implementation Date	**Responsible Officer**	**Grading**
December 2017	Pension Fund Manager	Significant within audited area

2.2.6 Access to Aberdeenshire Council's payroll system enabled checking of the figures used in the calculation of one of the new pensioners in the audit test sample. It was discovered that the final payroll payment was made after the cessation form had been completed and forwarded to the Pensions Service, and that they were not advised that it had been made. Although its omission did not significantly adversely affect the pension benefits calculated, the benefits calculated are not accurate. There is also the potential for the benefits to be affected to a greater degree depending upon the value of the final payment.

2.2.7 Although Aberdeenshire Council has now addressed this issue, there is a risk that the same thing may be happening in some of the other organisations for which the NESPF provide pension services.

Recommendation The Service should ensure that all organisations are aware of the requirement to inform them of any payments made to members following submission of the cessation forms. **Service Response / Action** Agreed. The Pension Fund provides continuous engagement with all employers regarding their responsibilities via various forms of communication including employer guides, bulletins and employer forums. Employers have been advised of this issue. Also changes in I-Connect reporting mean that a suppression report is generated if subsequent payments made. This is picked up by ERT and arrears cessation will be requested.

Implementation Date	**Responsible Officer**	**Grading**
Implemented	Pension Fund Manager	Important within audited area

2.2.8 Ill health retirals are subject to an independent occupational health advisor declaring that a member is permanently incapable of doing their current job. These provide early access to pension entitlements, and an enhancement depending on the extent to which the advisor considers the member is likely to be capable of undertaking gainful employment before normal pension age. No reassessment is ever undertaken during the period the pension remains in payment as Regulations do not require it. There is therefore a risk that pensioners might take up gainful employment in future, whilst continuing to receive their pension.

2.2.9 In some cases life expectancy is a consideration declared by the advisor, and may result in the highest level of enhancement. Although included on the relevant form, this data is not collated or reviewed thereafter. There is a risk that should erroneous or fraudulent payments commence, they would not be identified and challenged at a later date.

Recommendation The Service should ensure it has sufficient mechanisms to monitor ill-health retirements in payment. **Service Response / Action** Agreed. As already stated there is no regulatory requirement however the Pension Fund will review if there are any suitable mechanisms for monitoring and review who would be responsible for such an action.		
Implementation Date	**Responsible Officer**	**Grading**
December 2018	Pension Fund Manager	Important within audited area

2.3 Deaths

2.3.1 There are various ways in which the Service may be notified of a member / pensioner's death including by a relative of the deceased, by a solicitor etc. The Service also uses the services of an independent mortality screening service to perform monthly checks on notifications regarding pension scheme members in receipt of payments. A copy of the death certificate is required except where a death has been identified by the screening service.

2.3.2 When notice is received that a pensioner has passed away, their pension payments are automatically suspended in the system. A letter is then issued to the next of kin or solicitor depending on the details held. This letter encloses the relevant forms for spouse, child, death grant and balance of pension payments depending on the circumstances of the death. The death certificate is also requested along with spouses' certificates where relevant. Sometimes it is not known if there is a spouse or children depending on whether a member of the family has been in touch or whether the only notification is from the screening service. Papers are checked for death notices to trace next of kin. Forms are issued once the appropriate information is known.

2.3.3 A sample of twelve deaths was selected from the list of death grants paid. The associated records were reviewed to ensure that:

- payments were suspended as soon as the Service was notified
- all of the required forms had been completed and returned
- the calculations of benefits were checked
- all payments were properly authorised
- payments were made per the calculations
- there is sufficient evidence in support of all payments

With the exception of the following issues, the results of testing were satisfactory.

2.3.4 Depending on the timing of a pensioner's death, or on the timing of the notification of the death to the Service, an overpayment of pension benefits may be made. If the overpayment is calculated to be less than £100, no recovery is made. According to the Senior Pensions Officer, this is because £100 is considered to be immaterial in terms of the monetary value of pension payments made from the Pension Fund each month. Financial Regulations state that The Head of Finance may delegate authority, up to £10,000, to nominated officers on the basis that a schedule of written off debt is supplied to him/her on a regular basis, no less frequently 6 monthly. However, there is no record of delegated authority to write off overpayments.

Recommendation The Service should ensure that it has written delegated authority before writing off overpayments. **Service Response / Action** Agreed. The Service cannot currently evidence the authority to write off debts and will seek re-confirmation from the Head of Finance. **Implementation Date** December 2017 — **Responsible Officer** Pension Fund Manager — **Grading** Significant within audited area

2.3.5 Internal Audit asked if the value of overpayments which are written off can be quantified, but there is no record of them other than on the calculation sheets which are scanned into individual members' records. If write offs are regular the combined value may be material.

Recommendation Overpayments which have been written off should be recorded, and a review should be undertaken to assess the materiality of the total value. **Service Response / Action** Agreed. A register will be created and reviewed on a quarterly basis by the Pension Fund Manager. Any material write off will be reported to Committee. **Implementation Date** October 2017 — **Responsible Officer** Pension Fund Manager — **Grading** Significant within audited area

2.3.6 Any overpayment made to the deceased should be recovered from their estate. However, the Service routinely notify the deceased's spouse (where applicable) of the overpayment, and state that it will be recovered from their widow(er)'s pension unless they request otherwise. Although administratively efficient, there is no automatic link between the deceased and their spouse to allow this to take place. An overpayment would normally rank alongside any other creditors seeking reimbursement from the deceased's estate.

2.3.7 If a spouse has not been appointed as executor of the deceased's will, they will have the inconvenience of having to notify the Service that the overpayment should not be deducted from their spouse's pension. If they do not notify the Service, they will bear the cost.

Recommendation The Regulations should be followed so that any overpayments are recovered from the deceased's estate. **Service Response / Action** General practice within the LGPS is to currently adopt both options, to either recover from the estate or from the spouse depending on which is more efficient and consideration of the estate and spouse wishes. A policy review will be undertaken to further discuss the available options, ensuring regulatory compliance. **Implementation Date** December 2018 — **Responsible Officer** Pension Fund Manager — **Grading** Important within audited area

2.4 Changes to Bank Details

2.4.1 Changes and amendments to bank details and addresses are only made by the NESPF on receipt of a signed letter that includes the scheme member's pension reference number / NI number, or online through MyPension, which notifies the Service via email of the change, or via a report from the Bank informing of the change made by a member.

2.4.2 Once any changes are made, the NESPF sends a letter to the member confirming the change to verify that the details have been changed correctly. If notified by email, the changes can be confirmed by email.

2.4.3 A sample of nine changes to bank details in 2016/17 were selected for testing, from a system report detailing where scheme members' details had changed, and checks were undertaken to ensure that the member had provided sufficient authorisation of the change, that the changes had been made timeously by Pensions staff, and that the changes made were confirmed to pensioners in writing. The results of testing were satisfactory.

AUDITORS: D Hughes
C Harvey
A Taylor

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited. Financial Regulations have been consistently breached.
Significant within audited area	Addressing this issue will enhance internal controls. An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on a system's adequacy and effectiveness. Financial Regulations have been breached.
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	BUDGET/FORECAST & PROJECTED SPEND 2017/18
REPORT NUMBER	PC/DEC17/BUD
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	MICHAEL SCROGGIE

1. PURPOSE OF REPORT:-

1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2017/18 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

i. Note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend for 2017/18;
ii. Note the update on Pension Fund Staff Costs and staffing vacancies,
iii. Note the update on Actuarial Fees, Direct Property Expenses and Transaction Costs shown in Appendix I.

3. BACKGROUND/MAIN ISSUES

3.1 BUDGET / FORECAST AND PROJECTED SPEND 2017/18 (APPENDIX I)

3.1.1 Administrative Expenses – all staff costs of the pension administration team are charged direct to the fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.

3.1.2 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

3.1.3 The Administrative and Investment Staff Cost Budgets are consistent with the Direct Staff Costs Budget 2017-18 that was reported to Full Council in February 2017. A potential underspend has been identified, which is largely associated with staffing vacancies.

3.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the fund has negotiated performance related fees with a number of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

3.1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer accounts for indirect limited partnership fees.

3.1.6 Transaction Costs and Direct Property Expenses are included within the section ‘Investment Management Expenses’. Other investment related expenses (e.g. Investment advice and litigation, etc.) are included within the section ‘Oversight & Governance Expenses’.

3.2 GOVERNANCE

3.2.1 The Pension Fund projected costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Head of Finance reports to the Pensions Committee on a quarterly monthly basis.

4. FINANCIAL IMPLICATIONS

4.1 All Pension Fund costs are paid for by the Fund.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 There are no direct risk implications arising from the recommendation of this report.

7. IMPACT SECTION

7.1 The Pension Fund Budget or Forecast promotes accountability and gives reassurance to the stakeholders in the Pension Fund. This report ensures transparency in costs from the administrator of the Fund.

8. BACKGROUND PAPERS

8.1 North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2016/17) and Fund Governance Policy Statement.

9. APPENDICES (if applicable)

9.1 Appendix I, Budget/Forecast and Projected Spend 2017/18

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Appendix I – 2017/18 BUDGET/FORECAST AND PROJECTED SPEND

The Budget and Projected Spend for NESPF Administration Expenses are shown below:

	Notes	Full Year Budget 2017/18	Budget to 30/09/17	Actual Spend to 30/09/17	Accrual to 30/09/17	Amended Spend to 30/09/17	Over or (Under) to 30/09/17	Proj Annual Spend 2017/18	Proj Over or (Under) Spend 2017/18
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Administrative Staff Costs	1	1,144	572	345	259	604	32	1,035	(109)
Support Services Inc IT		575	288	359	90	449	161	586	11
Printing & Publications		30	15	5	6	11	(4)	29	(1)
Administration Expenses Total		**1,749**	**875**	**709**	**355**	**1,064**	**189**	**1,650**	**(99)**

Note (Spend Variance ± 5%):

1. Under spend – New posts yet to be advertised and filled.

Appendix I – 2017/18 BUDGET/FORECAST AND PROJECTED SPEND (continued)

The Budget and Projected Spend for NESPF Oversight & Governance Expenses are shown below:

	Notes	Full Year Budget 2017/18	Budget to 30/09/17	Actual Spend to 30/09/17	Accrual to 30/09/17	Amended Spend to 30/09/17	Over or (Under) to 30/09/17	Proj Annual Spend 2017/18	Proj Over or (Under) Spend 2017/18
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Staff Costs		157	79	43	38	81	2	154	(3)
Pension Fund Committee		15	7	0	2	2	(5)	15	0
Pension Board		5	3	0	0	0	(3)	5	0
External Audit Fee		35	17	0	17	17	0	34	(1)
Internal Audit Fee		10	5	0	5	5	0	10	0
Actuarial Fees	1	100	50	48	39	87	37	145	45
General Expenses		150	75	61	14	75	0	150	0
Oversight & Governance Expenses Total		**472**	**236**	**152**	**115**	**267**	**31**	**513**	**41**

Note (Spend Variance ± 5%):

1. Over spend – Projection based upon current spend trend. However, this spend trend is unlikely to be constant and may increase or decrease in response to actions taken elsewhere within the Pension Fund. However, if the trend of current spend continues, an over spend is anticipated.

Appendix I – 2017/18 BUDGET/FORECAST AND PROJECTED SPEND (continued)

The Forecast and Projected Spend for NESPF Investment Management Expenses are shown below:

	Notes	Full Year Forecast 2017/18	Forecast to 30/09/17	Actual Spend to 30/09/17	Accrual to 30/09/17	Amended Spend to 30/09/17	Over or (Under) to 30/09/17	Proj Annual Spend 2017/18	Proj Over or (Under) Spend 2017/18
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investment Management		11,200	5,600	204	4,907	5,111	(489)	11,194	(6)
Performance Fees		4,620	2,310	0	2,198	2,198	(112)	4,395	(225)
Direct Property Expenses	1	400	200	121	24	145	(55)	265	(135)
Transaction Costs	2	1,200	600	1,217	243	1,460	860	2,919	1,719
Custody Fees		135	68	18	66	84	16	138	3
Investment Management Expenses Total		**17,555**	**8,778**	**1,560**	**7,438**	**8,998**	**220**	**18,911**	**1,356**

Note (Spend ± 5%):

1. The Projected Spend for 2017/18 is based upon the Fund Manager's estimation for the year. The Fund Manager does not foresee the same level of 'lease surrender' as previously experienced in 2016-17. However, caution should be exercised regarding this 'underspend'. Predicting the property market is extremely difficult especially when seeking to determine whether or not there will be an element of the unknown, i.e. 'lease surrender', in the spend for the year.
2. Transaction Costs are reported by the Custodian (BNPP) as at the reporting date then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues, including Fund Manager transitions, an over spend is anticipated.

The above is a forecast of costs rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	2017 ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT – INITIAL RESULTS
REPORT NUMBER	PC/DEC17/ACT
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	CLAIRE MULLEN

1. PURPOSE OF REPORT:-

1.1 This report provides elected members with details of the initial results of the tri-ennial valuation for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) as at 31 March 2017, which has been carried out by the scheme actuary. In addition, it provides a first look at the 2017 Funding Strategy Statement (FSS) for each Fund.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

i. Note the initial valuation results of both Funds as at 31 March 2017;
ii. Note the draft FSS for both the NESPF and ACCTF including the assumptions recommended by the scheme actuary to determine the value placed on the Fund liabilities as at 31 March 2017 and the individual employer contribution rates payable from 2018/19;
iii. Instruct the Head of Finance to carry out a full consultation on the FSS as required by the scheme regulations and provide a report on the consultation outcome to the March Pensions Committee;
iv. Note the intention to disaggregate the remaining employer groupings within the Fund; and
v. Note the remainder of the report.

3. 2017 ACTUARIAL VALUATION AND FUNDING STRATEGY STATEMENT

3.1 In accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, the scheme actuary is required to carry out a valuation of the Funds every 3 years. The results of the tri-ennial valuation provide the funding level which will be published in the Annual Report and Accounts and will set the individual employer contribution rates for the following valuation period.

3.2 The scheme actuary (Mercer) has carried out the initial calculations in relation to both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) as at 31 March 2017.

3.3 NESPF

3.3.1 Initial results indicate that the funding level over the whole Fund is 107% as at 31 March 2017. This translates to a surplus of £239 Million when comparing the assets held by the Fund against the calculated value of the liabilities held for members.

3.3.2 The funding level has significantly improved since the 2014 valuation which is predominately due to investment returns but is also as a result of lower than expected pension increases, change in demographic assumptions and member movements within the Fund.

3.3.3 Another factor which has positively affected the valuation results is the change in methodology in setting the discount rate which is the main driver in determining the valuation of the liabilities. Where the discount rate was set using the gilt yields in the 2014 valuation the scheme actuary has advised a shift towards setting the discount rate in relation to real asset returns is now more appropriate (given the low value of gilt yields in relation to asset performance within the Fund). Although this change of methodology has resulted in an improvement in the overall funding position the Fund still wish to adopt a prudent approach with regards to setting the valuation assumptions and determining the value of the liabilities.

3.4 ACCTF

3.4.1 Initial results indicate that the funding level for the Transport Fund is 92.7% as at 31 March 2017. This translates to a deficit of £7.9 Million when comparing the assets of £100 Million against the calculated liabilities of £107.9 Million.

3.4.2 Although the published funding level will drop from 93% in 2014 to 92.7% as at 2017, the methodology used to establish this has changed over the inter-valuation period to reflect the de-risking approach that is being taken for this rapidly maturing Fund.

3.4.3 The suggested discount rate will be determined using the value of gilt yields +0% allowance for out performance in assets compared to the 2014 discount rate of gilts +0.25% p.a. If the scheme actuary were to use a like for like assumption this would translate to a funding level of 97% (an improvement of 4% from the previous valuation).

3.4.4 As the Transport Fund is a ‘closed’ Fund with only one participating employer it is essential that a prudent approach is applied to the calculation of the liabilities and that the funding level is monitored closely over the inter-valuation period to ensure that the de-risking 'flight plan' currently being delivered through Schroders can be adhered to.

3.5 Funding Strategy Statement (FSS)

3.5.1 In accordance with the Local Government Pension Scheme (Scotland) Regulations 2014 a revised Funding Strategy Statement (FSS) for each of the Funds has been drafted as part of the valuation process. The draft FSS's outline the methodology used to determine the valuation outcomes including the suggested assumptions to be applied, the deficit recovery plan and how assets are proportioned throughout the participating employers.

3.5.2 Particular emphasis has been put into the 2017 FSS in relation to the overall Fund solvency and long term cost efficiency. This is a reflection of the change in regulations that require all LGPS (Scotland) Funds to prioritise these values over the desirability to provide contribution rate stability for participating employers.

3.5.3 The FSS has been developed alongside the Funds Statement of Investment Principles (SIPP) and should reflect investment strategy, particularly in relation to allowance made for asset out performance when determining the discount rate assumption.

3.5.4 It is a regulatory requirement that the FSS undergoes a full consultation with all participating employers prior to the valuation being signed off by the scheme actuary in March 2018.

3.6 Individual employer results and rates

3.6.1 The positive valuation results mean that the Local Authorities that make up the vast majority of the active membership within the Fund will be able to maintain the current employer contribution rate that has been applied for the last 3 years (19.3% of pensionable payroll).

3.6.2 However all employers will have their individual funding levels and employer contribution rates determined upon their own membership profiles and experiences throughout the inter-valuation period from 2014 to 2017. This will mean that some employers will have increased contribution requirements from 2018 onwards. This reflects the increased future service costs of providing benefits through the LGPS (Scotland) and the maturing of a lot of the membership profiles of smaller employers.

3.7 Groups

3.7.1 Employer groups were established as part of the 2011 valuation in order to reduce the amount of 'cross subsidy' within the Fund. Prior to this point the Fund was valued as a whole and one employer rate with applied throughout the Fund. The groups were created based on both their characteristics and their date of admission to the Fund. The groups were made up as follows:

- Closed employer group
- Council group
- Colleges group
- Other employers group (admission bodies admitted prior to 2008)

3.7.2 All employers admitted to the Fund after 2008 were given an individual rate.

3.7.3 As part of the 2014 valuation, decisions taken by the employers within the group and changes to the admission agreements between the employers and the Fund meant that both the colleges group and the closed employer group were disaggregated from 1 April 2015.

3.7.4 Due to the positive outcome of the 2017 valuation and the increased emphasis by the Pensions Regulator (tPR) on solvency and long term cost efficiency the Fund proposes to disaggregate the remaining groups with effect from the valuation date. This would mean that from1 April 2018 all participating employers would stand alone and would have their own employer contribution rate based on their individual membership profile, fund experience and funding level. In addition, this will allow the Fund to set rates which take into account the covenant and future plans of each employer and also where appropriate, on an individual basis, to consider affordability.

3.7.5 The final decision will be taken regarding the disaggregation of the remaining groups following consultation with employers. Pension Committee approval for this decision will be required in March 2018.

3.8 <u>Covenant Review</u>

3.8.1 Monitoring of the covenant of each employer in line with the NESPF policy on risk management continues to be a priority of the Employer Relationship Team. Effective monitoring ensures that the risk to the Fund and its participating employers, in relation to the ability of employers to meet the scheme liabilities, is managed and minimised.

3.8.2 Covenant assessment for all admission bodies will be carried out in line with the valuation and will be an important consideration in the setting of the individual employer rates from 2018 onwards.

3.9 <u>Employer Consultation</u>

3.9.1 The regulatory requirement to consult with all employers on the draft Funding Strategy Statement will be carried out in conjunction with the issue and discussion on individual employer contribution rates.

3.9.2 As part of the discussion process an opportunity will be afforded to all employers to discuss the contribution requirements and the suggested assumptions with the scheme actuary at a 'results event' to be held in mid-December.

3.9.3 The consultation will be carried out over December and January to ensure that Committee approval can be obtained prior to the valuation being signed off by the scheme actuary in March 2018.

4. FINANCIAL IMPLICATIONS

4.1 The actuarial valuation sets the employer contribution rates for all participating employers within the Funds. It is essential that the underlying assumptions used to determine the contribution requirements are set in such a way that ensures that the Funds remain solvent whilst also taking into consideration the desirability to create stability for employers.

4.2 Whilst the Funds recognise that affordability is a concern with all employers that actively participate within the scheme the regulations require that the emphasis is put on overall solvency of the scheme and minimising risk for the Funds as a whole.

4.3 Failure to set accurate assumptions or set high expectations on the future investment performance will mean that employer rates are not set accurately and will have a detrimental effect on the funding levels for future valuations.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 There are no direct risk implications arising from the recommendation of this report.

7. IMPACT SECTION

7.1 Investment strategy will continue to be a key consideration with regards to funding to ensure that the investment returns meet the requirements of the Fund to achieve the funding target.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 **Appendix I**, North East Scotland Pension Fund Funding Strategy Statement 2017 (draft)

Appendix II, Aberdeen City Council Transport Fund Funding Strategy Statement 2017 (draft)

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DRAFT

FUNDING STRATEGY STATEMENT

ABERDEEN CITY COUNCIL TRANSPORT PENSION FUND

{NOVEMBER} 2017

Aberdeen City Council

This Funding Strategy Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the Aberdeen City Council Transport Fund (the "Fund"), in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

I

EXECUTIVE SUMMARY

Ensuring that the Aberdeen City Council Transport Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Aberdeen City Council). The Funding Strategy adopted by the Aberdeen City Council Transport Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on the participating employer in the Aberdeen City Council Transport Fund (First Aberdeen Limited).

It is imperative therefore that First Aberdeen is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Aberdeen City Council Transport Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve and maintain a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Results will also have regard to the covenant strength and the investment strategy of the Fund.

SOLVENCY AND LONG TERM COST EFFICIENCY

The employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure its "solvency" and "long term cost efficiency" of the Local Government Pension Scheme (Scotland) (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 93% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall, which will increase ongoing contribution requirements.

Deficit contributions paid to the Fund will be expressed as flat £ amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employer can reasonably afford given other competing cost pressures. The recovery period will be set by the Fund, although the employer will be free to pay above the minimum contribution certified if they wish.

The objective is to achieve 100% solvency over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the total contributions at a similar level from the preceding valuation. Full details are set out in this FSS.

The period for recovering any deficit will vary by employer and this is covered in further detail in Appendix B.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the employer, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate has been derived based on the current objectives of the Administering Authority based on the long term strategy set out in its Statement of Investment Principles (SIP). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns based on the assets held but ultimately it has been set in relation to the long term "self-sufficiency" target based on a low risk portfolio of assets. It is proposed at this valuation discount rate for determining the past service liabilities and future service ("Primary") contribution rates is set equal to the return on a gilt yield appropriate for the profile and duration of the Scheme's accrued liabilities.

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities. A deduction of 0.5% per annum due to revaluation and retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index has been made.

The Administering Authority retains the discretion to apply an adjusted discount rate to reflect the termination assumptions for the employer if it were to exit the Fund, in order to protect the Fund. If required, this will be determined by the Section 95 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

FUND PRACTICES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice in a number of key areas:

1. Covenant assessment and monitoring

The employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employer's covenant will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet its obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor the employer's covenant in conjunction with the funding position over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

CONTENTS

APPENDICES

1 INTRODUCTION

The Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) ("the 2014 Regulations") and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the 2014 Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Aberdeen City Council Transport Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the SIP.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits earned by contributing members up to 1 April 2015 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for the employer and Fund is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, allowing for the employer's membership profile, the funding strategy adopted, the actuarial method used and/or the employer's covenant.

SECONDARY RATE

The “Secondary rate” is an adjustment to the Primary rate to arrive at the total rate of contribution the employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate and a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

The secondary rate for the Fund in each of the three years shall also be disclosed.

2
PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how the employer's pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities with a view to moving to a self-sufficient position which relies less on the employer covenant
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage the employer's liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable the employer contribution rate to be kept at a reasonable and affordable cost to the taxpayers and the employer, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2014 Regulations and the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended).

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the employer and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an SIP, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/SIP as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employer contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, the employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

The employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

The employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The employer Recovery Plan is set out in **Appendix B**. This covers the recovery of deficits.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2018 at the latest.

The Administering Authority, following consultation with the participating employer, has adopted the following objectives for setting the individual employer contribution rate arising from the 2017 actuarial valuation:

- The Fund does not believe it appropriate for reductions to the total contributions (primary and secondary rates combined) to apply compared to the existing funding plan where deficits remain unless there is compelling reason to do so.

- Employers will have the freedom to pay above the minimum contributions if they so wish.

- Employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a fixed £ amount adjusted as appropriate to arrive at the required overall contributions over 2018/21 in respect of the employer's deficit

  The total contributions the employer is actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2021 based on the results of the 2020 actuarial valuation.

- On the cessation of the employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution.

- The Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with the employer. Such cases will be determined by the Section 95 Officer and notified to the Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by capital payments into the Fund as determined on the advice of the Actuary.

TERMINATION APPROACH

If the employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of the employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

The approach taken will be agreed at the time but is likely to include the option of insuring all or part of the liabilities with an insurance company. Any exit payment will be payable immediately unless agreed otherwise by the Administering Authority. Any deferral of the exit payment would be subject to sufficient contingent security being available from the employer over the period the exit payment would be paid.

6

LINK TO INVESTMENT POLICY AND THE STATEMENT OF INVESTMENT PRINCIPLES (SIP)

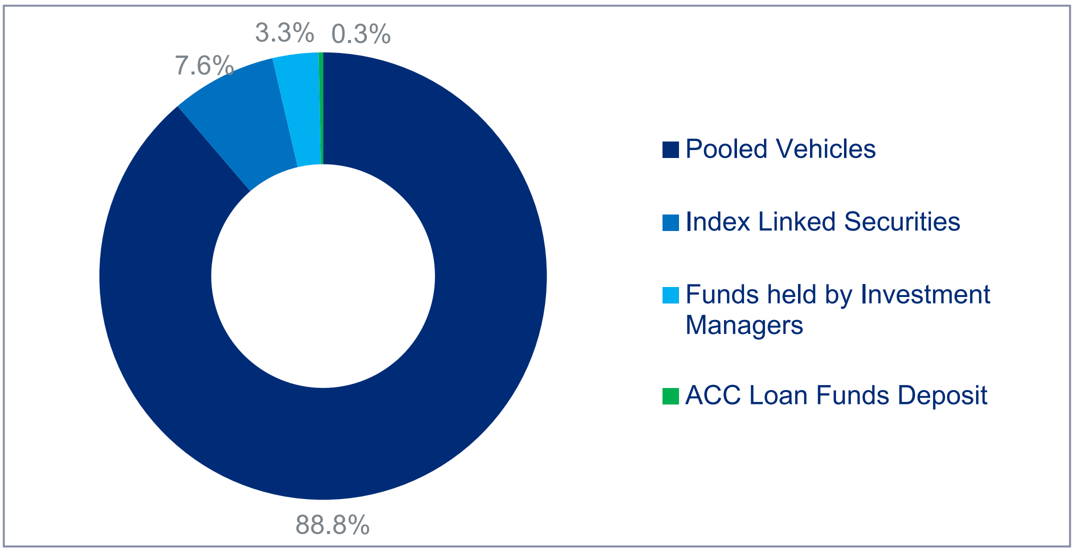
The results of the 2017 valuation show the liabilities to be 93% covered by the current assets.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

Other than by purchasing insurance with a bulk annuity provider, it is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of returns at or above the return on a gilt yield appropriate for the profile and duration of the Scheme's accrued liabilities. Such a portfolio would consist of UK Government gilt stocks and other instruments of varying durations. Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations. It has been agreed at this valuation to set the funding target to be based on such a portfolio of assets.

Currently, the portfolio includes an element of growth assets such as equities, which will give a better prospect that the assets will, over time, deliver returns in excess of gilt yields, reduce the contribution requirements and allow the Fund's assets to be de-risked more quickly than the current de-risking plan. No allowance has been made for this in the assessment of contributions. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The investment strategy (at 31 March 2017) is:



As documented in the SIP, the investment strategy and return expectations set out above equate to a best estimate average expected return of the return on cash plus 3.1% i.e. 3.35% at the valuation date on the growth portfolio element (although this would reduce over time with any de-risking into other assets). For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to recognise a low risk asset portfolio returns only (based on Government bond yields) and let any positive experience emerge.

DE-RISKING OBJECTIVE/FLIGHT PATH FRAMEWORK

The Administering Authority and the employer have agreed a de-risking or “flightpath” strategy for the Fund (this includes reducing interest and inflation risk exposure). The aim of the flightpath is to “lock in” improvements in funding by switching from growth to defensive or matching assets. The de-risking plan is to be reviewed periodically and is structured to keep contributions as stable as possible, i.e. as the asset allocation is only changed following an improvement in funding, the employer contributions (and hence recovery plan) are unaffected.

The de-risking strategy is being implemented alongside the finalisation of the 2017 valuation and details of the current de-risking strategy are shown below:]

Phase	Funding Level	Liability Coverage	Proportion of growth assets	Proportion of matching assets	Return target for growth assets only
1	**<95%**	85%	75%	25%	Cash + 3.1%
2	**<100%**	95%	75%	25%	Cash + 2.4%
3	**>100%**	100%	45%	55%	Cash + 2.0%

7 IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated

Any increase in the employer's contribution rates (as a result of these risks) may in turn impact on the employer's financial position.

In practice the extent to which these risks can be removed is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in further materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **the employer should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not materially affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity, the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy and liquidity requirements.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable the employer and members to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in the employer’s membership (e.g. unexpected fall in employee numbers, large number of retirements or redundancy exercises for older members) with the result that contribution rates are set at too low a level
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employer. Arrangements are strictly controlled and monitored, but the employer bears the risk.

8
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employer participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of the employer to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the employer will be contacted.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Attained Age method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET AND THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

Investment return (discount rate)

The discount rate at the valuation has been derived based on an assumed return equal to the gilt yield derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities. This return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities.

A deduction of 0.5% per annum due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index has been made.

Salary increases

In relation to benefits earned prior to 1 April 2015, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 2.0% p.a. over the inflation (CPI) assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint as budgeted in the employer's financial plan. The allowance for short term pay restraint, is a salary increase assumption of CPI, equal to 2.9% for the year to 2018.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum for males and females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. The assumption in relation to the incidence of ill health retirements is unchanged. In addition, no allowance will be made for the future take-up of the 50:50 option (this is the same assumption as at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by including an agreed amount to the contributions as required from the employer. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by the employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2017 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Investment return/Discount Rate	1.6% p.a.
CPI price inflation	2.9% p.a.
Long Term Salary increases	4.9% p.a.
Short Term Salary increases	2.9% for the year to 31 March 2018
Pension increases/indexation of CARE benefits	2.9% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S2PA	CMI_2015 [1.75%]	109% / 87%
Ill-health	S2PA	CMI_2015 [1.75%]	Normal health +3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.75%]	136% / 118%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.75%]	128% / 100%
Current active / deferred:			
Active normal health	S2PA	CMI_2015 [1.75%]	99% / 109%
Active ill-health	S2PA	CMI_2015 [1.75%]	Normal health +4 years
Deferred	S2PA	CMI_2015 [1.75%]	135% / 97%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.75%]	128% / 100%

	Male life expectancy	Female life expectancy
Actives	25.6	27.0
Deferreds	22.9	28.0
Pensioners	22.2	26.2

All life expectancies are normal health “cohort” expectancies from age 65 in 2017 and non-pensioners’ current age assumed to be 45

Other demographic assumptions are set out in the Actuary’s formal report.

APPENDIX B – EMPLOYER RECOVERY PLAN

If the assets of the employer are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

It is the Fund's objective that any funding deficit is eliminated as quickly as the employer can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund. This will determine the minimum contribution requirement and the employer will be free to select higher contributions if they wish.

The recovery period is determined by ensuring overall contributions are reasonably stable relative to the current funding plan allowing for any affordability constraints.

In determining the actual recovery period to apply for the employer, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall / surplus;
- The business plans of the employer;
- The assessment of the financial covenant of the employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit (or remove any surplus) over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected levels from the preceding valuation.

Other factors affecting the Employer Recovery Plan

As part of the process of agreeing funding plan with the employer, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist the employer in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in lower cash contributions being acceptable to the Administering Authority.

APPENDIX C - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of the participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Buy-in: A buy-in policy is a bulk annuity policy held as a scheme investment, which serves to provide payments that exactly match those due to the members which it covers. Some schemes seek to remove risk in relation to a certain group of members through this type of policy, usually just the pensioner membership.

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2015, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Future Service Contribution Rate: the contribution rate payable by the employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by the employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Hedging: a strategy that aims to reduce funding volatility. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the change in assets mimics the change in liabilities.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund's objectives and attitude to risk.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum Risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

Profile: the profile of an employer’s membership or liability reflects various measurements of that employer’s members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS (Scotland) Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Recovery Plan: a strategy by which an employer will make up a funding deficit or run off surplus over a specified period of time (“the recovery period”), as set out in the Funding Strategy Statement.

Secondary rate: the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary’s Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2017 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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Agenda Item 9

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/DEC17/STRATEGY
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	LAURA COLLISS

1. PURPOSE OF REPORT:-

1.1 To inform the Committee and provide recommendations to any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

i. Approve the delegation of power to the Pensions Manager to authorise deviations from the Local Government Pension Scheme (Scotland) Regulations, as set out in 3.6.3.
ii. Approve the appointment of an external legal advisor to the Fund, as set out in 3.6.4, following consultation with the Head of Commercial and Procurement Services and approve the associated estimated expenditure;
iii. Approve the Overseas Travel, as set out in 3.6.8
iv. Otherwise note the report.

3. BACKGROUND/MAIN ISSUES

3.1 In line with the structural review of the Pension Fund, six specific areas have been identified which fully address the strategic management of the Fund;

- Investment
- Accounting
- Benefit Administration
- Technical
- Governance
- Employer Relations

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.
The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report service updates covering the six strategic areas will also be available via the secure website and email.

Also available on the Pension Fund Website are all the Policy documents that govern the Pension Fund including its various strategies.

3.2 **INVESTMENT**

3.2.1 *Asset & Investment Manager Performance Report*
Investment Strategy Update Report
Separate Reports, provided.

3.3 **ACCOUNTING**

Budget/Forecast Report
Separate Report, provided.

3.4 **BENEFIT ADMINISTRATION**

3.4.1 **Regulations Update**

SPPA have confirmed that planned updates to the LGPS Regulations to allow members to access benefits from age 55 without employers consent and around tax changes and UFPLS payments will now not be done until an effective date of 01/04/2018.

3.5 **TECHNICAL**

3.5.1 Appendix I, Pensions Administration Strategy Update

3.5.2 **Benefit Administration Software Contract**
Separate Report, provided

3.6 **GOVERNANCE**

3.6.1 **Annual Benefit Statements**
Separate report, provided

3.6.2 **Document Review**

The Fund undertakes an annual review of all major Scheme policies and statements. Revisions as at October 2017 have been made to the following policies:

- Investment Policy
- Conflicts of Interest Policy

- Corporate Governance and SRI Policy
- Stewardship Code
- Overpayment of Pension Policy (new)
- Statutory Deadlines for Staff (new)

A detail of the revisions to each policy is provided at Appendix II. Copies of the revised policies are available on request from the Governance Team or in the secure area of the NESPF website (www.nespf.org.uk).

3.6.3 **Request for Delegation of Power**

Aberdeen City Council as the administering authority has delegated certain powers to the Pensions Committee and to senior Council officers as set out in the Scheme of Delegated Powers. The Fund now requires confirmation of a delegation of power enabling the Pensions Manager to authorize deviations (where necessary) from the Local Government Pension Scheme (Scotland) Regulations. For example it may be necessary for Officers to deviate from the Regulations in the process of calculating a Scheme member's pension entitlement. In any such cases, where a deviation is authorized, a report will be provided to Committee.

3.6.4 **Legal Services Tender**

3.6.4.1 The Fund routinely requires legal services during the course of its business e.g. in relation to new investment management agreements, when a new admission body wishes to join the Scheme etc. At present the Fund utilizes the internal ACC legal services team as well as external legal advisors for more specialist or time sensitive advice. An external legal advisor is appointed using a Framework which includes Brodies, Morton Fraser and DWF. The advisors on the framework are utilized by both ACC and Aberdeenshire Council.

3.6.4.2 However reliance on this arrangement leaves the Fund open to potential or actual conflicts of interest. This was demonstrated recently when the Fund required legal advice interpreting the LGPS Regulations in connection with equal pay cases being settled by both ACC and Aberdeenshire Council. As a result of the conflict the Fund was unable to either seek internal legal advice or appoint any of the Framework providers.

3.6.4.3 With this in mind, Officers recommend that the Fund seeks a separate external legal advisor. Officers will fully investigate the best options prior to the appointment of any advisor for example the National LGPS Framework for Legal Services. Framework agreements are widely used across the Public Sector and can deliver considerable savings (both in time and resources). A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise and it is fully compliant with the Public Contracts Regulations 2006. The Fund can use this framework to procure legal services matched to its own specific requirements.

3.6.4.4 The cost of accessing the National LGPS Framework for Full Legal Services is approximately £3,500.00.

Appendix III, National LGPS Framework for Legal Services

3.6.5 **Internal Audit**

Separate report, provided

3.6.6 **Scheme Advisory Board**

There were no new meetings held over the summer.

Scheme Advisory Board website available at http://lgpsab.scot

3.6.7 **Review of the secure online area of NESPF website**

A secure online area is available on the NESPF website (www.nespf.org,uk) for members of the Pensions Committee and Pension Board. All Committee and Board members have been previously issued with login details to access this secure area. Currently members can find a variety of information on here e.g. fund managers reports, committee packs and Scheme documents etc. However as part of the wider NESPF website review we will also be reviewing the content held within the secure members' area. As such any feedback and/or suggestions on ways to improve this area is welcome to ensure it is fully utilized to support Committee and Board members in their roles.

3.6.8 **Overseas Travel**

3.6.8.1 With the Pension Fund's increasing allocation to alternatives which usually come in the form of Funds/Fund of Funds there is a requirement for greater due diligence and scrutiny given the nature of these investments being privately owned. Following the Funds continued commitment to the likes of Harbourvest, Partners Group and RCP, overseas travel has been previously authorised and will be required going forward as these companies continue to be global investors, globally headquartered and have global clients.

3.6.8.2 The vast majority of private investment funds have limited partner advisory committees, these committees are composed of representatives of the limited partners, usually significant institutional limited partners/clients, dealing with a number of issues regarding conflicts, investment restrictions, and general oversight and using the committee as a sounding board for other matters.

3.6.8.3 As stated due to the increased allocation from the Pension Fund to alternatives, depending on the level of commitment the Fund will request or be invited to accept a position on Advisory Committees, the Fund also has positions on the SL Capital, Capital Dynamics, and the Scottish Loan Fund/Maven advisory committees.

3.6.8.4 Advisory Committees are Officer Lead and by invitation/request only, managers seek to appoint Officers from their clients that have significant experience within the industry to ensure meaningful scrutiny and challenge.

3.6.8.5 Officers and elected members have clear statutory responsibilities for the management and investment of the Pension Fund, part of those responsibilities is to monitor and review external investment manager's performance. This is usually achieved by means of regular reporting, presentations to officers/members and attending annual client conferences.

3.6.8.6 The Advisory Committee is additional to the above and provides the Pension Fund with greater access to the Manager and the management of those investments and access to the General Partners (underlying assets). Given the increased value of commitments within this asset class this type of forum strengthens the governance arrangements for the Fund together with the Fund Manager.

3.6.8.7 Officers recommend the approval for overseas travel to the following Advisory Committees;

1. Harbourvest, 5th/6th December 2017, Boston.
2. Partners Group, 13th – 16th March 2018, Switzerland.
3. Harbourvest, May 2018, Boston.
4. RCP, June 2018, Chicago.
5. HarbourVest, December 2018, Boston

3.6.8.8 Approval is requested for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer Substitute) to attend.

3.6.8.9 All travel costs are covered by the individual Fund Managers, these committees are perceived to be of great value by the Fund Managers providing additional governance and transparency, some are also rotated to the UK to deliver a balance to all global clients.

3.7 <u>EMPLOYER RELATIONSHIP</u>

3.7.1 **Funding Update**

2017 Actuarial Valuation and Funding Strategy Statement – Initial Results

Separate report, provided

3.7.2 **Request for Admitted Body**

Separate report, provided

4. FINANCIAL IMPLICATIONS

4.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long term liabilities.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee.

Appendix IV, Copy of Risk Register (October 2017)

7. IMPACT SECTION

7.1 The Pensions Committee has a fiduciary duty to monitor the Pension Fund Strategies across all areas and timelines to deliver a timely, accurate and compliant service to all stakeholders.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 Appendix I, Pension Administration Strategy report
Appendix II, Document Review
Appendix III, National LGPS Framework for Legal Services
Appendix IV, NESPF Risk Register

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North East Scotland
PENSION FUND

Pension Administration Strategy

Quarterly Reporting | September 2017

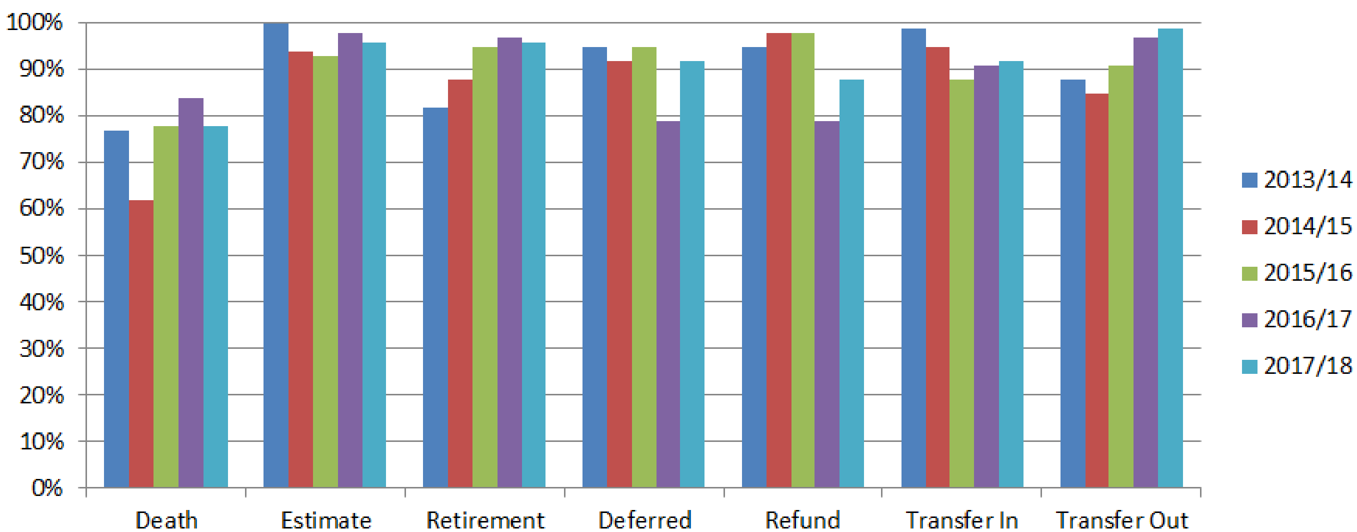
1. NESPF performance to 30 September

1.1 Key administration tasks

Measuring performance is essential to evidence the efforts made by both the Pension Fund and Scheme employers to comply with statutory requirements and deliver a high quality pension administration service. The Pension Fund aims to provide the information below within the agreed timescales shown.

Administration Task	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	23	18	78%
Notification of retirement estimate	10 days	443	427	96%
Notification of retirement benefits	10 days	839	809	96%
Notification of deferred benefits	10 days	446	441	92%
Notification of refund	10 days	674	591	88%
Notification of transfer in value	10 days	51	47	92%
Notification of transfer out value	10 days	208	205	99%

1.2 Previous years comparison



2. Employer performance to 30 September

2.1 Policy on discretions received (85%)

Each Scheme emloyer is required under regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2014 to prepare a written statement of its policy on how it will exercise various discretions provided by the Scheme. This 'discretions policy' must be kept under review by employers and revised as necessary.

Employers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberdeen Performing Arts	Aberdeen Sports Village	AIYF
Aberdeenshire Council	Aberlour	Archway	Bon Accord Care
Bon Accord Support	Outdoor Access Trust for Scotland	Fersands and Fountain	First Aberdeen
Forth & Oban (City)	Fraserburgh Harbour	Gordon Rural Action	Grampian Valuation Joint Board
Home Start Aberdeen	Inspire	Mental Health Aberdeen	Middlefield Community Project
Moray College	NESTRANS	North East Scotland College	North East Sensory Services
Osprey Housing	Pathways	Peterhead Port Authority	Printfield Community Project
Robert Gordons College	Robert Gordon University	Sanctuary Housing	Sanctuary Scotland Scottish Fire and Rescue
Scottish Fire and Rescue	Scotland's Lighthouse Museum	Scottish Police Authority	Scottish Water
Sport Aberdeen	St Machar Parent Support Project	Station House Media Unit	The Moray Council
Visit Scotland	Xerox		

2.2 Signed PLO statements received (46%)

Following the revision of the NESPF Pension Administration Strategy in April 2017 each Scheme employer must designate a named individual to act as a Pension Liaison Officer, the main contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS).

Pension Liaison Officers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberlour Childcare Trust	Alcohol & Drugs Action	Archway
Bon Accord Care	Bon Accord Support	Outdoor Access Trust for Scotland	Fraserburgh Harbour
Middlefield Community Project	Moray College	North East Scotland College	North East Sensory Services
Pathways	Peterhead Port Authority	Printfield Community Project	Robert Gordons College
Scottish Fire and Rescue	Scottish Water	Sport Aberdeen	St Machar Parent Support Project
Visit Aberdeenshire	Xerox		

2.3 Quantity of data received (374,385)

All Scheme employers are now required to provide monthly data using I-Connect, by way of a monthly file extracted from the payroll system or by completing electronic forms for individual members.

I-Connect events processed	Total
Starters (new start and opt in)	1847
Amendments (address, personal details, hours and absence)	10691
Leavers (exit and opt out)	1126
Contributions (employee, employer and additional)	122054
Salary	119805
Cumulative CARE pay	117331
Works address	1531

2.4 Quality of data received

The quality of data received from Scheme employers is assessed and checked by the Employer Relationship Team (ERT). Red, Amber and Green flags will be used to assess the quality of the data. The Pension Fund will seek, at the earliest opportunity, to work closely with Scheme employers in identifying areas of unsatisfactory performance, and provide the necessary training and development for improvement.

Since the introduction of the requirement to provide monthly information in this format the quality of the data received through I-Connect has been of a very high standard. This allows the Fund to provide accurate and up to date information to members, meet the requirements of The Pension Regulator and improved the accuracy of the financial information held for the valuation of the Fund.

Green	I-Connect events processed and validated by ERT
Amber	I-Connect events processed however missing or incorrect data identified by ERT
Red	I-Connect events not processed
Blank	Data not provided (as at 30th September 2017)

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	Extract File												
Aberdeenshire Council	Extract File												
Bon Accord Care	Extract File												
Bon Accord Support	Extract File												
Grampian Valuation Joint Board	Extract File												
Moray Council	Extract File												
NESTRANS	Extract File												
Police Scotland (Aberdeen)	Extract File												
Robert Gordon University	Extract File												
Moray College*	Extract File												
Scottish Water	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												
Aberdeen Performing Arts	Online Return												
Aberdeen Sports Village	Online Return												
Aberlour Child Care Trust	Online Return												
Aberdeen International Youth Festival	Online Return												
Archway	Online Return												
City Moves Dance Agency	Online Return												
Alcohol & Drugs Action	Online Return												

Fersands and Fountain	Online Return
First Aberdeen	Online Return
Forth and Oban (City)	Online Return
Forth and Oban (Shire)	Online Return
Fraserburgh Harbour	Online Return
Gordon Rural Action	Online Return
Homestart Aberdeen	Online Return
Homestart NEA	Online Return
ID Verde	Online Return
Inspire	Online Return
Mental Health Aberdeen	Online Return
Middlefield Community Project	Online Return
North East Sensory Services	Online Return
Osprey Housing	Online Return
Outdoor Access Trust Scotland	Online Return
Pathways	Online Return
Peterhead Port Authority	Online Return
Printfield Community Project	Online Return
Police Scotland (Glasgow)	Online Return
Robert Gordon College	Online Return
Robertson FM City	Online Return
Robertson FM Shire	Online Return
Sanctuary Housing	Online Return
Sanctuary Scotland	Online Return
SCARF	Online Return
Scotlands Lighthouse Museum	Online Return
Scottish Fire and Rescue	Online Return
St Machar Parent Support Project	Online Return
Station House Media Unit	Online Return
Visit Scotland	Online Return
Xerox	Online Return
North East Scotland College	ALCARE

*Currently receiving test files for main file extract submissions

Document Name		Revisions
1.	**Overpayment of Pension Policy**	• To set out NESPF policy in relation to the prevention, management and recovery of overpayments of pension.
2.	**Corporate Governance & SRI Policy**	• Revised design to bring it in line with other Policy documents going forward. • Very minor revisions to content e.g. updating latest Fund values.
3.	**Investment Policy**	• Revised design to bring in line with other Policy documents going forward. • Very minor revision to content.
4.	**Conflict of Interest Policy**	• Incorporates revised & improved declaration of interest form for use by Pension Board members. • Revised design to bring in line with other Policy documents going forward.
5.	**Statutory Deadlines**	• Sets out NESPF statutory deadlines to support NESPF staff in performing their roles and to help ensure we meet new reporting obligations under the General Data Protection Regulation from May 2018. Under the GDPR breaches of law will need to be reported to the ICO within 72 hours.
6.	**Stewardship Code**	• Revised design to bring in line with other Policy documents going forward. • Very minor revisions to content.

All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk

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NESPF Risk Register

1. In line with best practice and the Pension Regulator's Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood and risk mitigation actions are in place.

2. The risk register is updated regularly, with quarterly reporting to the Committee and Board.

3. Summary at November 2017

Key priorities for 2017/18

Consequences / Likelihood	Almost impossible	Very low	Low	Significant	High	Extremely High
Catastophic Impact		1	7			
Critical Impact		6				
Marginal Impact		2, 4	5	3		
Negligle Impact						

Ongoing Assessment with tPR requirements

Consequences / Likelihood	Almost impossible	Very Low	Low	Significant	High	Extremely High
Catastophic Impact	17, 22, 23, 24	2, 14	7			
Critical Impact		6, 20	15, 18, 19	8, 9, 26		
Marginal Impact	16	3, 4, 25	1, 5, 10, 11	13,20		12
Negligle Impact						

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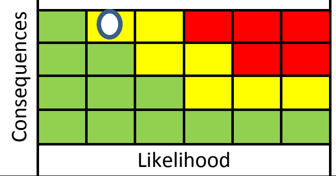
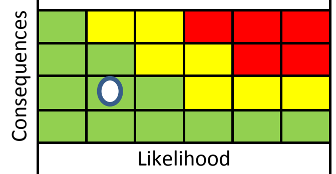
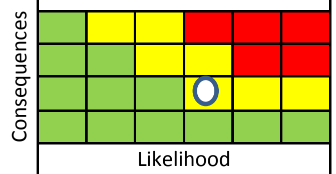
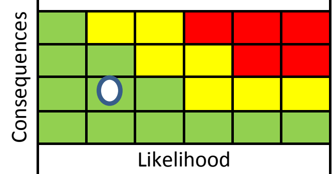
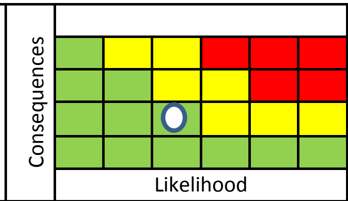
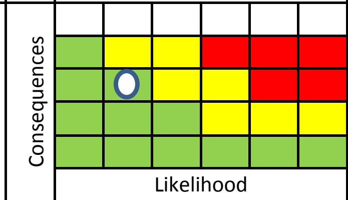
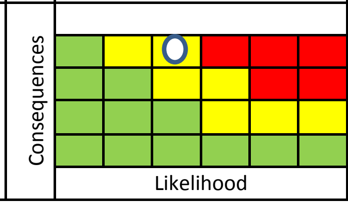
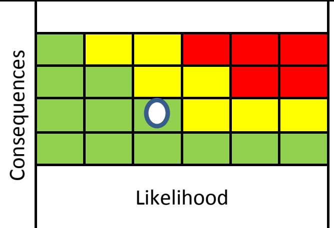
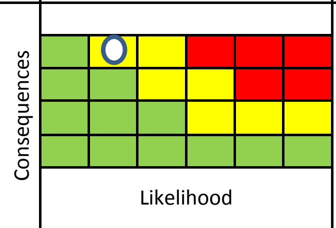
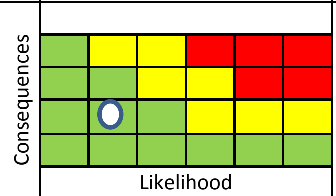
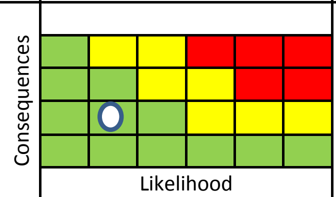
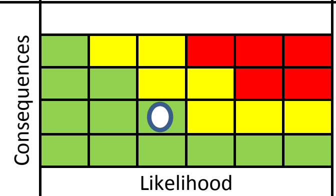
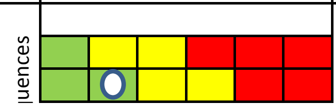
Pension Fund Risk Register   <u>Key Priorities 2017-18</u>

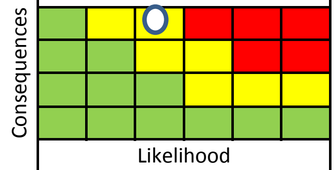
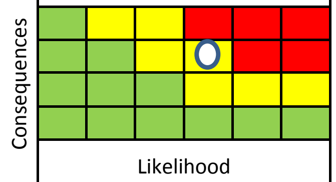
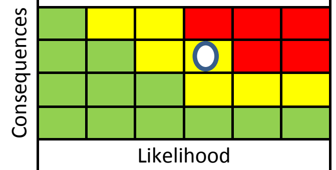
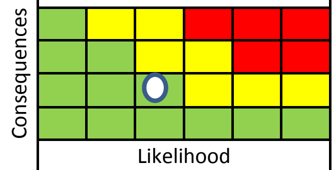
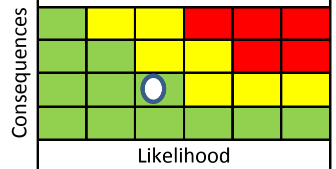
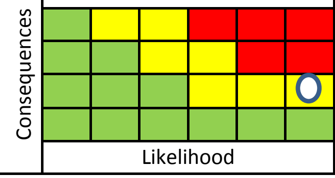
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken	Change since last review
1	Corporate	Lack of effective Risk Management	Failure to identify and respond to risks with the potential to impact on our ability to achieve our objectives	Pension Fund risk register reviewed and updated quarterly		8	Ongoing	
2	Corporate	Poor Governance	Failure to ensure the Fund has in place a sound organisational framework, identifies responsibilities, manages its systems and processes and supports the Council's culture and values	Fund has in place an annual review of its governance statement and supporting documents ensuring they comply with both regulation and Council objectives. New governance framework established from April 2015. ACC Governance review is in progress.		4	Ongoing - annual review of policy documents	
3	Corporate	Lack of Performance Measures	Failure to measure how successful we are at delivering the Pension Fund Business Plan priorities and achieving improved outcomes for our scheme members	Fund has in place both statutory and local PI's		8	Annual CIPFA Benchmarking exercise. Also quarterly Investment performance and PAS reporting to Committee.	
4	Funding	Actuarial Valuation - impact of market volatility	Increase in employer contributions to meet unfunded position	Interim actuarial valuation to be undertaken		4	2017 valuation has been carried out. Report on initial results to Dec'17 Committee.	

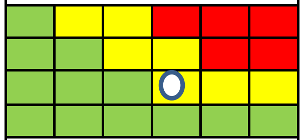
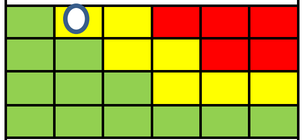
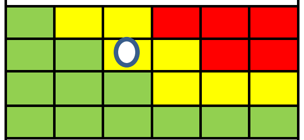
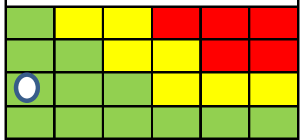
5	Regulatory and Compliance	Requirement to complete GMP Equalisation	Failure to ensure that future member benefits are calculated correctly. Audit critism and financial loss to the Fund	Staff appointed to carry out calculations		6	Ongoing	
6	Governance	Annual Review of workings of Pension Board and Pension Committee	Failure to ensure effective joint working of the Pension Board and Pension Committee, not compliant with Scheme Regs and Pension Regulatore requirements	Review of Penion Committee and Board		6	Report to Committee in March 2017. Governance Review by SPPA ongoing.	
7	Investment	New Global Custody Services	Failure to manage transition between old and new custodial arrangements. Financial loss through delay in service or errors in data	Discussions/advice sought from Procurement Services. Approval granted by Committee in June 2017 to give Head of Finance power to authorise change in custodian.		12	Transition to new Global custodian to commence. To be in completed by April 2018.	

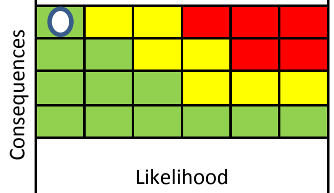
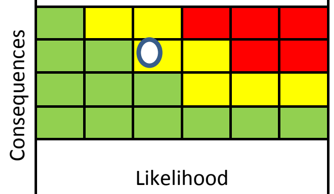
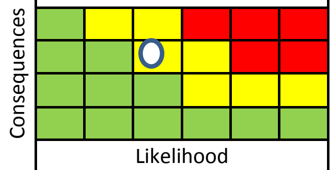
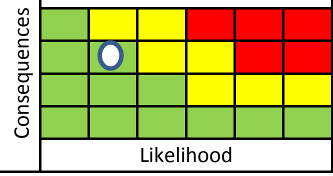
Pension Fund ongoing risk assessment in accordance with Pension Regulator Requirements

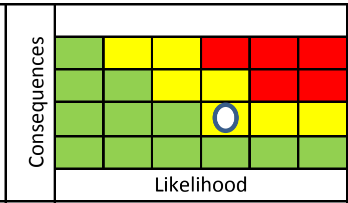
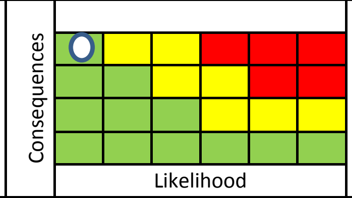
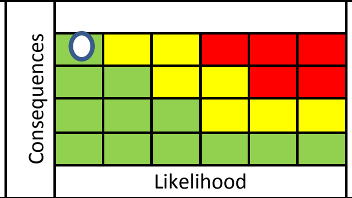
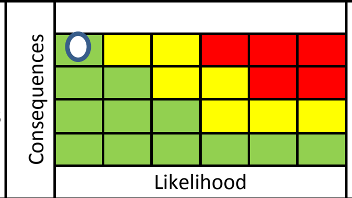
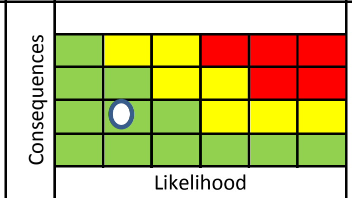
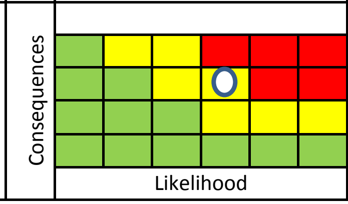
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken	Change since last review
1	**Operational**	Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location		6	Technical Manager to provide report on hosted system errors and resolutions to Pensions Manager quarterly	⟺
2	**Operational**	Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within CG overall policy		8	Review to be carried out. New Pension Fund Management team to be made fully aware of disaster recovery plan	⟺
3	**Operational**	Overpayment of pension benefits	Audit criticism, legal challenge, reputational risk	All pension payments signed off by a senior pensions officer – segregation of duties for staff processing lump sums		4	Ongoing	⟺
4	**Operational**	Failure to maintain member records and comply with regulations	Incorrect pension payments, incorrect assessment of actuarial liabilities	All employers required to submit monthly data, which is checked		4	PAS reporting quarterly to the Pensions Manager	⟺
5	**Operational**	Failure to carry out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Tracing service in place (ATMOS)		6	Further review of tracing options to be carried out in 2018. In interim ATMOS trace to be carried out.	⟺
6	**Operational**	Fraud/Negligence	Overpayment, unauthorised payments, system corruption,	All pension payments signed off by a senior pensions officer – segregation of		6	Ongoing	⟺

6	**Operational**	Fraud/Negligence	audit criticism, reputational damage	senior pensions officer – segregation of duties for staff processing lump sums	Conseq	6	Ongoing	

					Likelihood			
7	**Operational**	Failure to recruit and develop staff	Reduction in service delivery, poor operation of risk management controls	New structure put in place in 2016 & training plans for all staff completed by March 2017. On-going review of staffing requirements and training.		12	Vacant posts to be filled.	↑
8	**Funding**	Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities	Increase in employer contributions	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to pensions committee. Triennial investment strategy review.		12	Ongoing	↔
9	**Funding**	Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by FSM reported to Pensions Committee		12	Ongoing	↔
10	**Funding-**	Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Quarterly funding updates reported to Pensions Committee		6	Information to be provided by FSM	↔
11	**Funding**	Longevity issues	Increase in employer contributions	Actuarial assessment every three years undertake scheme specific analysis		6	Strategy review to consider matching liabilities	↔
12	**Funding**	Employers leaving scheme/closing to new members due to cost	Residual liabilities could fall to other scheme employers	Monitor scheme employer – seek guarantors for smaller employers		12	Ongoing	↔

13	**Funding**	Failure to recover unfunded payments from employers, cross subsidy by other employers	Residual liabilities could fall to other scheme employers	Accounting officers will escalate employer payment issues to Employer Relationship Team. Breaches recorded & monitored by Governance Team with reporting to TPR if 'material'	Consequences  Likelihood	8	Ongoing	
14	**Financial**	Failure of world stock markets	Increase in employer contribution rates	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Consequences  Likelihood	8	Strategy Review following 2017 Valuation results, currently ongoing	
15	**Financial**	Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers of Funding issues. Documentation in place	Consequences  Likelihood	9	Ongoing	
16	**Financial**	Negligence, fraud, default by investment managers	Loss of value of the Fund, reputational damage	Fund management monitoring, SAS 70 reports and appropriate clauses in all scheme documentation	Consequences  Likelihood	2	Ongoing	

17	**Financial**	Failure of Global Custodian	Loss of investments or control of investment	Regular meetings with global custodian, receipt of SAS 70 reports and monitoring		4	In process of appointing new global custodian	
18	**Financial**	Failure to monitor investment managers and assets	Audit criticism, legal challenge, reputational risk	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to Pensions Committee.		9	Ongoing	
19	**Regulatory and Compliance**	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding regulations	Audit criticism, legal challenge, reputational risk, financial loss/financial penalties	Six monthly review of compliance with regulations and annual report to Pensions Committee		9	Ongoing - six monthly review (due Dec'17). Annual report to March Committee meeting.	
20	**Regulatory and Compliance**	Investment options restricted by introduction of European Directive MiFIDII	Legal challenge, financial loss, increase in costs	FCA engagement through national bodies e.g. PLSA, LGA, CIPFA & others, ongoing engagement with investment managers, training for staff		6	Document to retain 'professional client' status submitted. Ongoing.	

21	**Governance**	Potential risks and conflicts of interest between ACC and NESPF	Audit criticism, legal challenge, reputational risk	Regular discussions between Head of Finance and Pensions Managers, areas of risk and conflict reported to Pensions Committee. Register in place to record & monitor conflicts.		8	Ongoing	
22	**Governance**	Breach of Data Protection –theft or loss of data	Audit criticism, legal challenge, reputational risk	Internal control and procedures for management of data. To be reviewed and reported to Pensions Committee on annual basis.		4	Ongoing	
23	**Governance**	Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all FOI requests and meeting deadline for information requests		4	Ongoing- Governance Team oversee FOI	
24	**Governance**	Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all internal and external audit requirements		4	Signed Annual Accounts to Committee in September 2017	
25	**Governance**	Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Annual review of AVC arrangement carried out Investment & Governance Managers.		4	Review completed and changes implemented from 1 October 2017	
26	**Governance**	Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discussions with scheme employer of funding issues		12	Ongoing	

National **LGPS Framework** for Legal Services

Introduction and joining instructions

Legal Services

LGPS Legal Services
Save time and money
Quick and efficient access
National LGPS Frameworks
Common terms and conditions
Procurement flexibility
Better, faster, cheaper
Collaboration
Local choice

EXCELLENCE IN PUBLIC PROCUREMENT AWARDS 2014/15
Finalist
GO / John F McClelland Collaborative Procurement Initiative of the Year Award

LGC Investment Awards 2014
WINNER

Issue 1 - January 2015

National LGPS **Frameworks**

By LGPS Funds, for LGPS Funds

Contents

Please note these National LGPS Framework Guidance Notes do not purport to be comprehensive, have been prepared in good faith, and no representation or warranty, express or implied, is or will be made and no responsibility or liability is or will be accepted by any of the Framework's Founding Authorities, their officers, employees or agents in relation to their accuracy or completeness and to the maximum extent permitted by law any such liability is expressly disclaimed.

Introduction

Across the Public Sector we must all continually seek the elusive 'Triple Crown' – how to deliver our statutory services 'better, faster and cheaper'?

The National LGPS Frameworks may help you meet this challenge.

Lord Hutton highlighted the potential benefits of co-operative projects within the LGPS; LGPS 2014 took this further and agreed the principle that **'scheme efficiencies be realised through more effective procurement…'.**

'By LGPS Funds, for LGPS Funds', the National LGPS Frameworks are a direct example of Funds collaborating to deliver benefits both locally and nationally across the LGPS. This initiative is directly in line with the Government's agenda for delivering greater value for money, alongside the reformed Local Government Pension Scheme.

This multi-user, multi-provider framework is uniquely open to all LGPS Funds for the procurement of legal services from a range of qualified providers.

All LGPS Funds and employing authorities using the framework will benefit from the collaboration.

Using a framework can save you significant time and money, whilst still delivering a service specified to your requirements, and supporting local decision making and accountability.

We hope that you will consider using this procurement route for your legal services.

As part of their **LGPS Opportunities for Collaboration, Cost Savings and Efficiencies** consultation, the Department of Communities and Local Government recognised that **"there are clear advantages and savings to making use of the National LGPS Frameworks"** and stated that **"Funds should give serious consideration to making greater use of these frameworks."**

This framework is the result of collaboration between Buckinghamshire, Dorset, Norfolk and Suffolk County Councils, Lothian Pension Fund, the Environment Agency and the London Boroughs of Croydon and Hackney. Procurement, legal and project management support has been provided by Norfolk County Council, Norfolk Pension Fund and Norfolk Property Services.

What is a framework agreement?

Frameworks are widely used across the public sector and increasingly in the LGPS. They are proven to be good for services that you can define and have demonstrated that considerable time and cost savings can be made.

A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise.

Frameworks are based on large volume purchasing. Aggregating different purchasers' potential needs means individual purchasers can buy goods and services at prices below those normally charged, or with special added benefits and/or more advantageous conditions.

Many LGPS Funds need to access specialist legal advice, either regularly or as one-off pieces of work. Such advice can often be required at short notice.

This means that costly and time-consuming procurement exercises are regularly undertaken across some Funds, while others struggle to quickly and easily access suitable service providers.

Because of this individual Funds may not be receiving either the best service or the best value that may be achievable by working collaboratively.

The National LGPS Framework for Legal Services reduces the time and cost associated with procurement by offering a facility that has already been competitively tendered.

'By LGPS Funds, for LGPS Funds' the National LGPS Frameworks are uniquely open to all LGPS Funds and administering authorities nationally for the procurement of Actuarial and Benefit Consultancy, Global Custody, Investment Consultancy and Legal Services from a wide range of qualified providers.

Framework benefits:

- Easy access to pre-selected, specialist LGPS legal service provider
- Collaboration and partnership
- Flexibility
- Best practice procurement
- Agreed terms and conditions
- Efficiency
- Value for money
- Quality of service provision
- Value added services
- No fault break clause

It removes the need to run a best practice, OJEU equivalent full tender exercise when procuring a longer term, single supplier relationship. For smaller, one-off pieces of work, the framework has already completed the 'pre-selection' work for users.

Agreed terms and conditions are provided so users can simply 'call-off' the framework to meet their requirements, therefore removing costly and time-consuming legal work from the procurement process.

We believe that all LGPS Funds using the framework should benefit from the collaboration, which is why we have negotiated a collaborative rebate for all Funds that let services from the framework.

The National LGPS Frameworks are directly in line with the Government's agenda for LGPS collaboration and delivering greater value for money.

Using the framework will help Funds easily access the marketplace and leverage better prices, while crucially still supporting local decision making and service requirements.

Different types of frameworks

There are several different types of framework arrangements. The National LGPS Framework for Legal Services is a multiple user, multiple lot framework – i.e. all LGPS Funds and their administering authorities can use the framework to procure a range of legal services.

Single User – Single Lot	**Single User – Multiple Lot**
Multiple User – Single Lot	**Multiple User – Multiple Lot**

Why should I use this framework?

Accessing legal advice can be difficult for LGPS Funds, particularly those that don't regularly need these services and may be unfamiliar with the marketplace. Procurement can also take significant time and money, both for the awarding authority and service provider.

The National LGPS Framework for Legal Services is fully compliant with the Public Contracts Regulations 2006. It reduces the time and costs associated with the procurement process by offering a facility that has already been competitively tendered.

It aims to deliver easy access to high-quality, efficient and effective legal services for all LGPS Funds and their administering authorities, at the best possible price.

The main benefits include:

Easy access to pre-selected, specialist LGPS legal service providers

Accessing legal advice can be difficult for LGPS Funds, particularly those that don't regularly need these services and may be unfamiliar with the marketplace. The National LGPS Framework provides an easy access route to pre-selected specialist providers who are best placed to deliver legal services to the LGPS generally, and in particular the investment and pensions sectors.

Collaboration and partnership

The National LGPS Frameworks have been created in line with the Government's wish for LGPS Funds to seek ways of extending joint working and collaboration. They are helping to realise potential efficiencies and are giving LGPS Funds a clearer voice within the marketplace, along with helping to share knowledge, information, experience and best practice.

Flexibility

National LGPS Frameworks reduce the time and cost associated with a full procurement exercise, which in turn allows you to be more flexible with the planning and running of any tender process via Further Competition. Depending on which Lot meets your requirements, there is also an option to Directly Award.

Best practice procurement

Each of the service providers on the National LGPS Frameworks have been subject to a rigorous procurement process, ensuring they offer the scope and quality of services you require. The pre-agreed terms and conditions offer you contractual safeguards.

Agreed terms and conditions

Terms and conditions are already established and agreed for you and service providers. This removes the need to re-draft and/or renegotiate terms for each procurement you undertake. You have the right to refine, but not fundamentally alter, the terms and conditions to take into account any special requirements.

Efficiency

The framework removes the need for you to conduct full tender exercises or lengthy service provider evaluations, saving the time and costs associated with procurement exercises. Our easy ordering process makes the National LGPS Framework simple to access and use.

Value for money

To harness the opportunity to aggregate spend, ceiling prices with the facility to conduct Further Competition, along with collaborative rebates, ensure that value for money is consistently achieved.

Quality of service provision

The experience, expertise and commitment to quality of a service provider are assessed at the time of the initial competition. Your satisfaction with the service providers' performance is monitored on an ongoing basis.

Value added services

All service providers on the framework offer an extensive selection of value added services, for example, sharing of advice already offered to other LGPS Funds to reduce duplication and facilitate a consistent approach across the LGPS, or email updates on new developments in the sector etc.

No fault break clause

You have the right to suspend or terminate the contract with immediate effect at any time by giving written notice to the service provider.

Framework route vs full procurement

The **National LGPS Framework** for Legal Services significantly reduces the **time and cost** associated with procurement by offering a facility that has **already been competitively tendered**.

Full Tender Exercise

Pre-Qualification

- Selection evaluation
- Financial evaluation
- Track record

Tender

- Capacity and expertise
- Knowledge and understanding
- Organisation and people

Select and award

- Evaluate and award

- Ceiling prices
- Terms and conditions

Framework

Further Competition

- Refine requirement and evaluation criteria
- Tender
- Evaluate and award

Framework

Direct Award

- Identify most suitable provider
- Invite supplier to provide service

6 - 9 months without framework **reduced to...** **2 - 3 weeks** with framework **or...** **Same day** with framework

Who can use the National LGPS Framework for Legal Services?

The National LGPS Framework for Legal Services is a multi-provider framework agreement for the provision of legal services primarily in support of the Local Government Pension Scheme.

The framework may be used by:

- Any administering authorities and any of their participating employing authorities as defined in the Local Government Pension Scheme Regulations 2013 SI 2013 No.2356 (as amended) and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended by SSI 2011/349;
- The Committee (the NILGOSC) and employing authorities as defined in the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 / SRNI 2009/33;
- The Board of the Pension Protection Fund www.pensionprotectionfund.org.uk;
- Any other administering authority or organisation of a public sector pension scheme or any public sector body that requires pensions related legal advice; and
  - Any Common or Collective Investment Vehicle established by or on behalf of an administering authority or group of administering authorities, Local Government Pension Funds or companies established by them for the purpose of operating on a collective basis.

"Enterprising and effective collaborations like this are the type of approach we are keen to encourage."

Francis Maude
Minister for the Cabinet Office

What services are covered by this framework?

The National LGPS Framework for Legal Services has five separate Lots covering different services:

Lot	Description	Number of Service Providers
1	Full Service (England and Wales)	8
2	Full Service (Scotland)	2
3	Investment (UK Wide)	8
4	Benefit Administration, Employer Bodies and Governance (England and Wales)	8
5	Benefit Administration, Employer Bodies and Governance (Scotland)	2

Q.

Can we add in any service requirements at the Further Competition stage, even if they are not covered by the framework's more general specification?

A.

Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Lot 1 – Full Service (England and Wales)

The scope of **Lot 1** covers legal advice on all aspects of the law and regulations relevant to LGPS Administering Authorities and Employing Bodies **in England and Wales** and their involvement with the relevant pension fund, including but not limited to the areas outlined below:

- Pensions (including the LGPS regulations in England & Wales)
- Corporate
- Financial Services (transactional and regulatory)
- Investment funds and investment management
- Insurance
- Banking, Finance and Securities
- Partnership (including their use in fund structures)
- Private Client, Family and Trusts
- Insolvency
- Employment and Benefits (contentious and non-contentious)
- Taxation
- Public, Procurement and Freedom of Information
- EU and Competition

- Litigation and other forms of Dispute Resolution
- Intellectual Property (contentious and non-contentious), Technology and Data Protection
- Capital projects, PFI and Infrastructure
- Property

Customers can procure under this Lot where they:

i. Require a firm to advise on all areas defined above under a long term (single provider) arrangement; or

ii. Require a specific piece of advice which either (a) cannot be provided for under the other 4 Lots, or (b) requires a combination of advice across different areas of expertise/ specialism of the nature required from a full service firm.

Lot 2 – Full Service (Scotland)

The scope of **Lot 2** covers legal advice on all aspects of the law and regulations relevant to LGPS Administering Authorities and Employing Bodies **in Scotland** and their involvement with the relevant pension fund, including but not limited to the areas outlined below:

- Pensions (including the LGPS regulations in Scotland)
- Corporate
- Financial Services (transactional and regulatory)
- Investment funds and investment management
- Insurance
- Banking, Finance and Securities
- Partnership (including their use in fund structures)
- Private Client, Family and Trusts
- Insolvency
- Employment and Benefits (contentious and non-contentious)
- Taxation
- Public, Procurement and Freedom of Information

- EU and Competition
- Litigation and other forms of Dispute Resolution
- Intellectual Property (contentious and non-contentious), Technology and Data Protection
- Capital projects, PFI and Infrastructure
- Property

Providers will also be able to assist (whether in-house or via sub-contracted arrangements/networks) in connection with cross-border transactions within the EU, the US, off-shore and in other jurisdictions commonly encountered in investment and other investment management/administration transactions (including the emerging and developing markets).

Customers can procure under this Lot where they:-

i. Require a firm to advise on all areas defined above under a long term (single provider) arrangement; or

ii. Require a specific piece of advice which either (a) cannot be provided for under the other 4 Lots, or (b) requires a combination of advice across different areas of expertise/ specialism of the nature required from a full service firm.

Lot 3 – Investment Services (UK Wide)

The scope of **Lot 3** covers legal advice on all aspects of pension fund investing and investment management/administration including but not limited to the areas outlined below to LGPS Administering Authorities and Employing Bodies **in England and Wales and Scotland:**

- Investment fund vehicles (regulated and unregulated), including limited partnerships, OEICs, Authorised and Unauthorised Unit Trusts, UCITS, REITs, listed vehicles and with a familiarity of other commonly used European, US and off-shore vehicles and their regulation.
- All forms of corporate and partnership vehicles commonly used in investment fund structures.

- Advising on Financial Services, Corporate and EU law as it applies to investment funds and investment practice in the UK (and including both compliance and transactional aspects).
- Investment management arrangements, agreements, relevant codes of practice and guidelines issued by UK statutory and industry bodies.
- Agreements for global custody and sub-custodian services, portfolio transition management, administration and other investment services.
- LGPS Investment Management Regulations (in England and Wales and Scotland).
- Advising on investment governance including the exercise of fiduciary duty by Committees, Environmental, Social and Governance (ESG) considerations, ethical and responsible investment matters, and the application of the Myners Principles, the UK Stewardship Code and any other subsequent codes of best practice.
- Instructing and liaising with specialist Counsel where required.
- Provide or enable access to specialist taxation support and knowledge in the investment funds/management sector, including advising on all UK pension fund taxation and application of VAT and VAT exemptions and having sufficient in-house expertise or networks to facilitate advice on overseas tax obligations/exemptions/recovery (e.g. US, EU, off-shore and other emerging jurisdictions) reviewing contracts with foreign tax agents, and providing advice on completion of foreign tax returns.

Providers will also be able to assist (whether in-house or via sub-contracted arrangements/networks), in connection with cross-border transactions within the EU, the US, off-shore and in other jurisdictions commonly encountered in investment and other investment management/administration transactions (including the emerging and developing markets).

Lot 4 – Benefits Administration, Employer Bodies and Governance (England and Wales)

The scope of **Lot 4** covers legal advice on all aspects of the law, regulation and practice in relation to pension administration, management, governance and employer management/ admission, including but not limited to those areas set out below to LGPS Administering Authorities and Employing Bodies **in England and Wales:**

- Employer admissions, reorganisations, cessations, payment plans and other risk mitigation strategies, including protecting pension fund and pension fund members interests in respect of organisational change, outsourcing and restructuring contracts, including TUPE, 'Fair Deal' and COSOP.
- Complex LGPS regulations and member communications to ensure they are both legally accurate to protect the funds from any liability or reliance risk and user-friendly for fund members to read and understand.
- The protection of accrued pension rights, Rule of 85 provisions, career breaks and opt-outs, benefit aggregation, early and flexible retirement terms, public sector transfer club rules, private sector transfers, and scope of transitional arrangements.
- The exercise of pension discretions including on making death grants and the establishment of trust arrangements for juveniles or incapacitated beneficiaries.
- Disbursement of pension fund benefits, exercise of delegations and the scope of any related policies and best practice guidance.
- The discharge of unfunded liabilities and payment of pension gratuities
- Pension issues arising from registered civil partnership and fund member divorce including ear marking and pensions sharing orders.
- Complex early pension release transfers and pension liberation schemes/fraud.
- Member complaints about their pension benefits, including

- drafting responses on Stage 1 and Stage 2 IDRP and Pension Ombudsman cases, and advising funds on future prevention and mitigation measures.
- Implications of recent Appeal, Supreme and High Court and other case law and Pension Ombudsman's decisions.
- Recovery of pension fund overpayments and other payments made in error, handling of pension fraud and complex debt recovery cases including litigation and court action (including High Court) if required, and advising on the requirements of the unauthorised payments rules.
- Pension's knowledge and understanding requirements for Pension Committees/Boards, providing training at Committee/ Panels/Sub-Group/Boards/in-house staff as required, and induction training for new appointees.
- Pensions Committees/Panels/Boards/Sub-Groups on internal pension fund governance matters (including compliance obligations, effective risk management and decision-making, sub-delegations, minimising conflicts of interests) and the new governance structures to be implemented by the Public Service Pensions Act 2013.
- Advising Pensions Committee and Board Chairmen, members, and pension fund management staff on all aspect of public and pension fund law, constitutional matters, governance and primary fiduciary duties toward the pension fund and the financial interests of fund members Fiduciary responsibilities, liabilities and indemnities for Committee/Panel/Board members, Councillors, and fund members in their capacity as members of Pensions Committees/Panels/Boards.
- Pension funding obligations and fund deficit recovery and repayment plans from LGPS employers
- Advising on trust law where relevant to any LGPS matters.
- The impact of the machinery of government changes and government pension policies affecting LGPS funds and scheme employers, including the review of national consultation responses.

- Advising on third party benefit administration and service level agreements, pension bulk transfer agreements, Admitted Body and Transferee Admission Agreements, financial security bonds, guarantees, and Secretary of State Applications.
- Obligations for LGPS funds which derive from employers' HR policies and practices (or otherwise) e.g. Human Rights legislation, age discrimination, default retirement obligations etc.
- LGPS funds' obligations with respect to provision of contractually agreed benefit promises, dealing as necessary with CLG on potential regulatory amendments.
- Issues and impact on funds arising from the exercise of employer pension discretions, pensions issues arising from statutory redundancy and voluntary early retirement schemes, and ill-health retirement cases.
- Impact for funds of conversions of maintained schools to academies, and conversions of admitted bodies from registered companies to registered societies.
- New pensions law, finance acts, and Government's response to review reports and the legal mapping of anticipated changes for LGPS funds up to 2014/15 and beyond, plus possible transitional arrangements including new legislative and regulatory consultation exercises, and national and local government policy changes affecting LGPS pension funds and scheme employers.
- Instructing and liaising with specialist Counsel where required.
- Accessing specialist pensions taxation matters, including the scope of unauthorised payment rules, scheme pays and new AA and LTA rules, and any applicable employment tax rules, including US Foreign Account Tax Compliant Act (FATCA).

Lot 5 – Benefits Administration, Employer Bodies and Governance (Scotland)

The scope of **Lot 5** covers legal advice on all aspects of the law, regulation and practice in relation to pension administration, management, governance and employer management/admission, including but not limited to those areas set out below to LGPS Administering Authorities and Employing Bodies **in Scotland:**

- Employer admissions, reorganisations, cessations, payment plans and other risk mitigation strategies, including protecting pension fund and pension fund member's interests in respect of organisational change, outsourcing and restructuring contracts, including TUPE and 'Fair Deal'.
- Complex LGPS regulations and member communications to ensure they are both legally accurate to protect the funds from any liability or reliance risk, and user-friendly for fund members to read and understand.
- The protection of accrued pension rights, Rule of 85 provisions, career breaks and opt-outs, benefit aggregation, early and flexible retirement terms, public sector transfer club rules, private sector transfers, and scope of transitional arrangements.
- The exercise of pension discretions including on making death grants and the establishment of trust arrangements for juveniles or incapacitated beneficiaries.
- Disbursement of pension fund benefits, the exercise of delegations and the scope of any related policies and best practice guidance.
- The discharge of unfunded liabilities and payment of pension gratuities.
- Pension issues arising from registered civil partnership and fund member divorce including ear marking and pensions sharing orders.
- Complex early pension release transfers and pension liberation schemes/fraud.

- Member complaints about their pension benefits, including drafting responses on Stage 1 and Stage 2 IDRP and Pension Ombudsman cases, and advising funds on future prevention and mitigation measures.
- Implications of recent Appeal, Court of Session and other court case law and Pension Ombudsman's decisions.
- Recovery of pension fund overpayments and other payments made in error, handling of pension fraud and complex debt recovery cases including litigation and court action (including in the Court of Session/Supreme Court) if required, and advising on the requirements of the unauthorised payments rules.
- Pension's knowledge and understanding requirements for Pension Committees/Boards, providing training at Committee/Panels/Sub-Group/Boards/in-house staff as required, and induction training for new appointees.
- Pensions Committees/Panels/Boards/Sub-Groups on internal pension fund governance matters (including compliance obligations, effective risk management and decision-making, sub-delegations, minimising conflicts of interests) and the new governance structures to be implemented by the Public Service Pensions Act 2013.
- Advising Pensions Committee and Board Chairmen, members, and pension fund management staff on all aspect of public and pension fund law, constitutional matters, governance and primary fiduciary duties toward the pension fund and the financial interests of fund members
- Fiduciary responsibilities, liabilities and indemnities for Committee/Panel/Board members, Councillors, and fund members in their capacity as members of Pensions Committees/Panels/Boards.
- Pension funding obligations and fund deficit recovery and repayment plans from LGPS employers
- Advising on trust law where relevant to any LGPS matters.
- The impact of the machinery of government changes and government pension policies affecting LGPS funds and scheme employers, including the review of national consultation responses.

- Advising on pension bulk transfer agreements, Admitted Body and Transferee Admission Agreements, financial security bonds, guarantees, and Secretary of State Applications.
- Obligations for LGPS funds which derive from employers' HR policies and practices (or otherwise) e.g. Human Rights legislation, age discrimination, default retirement obligations etc.
- LGPS funds' obligations with respect to provision of contractually agreed benefit promises, dealing as necessary with SPPA/the Scottish government on potential regulatory amendments.
- Issues and impact on funds arising from the exercise of employer pension discretions, pensions issues arising from statutory redundancy and voluntary early retirement schemes, and ill-health retirement cases.
- Impact for funds of conversions of maintained schools to academies, and conversions of admitted bodies from registered companies to registered societies.
- New pensions law, finance acts, and Government's response to review reports and the legal mapping of anticipated changes for LGPS funds up to 2014/15 and beyond, plus possible transitional arrangements including new legislative and regulatory consultation exercises, and national and local government policy changes affecting LGPS pension funds and scheme employers.
- Instructing and liaising with specialist Counsel where required.
- Accessing specialist pension's taxation matters, including the scope of unauthorised payment rules, scheme pays and new AA and LTA rules, and any applicable employment tax rules, including US Foreign Account Tax Compliant Act (FATCA).

Who can provide services under this framework?

There are 11 service providers on the framework, across the five Lots:

Service Provider	Lot 1	Lot 2	Lot 3	Lot 4	Lot 5
Burges Salmon LLP	✔		✔	✔	
Burness Paull LLP		✔		✔	✔
DLA Piper UK LLP	✔			✔	
Eversheds LLP	✔		✔	✔	
Gowling WLG (UK) LLP	✔		✔	✔	
Maclay Murray & Spens LLP			✔		
Osborne Clarke	✔		✔	✔	
Pinsent Masons LLP	✔	✔	✔		✔
Sacker & Partners LLP			✔	✔	
Squire Patton Boggs (UK) LLP	✔		✔	✔	
Trowers & Hamlins LLP	✔				

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide these services.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is really important that you focus clearly on what you as a Fund need, so you select the most appropriate provider.

What is the duration of the framework?

The National LGPS Framework for Legal Services commenced on 12 January 2015 and is open for 4 years.

Contracts awarded under the framework may be for a period of up to 5 years plus 2 years.

How much does it cost and what will I save?

Q.

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A.

The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at **Further Competition** or at **Direct Award** if applicable. Please note however that this is competition not negotiation. The defined pricing structure aims to eliminate hidden extras and allow for easy comparison at the evaluation stage.

Joining Fee

There is a one-off joining fee of £3,500 for Lots 1 and 2 and £350 for Lots 3, 4 and 5. You will only need to pay a joining fee once then you will be able to Call-off from the relevant Lots of the National LGPS Framework for Legal Services as many times as you need during its lifetime.

Both joining fees give you access to the framework and prices (for the relevant Lots) along with all framework documentation, including the pre-agreed terms and conditions and comprehensive guidance notes. You will also benefit from the collaborative rebate structure.

The joining fee for Lots 1 and 2 is higher to reflect their longer-term 'Full Service' nature along with the main benefits of competitive framework prices that can be reduced at Call-off and removing the need for a separate, costly and time-consuming full regulation-compliant procurement exercise.

Lots 3, 4 and 5 have a lower joining fee that covers the administrative costs of the joining process, reflecting the smaller, more specific nature of the work involved.

See the benefits section under **Why should I use this framework?** for more.

Pricing

Ceiling prices for all service providers on the National LGPS Framework for Legal Services are included in the **Pricing Schedule** supplied when you join.

All prices are maximum rates and are subject to further reduction at **Further Competition** or **Direct Award** if applicable.

Rebates to framework users

The following rebate applies to **all** work awarded and delivered under the National LGPS Framework for Legal Services. It will be applied to the prices as agreed at **Further Competition** (or **Direct Award** if applicable) and contract award, if these are different to the prices as established under the framework:

- An aggregated cumulative stepped rebate based on the overall value of work awarded to a supplier under this framework, pro-rata'd across all Authorities awarding work to that supplier

- during the year. This will be due for payment directly from the service providers as at 31 March each year for work completed and invoiced during the year.

Travel and subsistence

Service provider prices are inclusive of travel, subsistence and any other expenses.

Rate review

The ceiling prices remain fixed until 12 January 2017. On 13 January 2017, and again on 13 January 2018, ceiling prices will be increased in line with the most recent Retail Prices Index excluding mortgage index rates (RPIX) as published by the Office of National Statistics.

These price increases will not apply to Call-off Agreements already in place at the time of the increase; however Funds do have the option of agreeing these price increases with the successful service provider at the Award stage, should they wish to.

The ceiling prices for each service provider can be found in the **Pricing Schedule** supplied when you join.

The list of ceiling prices is fixed so that there are no hidden charges and prices are comparable and transparent.

It is important to remember that the ceiling prices quoted are the **maximum** each service provider can charge under the framework.

How were the service providers chosen and monitored?

Expectations of quality

As part of the procurement and tendering process, the successful service providers demonstrated proof of the following general expectations:

- Previous relevant experience for each of the Lots applied for in providing specialist legal services primarily acting for the LGPS Administering Authorities and/or Employing Authority matters if/where they interact with and have a bearing on the LGPS Administering Authority, as defined in the **What services are covered by this framework?** section
- At least one member of each service provider's pensions team is a member of the Association of Pensions Lawyers (APL) for each Lot they offer services under
- Provided two references from Local Government Pension Scheme Administering Authorities for whom they have provided services of similar size and scope to the requirements detailed in the tender for Legal Services, reference NCCT40518
- Comply with regulatory requirements relating to the filing of statutory accounts
- Statutory accounts (if any) have received a 'clean' audit opinion or, where the audit opinion is qualified, suitable, appropriate and timely action has been taken to deal with the issues raised
- The financial aspects of candidates' businesses (including but not limited to the payment of creditors) are properly managed
- Candidates' businesses are financially sustainable, including adequate liquidity, profitability, balance sheet strength and cash flow

In order to be appointed to the framework, providers have demonstrated they have the right expertise and capacity to provide the services detailed on pages 10 to 19.

While each provider successfully passed a minimum quality threshold, they are not all the same. For example they vary quite widely in size, capacity and area of expertise.

It is important you focus clearly on what you as a Fund need, so that Further Competition or Direct Award helps you select the most appropriate service provider.

Q.

Under the National LGPS Framework, are legal services providers scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A.

Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific service provider. If you wished to make an appointment under the framework you would either **Directly Award** or undertake a **Further Competition**, depending on the nature of your specific requirements.

Dispute resolution

General contract issues should be dealt with between you and the service provider.

Where there are more significant issues or if things get out of hand then you can escalate these to us.

Email us at **NationalLGPSFrameworks@norfolk.gov.uk** or call us on **01603 495922**.

Anything else I need to know?

Audit

As part of its contract management function, Norfolk Pension Fund has the right to conduct independent auditing of the service providers' processes, procedures and application of their hourly rate.

Financial arrangement between Norfolk Pension Fund and service providers

Service providers are required to pay Norfolk Pension Fund, as the letting authority, a flat rebate of 1% of all contracts let under the National LGPS Framework each year, for work invoiced during the financial year.

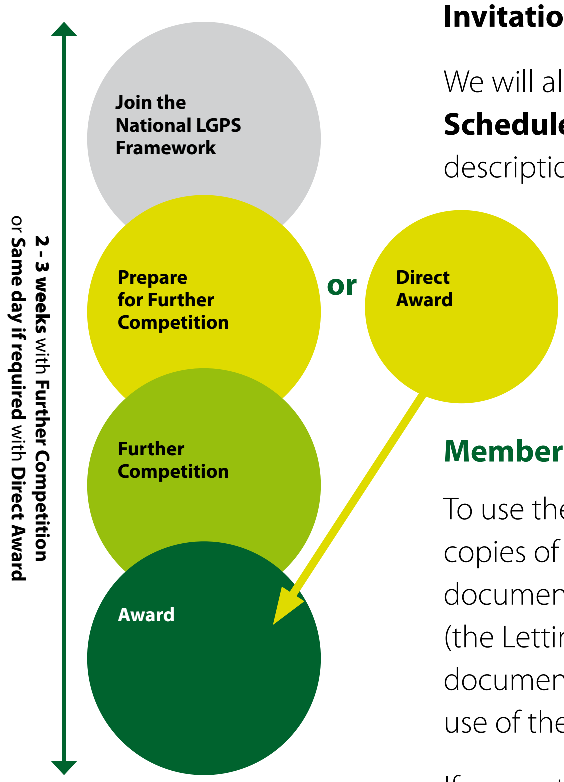
This rebate will be used to cover the administration costs of the framework.

The rebate will be calculated against the set-up and management costs of the framework at the end of each financial year. A final surplus will be distributed among letting authorities.

How do I join the National LGPS Framework?

If you would like to know more or to make use of the National LGPS Framework for Legal Services please complete and return a copy of the **Option Form** at Appendix 1.

Via this form you can opt to receive more details or to join the framework.



Confidentiality Statement

We cannot share any of the commercially sensitive details of the framework with you until you have completed and returned a **Confidentiality Statement** (Appendix 2).

Once we have received your **Confidentiality Statement** we will send you a set of **Guidance notes**, along with a comprehensive Call-off pack including a **Guide to Call-off** and an **Example Invitation to Tender Template**.

We will also send you **Call-off terms and conditions,** a **Pricing Schedule** and **Supplier Catalogues**, which include service descriptions and biographies/CVs.

Members' Access Agreement

To use the National Framework, you must sign and return two copies of the **Members' Access Agreement**. This is a legal document between your authority and Norfolk County Council (the Letting Authority for this framework). The purpose of the document is to regulate any liabilities that may arise as a result of use of the Framework.

If you opt to join the framework we will send you two copies of the **Members' Access Agreement** to sign and return, along with all the other framework documentation. An example of the **Members' Access Agreement** is at Appendix 3. We will also send you an invoice for the Joiners Fee.

If you have any further questions or need any further detail before using the framework, please contact us and we will be happy to help.

Email: **NationalLGPSFrameworks@norfolk.gov.uk**

Do you know about the other services available via National LGPS Frameworks?

If you have a requirement for any of the above services and would like to find out more about National LGPS Frameworks please contact us at **NationalLGPSFrameworks@norfolk.gov.uk or 01603 495922**

FAQs

Question 1

Who can use the framework?

A. Any administering authorities and any of their participating employing authorities as defined in the Local Government Pension Scheme Regulations 2013 SI 2013 No.2356 (as amended) and the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 as amended by SSI 2011/349;

The Committee (the NILGOSC) and employing authorities as defined in the Local Government Pension Scheme (Administration) Regulations (Northern Ireland) 2009 / SRNI 2009/33;

The Board of the Pension Protection Fund www.pensionprotectionfund.org.uk;

Any other administering authority or organisation of a public sector pension scheme or any public sector body that requires pensions related legal advice; and

Any Common or Collective Investment Vehicle established by or on behalf of an administering authority or group of administering authorities, Local Government Pension Funds or companies established by them for the purpose of operating on a collective basis'

Question 2

Do I need to use a Framework to procure Legal Services? Aren't they exempt from standard procurement regulations?

A. Legal Services are classed as a "Part B" service and therefore are not subject to the full Public Contracts Regulations (OJEU). However the benefits of the framework apply to all requirements (e.g. a defined list of suppliers, agreed terms and conditions etc.). You still need to ensure you comply with your local financial regulations and procurement best practice.

There is a new EU Procurement Directive due to come into force that removes the distinction between "Part A" and "Part B" services. Certain legal services will become subject to the full EU procurement regulations (as amended) while other legal requirements will be subject to a "light-touch" regime.

The National LGPS framework for Legal Services will provide an EU-compliant vehicle for purchasing legal services, even after the change is implemented in the UK.

Question 3

How do we decide which Lot is suitable for our requirements?

A. You will need to clearly set out your specific requirements. The information under **What services are covered?** can be used as a basis, but you may need to expand on these to suit your own detailed requirements.

Lots 1 and 2 are primarily full service Lots, where you appoint a single supplier to cover all of your requirements for a set period of time.

Lots 3, 4 and 5 cover more individual areas of service and one-off pieces of work.

Question 4

When can I Directly Award and when do I have to run a Further Competition?

A. You can **Directly Award** from Lots 3, 4 and 5 'as and when' you have a specific, one-off piece of work; however if you need a longer-term arrangement you will need to run a **Further Competition**.

Lots 1 and 2 are primarily **Full Service** Lots, where you can appoint a single supplier for a long term arrangement. This is done by running a **Further Competition**. If you require a specific piece of advice that either cannot be provided for under Lots 3, 4 or 5, or requires a combination of advice across different areas of expertise/specialism only available from providers under Lot 1 or 2, you may **Directly Award** from Lot 1 or 2.

Question 5

What is the difference between the two types of Direct Award?

A. There are two methods of **Direct Award** under the National LGPS Framework for Legal Services – **Direct Award to Single Supplier** and **Direct Award following Quotes**.

Direct Award to Single Supplier is where you invite the service provider you have identified as most suitable, using the Call-off criteria, to provide the service within a given timescale. If they are unable to supply the service then subsequent service providers in order of suitability should be invited to supply the service within the given timescale.

Direct Award following Quotes is where you write to all the service providers you have identified as capable of providing the service you require and invite them to submit a tender in writing for each specific contract to be awarded. You should then choose the service provider which offers best value for money when judged by the Call-off criteria you have set out.

Direct Award *is not suitable for longer-term arrangements i.e. anything more than a one off piece of work. In these instances* ***Further Competition*** *should be used to award your work.*

Question 6

Under the National LGPS Framework, are suitable legal services providers scored or ranked? If so, are we under any obligation to use the highest scoring provider?

A. Service providers are not ranked within the framework. All service providers appointed to the framework are deemed capable, and therefore should be treated in the same way. The framework would not oblige you to use any specific service provider. If you wished to make an appointment under the framework you would either **Directly Award** or undertake a **Further Competition**, depending on the nature of your specific requirements.

Question 7

If a list of suitable legal services providers is provided (un-ranked), are we able to decide which firms to invite to tender?

A. This depends on the nature of your requirements and which Lots they fall under. Lots 1 and 2 are aimed at longer-term arrangements where you appoint one supplier for a set period of time. You will need to run a **Further Competition** to appoint from these Lots and it is best practice to invite all capable service providers to take part. By nature of their successful award to the framework, all service providers on the National LGPS Framework for Legal Services are deemed capable. You would need a clear and justifiable reason to exclude any service provider.

Lots 3, 4 and 5 are designed for smaller, one-off pieces of work and as such contracts can be **Directly Awarded** without the need for **Further Competition**.

Question 8

How much can we adjust the selection criteria to suit our individual needs?

A. We have tried to build flexibility into the Call-off criteria so that you can adjust these to be the most appropriate fit for you. This could include further defining the criteria, inserting sub criteria and adjusting weightings. You must declare **all** your evaluation criteria.

Question 9

Can we add in any service requirements at the Further Competition stage, even if they are not covered by the framework's more general specification?

A. Yes, as long as these are in areas within the overall scope. You may want to request that service providers give specific examples for any questions you ask.

Question 10

Are pension funds that use the National LGPS Framework bound by the prices set out in the tender responses, or is there scope for price negotiation at an individual fund level?

A. The prices set out in the framework are the **maximum** rates, but we would expect these to be **reduced** at Call-off stage. Please note however that this is competition not negotiation. The list of ceiling prices is fixed so that there are no hidden charges and prices are comparable and transparent.

Question 11

How much does it cost to join the framework?

A. There is a one-off joining fee of £3,500 for Lots 1 and 2 and £350 for Lots 3, 4 and 5. You will only need to pay a joining fee once then you will be able to Call-off from the relevant Lots of the National LGPS Framework for Legal Services as many times as you need during its lifetime.

Question 12

What do we get for these fees and why are they so different?

A. Both joining fees give you access to the framework and prices (for the relevant Lots) along with all framework documentation, including the pre-agreed terms and conditions and comprehensive guidance notes. You will also benefit from the collaborative rebate structure.

The joining fee for Lots 1 and 2 is higher to reflect their longer-term 'Full Service' nature along with the main benefits of competitive framework prices that can be reduced at Call-off and removing the need for a separate, costly and time-consuming full regulation-compliant procurement exercise.

Lots 3, 4 and 5 have a lower joining fee that covers the administrative costs of the joining process, reflecting the smaller, more specific nature of the work involved.

See the benefits section under **Why should I use this framework?** for more.

Question 13

Is there scope for us to agree/alter contractual terms and conditions, or are these essentially set at a framework level?

A. The Public Contracts Regulations 2006 ("the Regulations") specifically state that the parties should not substantially amend the terms laid down in a framework agreement.

There is an acknowledgement though that you may need to make non-material changes to the terms (e.g. to change the time for supply of the relevant products). However, you are not entitled to make a material change to the terms (e.g. by adding a new service) to the extent that it might affect the identity of the service providers capable of meeting the requirements.

This prevents the distortion of competition by ensuring that service providers are not excluded solely on the grounds that they were unable to meet the original requirements.

Question 14

What variations will be considered non-material?

A. The regulations do recognise that the terms of a framework, or of specific contracts, may need to be supplemented in certain situations.

Where you are running a **Further Competition** under a multi-supplier arrangement, you may supplement the terms.

In these circumstances, you would do so where you need to amend the terms to ensure that they capture the requirements more precisely, or provide additional terms on the basis that these have been referred to in the framework. **This does not allow a fundamental re-write of the terms** but recognises that it is not possible or practical to attempt to make provision for every eventuality, particularly in a multi-supplier environment.

However, there is a requirement that any supplemental terms align with and are based on the terms referred to in the framework agreement or the original request for tender. It was for this reason that careful consideration was given to the development of these documents when setting up this framework.

Question 15

Will we be able to stipulate our own contract termination conditions?

A. You have the right to suspend or terminate the contract with immediate effect at any time by giving written notice to the service provider.

Question 16

When we do our own tenders we may have a shortlist in order of highest score and use the interviews to verify the scores from the ITT, plus add an additional score, e.g. for communication. Can we still do this if using the National LGPS Framework?

A. You may wish to include service provider interviews as part of your **Further Competition** process – for example, if you want to meet your potential client relationship manager.

If you decide to include moderation interviews as part of your **Further Competition** evaluation process, you will need to invite all service providers.

Question 17

Do I have to use the templates provided on joining to undertake my procurement?

A. The templates are designed to help you as much as possible in your procurement but are not compulsory. However, if you decide not to use them you may lose a lot of the benefit and value of the framework. In particular, the **Guide to Call-off** and **Example Invitation to Tender** guide you through the Call-off process step by step, ensuring you set and evaluate the right criteria to meet your own specific needs.

We strongly recommend you use the **Pro Forma Letter of Appointment** for all orders placed under the framework, as this forms the contract between yourselves and the successful service provider.

If you have any questions about any of the templates and guides, please contact us on 01603 495922 or NationalLGPSFrameworks@norfolk.gov.uk.

Glossary

Access agreement
An agreement to join the National LGPS Framework, made between an awarding authority and the letting authority (Norfolk Pension Fund in this instance). Also known as a Deed of Adherence.

Administering authority
An authority that administers a Local Government Pension Scheme (LGPS).

Award criteria
The criteria used to determine whether a service provider can meet the requirements set by an awarding authority.

Awarding authority
An LGPS authority looking to award a contract to a service provider within the National LGPS Framework.

Call-off
The act of an awarding authority procuring a service provider from the National LGPS Framework.

Call-off contract
A legally binding agreement for the provision of services made between the awarding authority and service provider.

Call-off criteria
The criteria used to evaluate service providers at the Further Competition stage.

Ceiling prices
The maximum prices that service providers can charge as part of the National LGPS Framework. These are subject to further reduction at the Call-off stage.

Collaborative rebate
All awarding authorities are eligible for an aggregated cumulative stepped rebate. This is based on the overall value of work awarded to a supplier under the National LGPS Framework, pro-rata'd across all Authorities awarding work to that supplier during the year (across both services). This will be due for cash payment as at 31 March each year for work completed and invoiced during the year.

Competitively tendered
The process of circulating detailed specification of services to a number of potential providers, who submit bids for evaluation ahead of an award being made. In this instance it refers to the process undertaken by Norfolk Pension Fund and the "founding authorities" when appointing service providers to the National LGPS Framework.

Confidentiality statement
A statement to be signed by potential joiners of the National LGPS Framework, agreeing to respect the confidentiality of any commercially sensitive information made available.

Direct award
Where a contract for services is awarded based solely on the information provided in the **Supplier Catalogues** without the need for **Further Competition**.

Further Competition (sometimes referred to as mini-competition)
Competitions run by awarding authorities in order to evaluate service providers when awarding contracts under Lots 1 and 2 as part of the National LGPS Framework.

Initial competition
The procurement exercise that was carried out in order to appoint service providers to the National LGPS Framework.

Invitation to tender (ITT)
As part of the **Further Competition** stage, awarding authorities will invite service providers to quote for the services they have set out in their detailed requirements.

Joining fee
A one-off fee applicable to all LGPS authorities who wish to join the National LGPS Framework for Legal Services.

Letting authority
The authority that provides access to the National LGPS Framework (in this case Norfolk County Council).

LGPS
The Local Government Pension Scheme.

OJEU
OJEU stands for the Official Journal of the European Union. This is where the contract notice for the National LGPS Framework was published. All public sector contracts over a published threshold are required to be published in the OJEU.

Pro Forma Letter of Appointment
The order submitted to the service provider by the awarding authority in accordance with the National LGPS Framework. It sets out the description of the services to be supplied including, where appropriate, key personnel, premises, timeframe, deliverables and quality standards.

Service provider
A company that provides legal services as part of the National LGPS Framework.

Terms and conditions
In this instance, the Call-off terms and conditions that, along with a Pro Forma Letter of Appointment, comprise a call-off contract.

Contact us

If you have any questions about the National LGPS Frameworks or would like to know more, please contact us at the following:

NationalLGPSFrameworks@norfolk.gov.uk

01603 495922

The Norfolk Pension Fund
(National LGPS Frameworks)
4th Floor, Lawrence House
Norwich NR2 1AD

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	UPDATE ON ANNUAL BENEFIT STATEMENTS
REPORT NUMBER	PC/DEC17/ABS
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	MAIRI SUTTIE

1. PURPOSE OF REPORT:-

1.1. The purpose of this report is to update the Committee on the provision of the Annual Benefit Statements (ABSs) to the Funds active and deferred members. These statements provide members with an estimate of their pension position at retirement age, based on data currently held by the Fund.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

i. Note the report

3. BACKGROUND/MAIN ISSUES

3.1 Under regulation 87 of the Local Government Pension Scheme (Scotland) Regulations 2014 the Fund must produce Annual Benefit Statements (ABSs) within five months following each Scheme year end (31 August) and in accordance with section 14 of the Public Service Pensions Act 2013. This statutory deadline was imposed for the first time in 2014/15.

3.2 Any failure to comply with the statutory deadline to issue ABSs in accordance with the requirements of the Act must be evaluated as to whether it constitutes a breach of material significance that must be reported to the Pensions Regulator (tPR).

3.3 To comply with this, NESPF has its own Breaches of Law Policy Statement and accompanying Breaches Register. Those with a duty to report can refer to both the Policy and Register for support when evaluating whether to report or not.

3.4 Deferred Statements

3.4.1 In total 15,793 benefit statements were issued to deferred members on 26th June 2017. This represents 93.06% of all deferred members entitled to receive a statement.

3.4.2 There were a further 1,178 deferred members identified who were entitled to receive a benefit statement but for whom we did not hold an up to date address. A tracing exercise will be carried out towards the end of 2017/early 2018 to ensure we are able report 100% compliance for 2017/18 in respect of these deferred members.

3.4.3 Deferred members were also advised that from next year (2017/18) the Fund will no longer issue paper benefit statements. Members will instead be issued with an activation code to allow them to access their statements securely online through Member Self Service (if they are not already signed up to this service).

3.5 Active Statements

3.5.1 As at 31 August 2017 24,409 benefit statements had been issued to active members.

Between 18 August (the date the statements were issued) and the statutory deadline, Officers identified an issue affecting approximately 155 members who were taking part in salary sacrifice scheme's. This was very quickly remedied by our Officers and manual statements were issued.

3.5.2 In terms of our active statements we achieved 99.76% compliance with our statutory requirement.

3.5.3 Although we have fallen slightly short of achieving 100% we have identified the issues in the outstanding member records (56 in total) which have prevented us from meeting this target. The data issues with these member records will be addressed by Officers in preparation for the 2017/18 year. In addition, we were unable to produce benefit statements for a further 3 member records. Despite our best efforts we have been unable to identify the issue with these particular records and the matter has been raised with our software provider Heywood. This should allow us to improve upon our performance next year with the aim of achieving full compliance.

3.5.4 In line with the NESPF Breaches of Law Policy as we did not achieve full 100% compliance with respect of the ABSs this will be recorded as a breach in the Register.

3.5.5 There is a duty to report a breach where it is likely to be of material significance to the Pensions Regulator. In this case, we do not believe this to be the case and therefore will not be reporting a breach to tPR. The cause of the breach has been identified and adequate measures put in place to prevent future reoccurrence.

4. FINANCIAL IMPLICATIONS

4.1 The failure to issue ABSs by the statutory deadline opens the Fund up to financial penalties imposed by the Pensions Regulator (tPR). However these are no costs in this case.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 There are no direct risk implications arising from the recommendations in this report.

7. IMPACT SECTION

7.1 There is no direct impact arising from the recommendations in this report.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 None

10. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	REQUEST FOR ADMITTED BODY STATUS
REPORT NUMBER	PC/DEC17/ADBOD
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	CLAIRE MULLEN

1. PURPOSE OF REPORT:-

1.1. To consider an application from Aberdeenshire Council to admit Aberdeenshire Sport and Culture Ltd (ACS ltd) into the Local Government Pension Scheme administered by Aberdeen City Council.

2. RECOMMENDATION(S)

2.1 It is recommended that the Committee:

i. Agree to allow the employees transferring from Aberdeenshire Council to ACS ltd to participate in the Local Government Pension Scheme administered by Aberdeen City Council.

3. BACKGROUND/MAIN ISSUES

3.1 As the administering authority for the Pension Fund Aberdeen City Council is responsible for the prudent governance and management of the Pension Fund in the interest of all scheduled and admitted bodies.

3.1.1 As administering authority the Council must admit a body to the Pension Fund as an 'admitted body' under the Local Government Pension Scheme (Scotland) Regulations 2014, Schedule 2, Part 2, 1(d)(i), providing that the body complies with the regulations as detailed in Appendix I.

3.2 <u>ACS Ltd request for admission</u>

3.2.1 Subject to Committee approval on 23rd November 2017, Aberdeenshire Council plan to create a charitable trust from 1st April 2018 to provide sport and culture services within the Council. Around 700 staff will be transferred to the new body under TUPE arrangements.

3.2.2 A copy of the letter from Aberdeenshire Council seeking admission to the Fund with effect from 1st April 2018 is attached at Appendix III. However it should be noted that the application for admission will only proceed if the charitable trust is approved by the Aberdeenshire Council Committee at their meeting on 23rd November 2017.

3.2.3 Admission to the Scheme by ACS ltd will be on an open basis allowing admission to the Scheme for all employees of the new body.

3.2.4 Aberdeenshire Council, as the originating employer, will act as guarantor for the admission. This is in accordance with the Local Government Pension Scheme (Scotland) Regulations 2014, Regulation 62(3) – see Appendix II.

3.2.5 The transfer will be carried out on a fully funded basis meaning no deficit for past service will be transferred to the new employer.

3.3 Actuarial evaluation and admission agreement

3.3.1 Details of those employees transferring have been supplied to the scheme actuary who has provided an admission summary paper and full risk report. This is in accordance with Scheme regulation requirements.

3.3.2 The employer contribution rate and funding level will be subject to review at the tri-ennial actuarial valuation.

3.3.3 An external legal advisor will be appointed to draft the admission agreement.

4. FINANCIAL IMPLICATIONS

4.1 There is no financial impact for the Pension Fund with regard to granting admitted body status to ACS ltd; all costs of admission will be met by Aberdeenshire Council as they will wholly own the charitable trust.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 There are no direct risk implications arising from the recommendations in this report.

7. IMPACT SECTION

7.1 There is no direct impact arising from the recommendations in this report.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 **Appendix I**, LGPS (Scotland) Regulations 2014, Schedule 2, Part 2
Appendix II, LGPS (Scotland) Regulations 2014, Regulation 62
Appendix III, Letter from Aberdeenshire Council

10. REPORT AUTHOR DETAILS

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Appendix I

SCHEDULE 2

Scheme employers

PART 2

1. The following bodies are admission bodies with whom an administering authority may make an admission agreement—

(a) a body which provides a public service in the United Kingdom which operates otherwise than for the purposes of gain and has sufficient links with a Scheme employer for the body and the Scheme employer to be regarded as having a community of interest (whether because the operations of the body are dependent on the operations of the Scheme employer or otherwise);

(b) a body, to the funds of which a Scheme employer contributes;

(c) a body representative of—

(i) any Scheme employers, or

(ii) local authorities or officers of local authorities;

(d) a body that is providing or will provide a service or assets in connection with the exercise of a function of a Scheme employer as a result of—

(i) the transfer of the service or assets by means of a contract or other arrangement, or

(ii) any provision in any enactment

(e) a body which provides a public service in the United Kingdom and is approved in writing by the Scottish Ministers for the purpose of admission to the Scheme.

2. An approval under paragraph 1(e) may be subject to such conditions as the Scottish Ministers think fit and the Scottish Ministers may withdraw an approval at any time if such conditions are not met.

3. The Scheme employer, if it is not also the administering authority, must be a party to the admission agreement with a body falling within the description in paragraph 1(d).

4. In the case of an admission body falling within the description in paragraph 1(b), where at the date of the admission agreement the contributions paid to the body by one or more Scheme employers equal in total 50% or less of the total amount it receives from all sources, the Scheme employer paying contributions (or, if more than one pays contributions, all of them) must guarantee the liability of the body to pay all amounts due from it under these Regulations.

5. If the admission body is exercising the functions of the Scheme employer in connection with more than one contract or other arrangement under paragraph 1(d)(i), the administering authority and the admission body shall enter into a separate admission agreement in respect of each contract or arrangement.

6. An admission agreement must require the admission body to carry out, to the satisfaction of the administering authority, and to the satisfaction of the Scheme employer in the case of a body falling within paragraph 1(d)(i), an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up, or liquidation of the admission body.

7. Notwithstanding paragraph 6, and subject to paragraph 8, the admission agreement must further provide that where the level of risk identified by the assessment is such as to require it, the admission body shall enter into an indemnity or bond in a form approved by the administering authority with—

(a) a person who has permission under Part 4 of the Financial Services and Markets Act 2000(**12**) to accept deposits or to effect and carry out contracts of general insurance;

(b) a firm in an EEA state of the kind mentioned in paragraph 5(b) and (d) of Schedule 3 to that Act(**13**), which has permission under paragraph 15 of that Schedule (as a result of qualifying for authorisation under paragraph 12 of that Schedule(**14**)) to accept deposits or to effect and carry out contracts of general insurance; or

(c) a person who does not require permission under that Act to accept deposits, by way of business, in the United Kingdom.

8. Where, for any reason, it is not desirable for an admission body to enter into an indemnity or bond, the admission agreement must provide that the admission body secures a guarantee in a form satisfactory to the administering authority from—

(a) a person who funds the admission body in whole or in part;

(b) in the case of an admission body falling within the description in paragraph 1(d), the Scheme employer referred to in that paragraph;

(c) a person who—

(i) owns, or

(ii) controls the exercise of the functions of,

the admission body; or

(d) the Scottish Ministers in the case of an admission body—

(i) which is established by or under any enactment, and

(ii) where that enactment enables the Scottish Ministers to make financial provision for that admission body.

9. An admission agreement must include—

(a) provision for it to terminate if the admission body ceases to be such a body;

(b) a requirement that the admission body notify the administering authority of any matter which may affect its participation in the Scheme;

(c) a requirement that the admission body notify the administering authority of any actual or proposed change in its status, including a take-over, reconstruction or amalgamation, insolvency, winding up, receivership or liquidation and a material change to the body's business or constitution;

(d) a right for the administering authority to terminate the agreement in the event of—

(i) the insolvency, winding up or liquidation of the admission body,

(ii) a material breach by the admission body of any of its obligations under the admission agreement or these Regulations which has not been remedied within a reasonable time,

(iii) a failure by the admission body to pay any sums due to the fund within a reasonable period after receipt of a notice from the administering authority requiring it to do so.

10. An admission agreement must include a requirement that the admission body will not do anything to prejudice the status of the Scheme as a registered scheme.

11. When an administering authority makes an admission agreement it must make a copy of the agreement available for public inspection at its offices and must promptly inform the Scottish Ministers of—

(a) the date the agreement takes effect;

(b) the admission body's name; and

(c) the name of any Scheme employer that is party to the agreement.

12. Where an admission body is such a body by virtue of paragraph 1(d), an admission agreement must include—

(a) a requirement that only employees of the body who are employed in connection with the provision of the service or assets referred to in that sub-paragraph may be members of the Scheme;

(b) details of the contract, other arrangement or statutory provision by which the body met the requirements of that sub-paragraph;

(c) a provision whereby the Scheme employer referred to in that sub-paragraph may set off against any payments due to the body, an amount equal to any overdue employer and employee contributions and other payments (including interest) due from the body under these Regulations;

(d) a provision requiring the admission body to keep under assessment, to the satisfaction of the bodies mentioned in paragraph 6, the level of risk arising as a result of the matters mentioned in that paragraph;

(e) a provision requiring copies of notifications due to the administering authority under paragraph 9(b) or (c) to be given to the Scheme employer referred to in that sub-paragraph; and

(f) a provision requiring the Scheme employer referred to in that sub-paragraph to make a copy of the admission agreement available for public inspection at its offices.

13. Where an admission body of the description in paragraph 1(d) undertakes to meet the requirements of these Regulations, the appropriate administering authority must admit to the Scheme the eligible employees of that body.

Appendix II

Special circumstances where revised actuarial valuations and certificates must be obtained

62.—(1) If a person—

(a) ceases to be a Scheme employer (including ceasing to be an admission body participating in the Scheme), or

(b) was a Scheme employer, but no longer has an active member contributing to a fund,

that person becomes "an exiting employer" for the purposes of this regulation and is liable to pay an exit payment.

(2) When a person becomes an exiting employer, the appropriate administering authority must obtain—

(a) an actuarial valuation as at the exit date of the liabilities of the fund in respect of benefits in respect of the exiting employer's current and former employees; and

(b) a revised rates and adjustments certificate showing the exit payment due from the exiting employer in respect of those benefits.

(3) Where for any reason it is not possible to obtain all or part of the exit payment due from the exiting employer, or from an insurer, or any person providing an indemnity, bond or guarantee on behalf of the exiting employer, the administering authority must obtain a further revision of any rates and adjustments certificate for the fund showing—

(a) in the case where a body is an admission body falling within paragraph 1(d) of Part 2 of Schedule 2 to these Regulations (Scheme employers: bodies providing services as a result of transfer of a service), the revised contribution due from the body which is the related employer in relation to that admission body; and

(b) in any other case, the revised contributions due from each Scheme employer which contributes to the fund,

with a view to providing that assets equivalent to the exit payment due from the exiting employer are provided to the fund over such period of time as the administering authority considers reasonable.

(4) Where in the opinion of an administering authority there are circumstances which make it likely that a Scheme employer (including an admission body) will become an exiting employer, the administering authority may obtain from an actuary a certificate specifying the percentage or amount by which, in the actuary's opinion—

(a) the contribution at the primary rate should be adjusted; or

(b) any prior secondary rate adjustment should be increased or reduced, with a view to providing that assets equivalent to the exit payment that will be due from the Scheme employer are provided to the fund by the likely exit date or, where the Scheme employer is unable to meet that liability by that date, over such period of time thereafter as the administering authority considers reasonable.

(5) When an exiting employer has paid an exit payment into the appropriate fund, no further payments are due from that employer in respect of any liabilities relating to the benefits in respect of any current or former employees of that employer as a result of these Regulations.

(6) Paragraph (7) applies where—

(a) a Scheme employer agrees to pay increased contributions to meet the cost of an award of additional pension under regulation 30 (award of additional pension); or

(b) it appears likely to an administering authority that the amount of the liabilities arising or likely to arise in respect of members in employment with a Scheme employer exceeds the amount specified, or likely as a result of the assumptions stated, for that authority, in a rates and adjustments certificate by virtue of regulation 60(8) (actuarial valuations of pension funds: assumptions).

(7) The administering authority must obtain a revision of the rates and adjustments certificate concerned, showing the resulting changes as respects that Scheme employer.

(8) For the purposes of this regulation—

"exiting employer" means an employer of any of the descriptions specified in paragraph (1);

"exit payment" means the assets required to be paid by the exiting employer over such period of time as the administering authority considers reasonable, to meet the liabilities specified in paragraph (2);

"exit date" means the date on which the employer becomes an exiting employer; and

"related employer" means any Scheme employer or other such contracting body which is a party to the admission agreement (other than an administering authority in its role as an administering authority).

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18 October 2017

Claire Mullen
Employer Relationship Manager
North East Scotland Pension Fund
Corporate Governance
Business Hub 16
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Dear Claire

I am writing on behalf of Aberdeenshire Council to formally request the admission of employees of Aberdeenshire Sport and Culture Ltd (ACS Ltd) to the North East Scotland Pension Fund with effect from 1 April 2018. ACS Ltd is created as a wholly owned Charitable Trust ("Trust") of Aberdeenshire Council.

Yours sincerely

Maria Walker
Director of Education & Children's Services

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	PROCUREMENT OF PENSION ADMINISTRATION SOFTWARE
REPORT NUMBER	PC/DEC17/ADMIN
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	MAIRI SUTTIE

1. PURPOSE OF REPORT:-

1.1 To secure approval to enter into a new contract with Aquila Heywood (‘Heywood’) for the provision of pension administration software to the North East Scotland Pension Funds (NESPF).

2. RECOMMENDATION

2.1 It is recommended that the Committee:

i. Approve the award of a new contract with Heywood as the supplier of pensions administration software, using the Northumberland County Council Framework for a 10 year term.

3. BACKGROUND/MAIN ISSUES

3.1 The administering authority has a statutory responsibility to ensure proper administration of the Local Government Pension Scheme (LGPS).

3.2 Recent years have seen a series of legislative changes to LGPS rules, making the service significantly more complex to administer, such that it is now considered a highly specialised function. It is expected that scheme administration will only continue to become more complex as time goes by.

3.3 The procurement for Pension Administration software was last awarded to Heywood, as a five year contract with effect from 1 April 2011 following a full EJOU tender. After seeking appropriate advice from Procurement Services, the Pensions Committee approved a continuation of this contract for a further two years on 11 March 2016. The existing contractual arrangements are due to expire in 2018.

3.4 NESPF is currently contracted for the following Heywood modules and services:

- Altair LGPS (Workflow & Pension Reform)
- Image
- MSS
- Employer Services
- Pensioner Payroll and Immediate Payments
- Hosting
- I-Connect (managed under a separate agreement)
- GMP Reconciliation

3.5 Altair, Heywood & the CLASS group

3.5.1 Altair LGPS is a comprehensive, award winning pensions administration platform developed specifically for Local Government Pension Schemes by Heywood. The Pension Fund has been using the latest pension's administration platform, Altair, since 2011.

3.5.2 In recent years Heywood have demonstrated their extensive experience and knowledge of pension's administration by successfully developing their system to implement legislative change in a timely and comprehensive way. For example, by facilitating the change to CARE and complying with new governance arrangements.

3.5.3 Work has already been completed to deliver 2018 requirements to record transactional data for reporting to the Government Actuaries Department (GAD) from 1 April and is ongoing for complying with the General Data Protection Regulation from 18 May.

3.5.4 The Computerised Local Authority Superannuation System (CLASS) was established in 1975 when a number of administering authorities got together with a single supplier (Heywood) to computerize their pension records.

3.5.5 NESPF joined the group in 1980 and currently all 11 Scottish administering authorities are members and use Altair along with NILGOSC (Northern Ireland LGPS) and the majority of English and Welsh authorities.

3.5.6 The 11 Scottish authorities form one of the 6 regional user groups that meet twice a year, with NESPF chairing the Scottish Group until 2019. The 6 Chairpersons make up a management team that meets regularly with Heywood to ensure Altair is developed to deliver the requirements of the LGPS.

3.6 Framework Agreement

3.6.1 Northumberland County Council established a Framework Agreement as part of a major procurement exercise that was completed according to EU and other procurement legislation. Heywood was appointed as the single supplier under the Framework. The Framework Agreement is available for use by all UK contracting authorities.

3.6.2 The Northumberland Framework provides the most appropriate approach to establishing new contractual arrangements for the future. The use of a single supplier framework should mitigate the risks associated with carrying out a long and resource intensive EJOU procurement process whilst providing service continuity with Heywood (as our existing provider). The Fund continues to enjoy an excellent working relationship with Heywood to the benefit of both members and employers through ongoing service improvements such as Member Self Service (MSS) and secure electronic data provision for employers using I-Connect.

3.6.3 In accordance with the Framework and on the advice of Procurement Services, the Pension Fund sought quotations directly from Heywood for contract lengths of 3, 5 and 10 years to seek out the most efficient and effective contact term.

3.7 Heywood Contract Proposal Terms

3.7.1 Heywood was unable to provide a quote for 3 years as it sits out with their normal contract terms. However their proposal for either 5 or 10 years was as follows:

- NESPF remain on the current software and services
- Heywood waive the initial licence fee for Altair in full – a saving of circa £0.5m
- Support and Maintenance and hosting fees continue at a reduced rate for the contract term (on the basis that Employer Services is no longer required).

3.7.2 Heywood's proposal also incorporates future proofing for the Fund. In terms of hosting Heywood will honour the existing pricing for the hosting service for the current 30 users. They will further increase the number of licensed users of the Altair system from 30 to 40 (at a discounted rate of £3,000 per user for users 31-35 with no additional charge for users 36-40). Furthermore, Heywood will increase the price banding from 65,000 members to 80,000 members at no further charge. Current membership for the NESPF sits at 62,915.

3.7.3 Fund Officers agree the proposal represents good value for money and recommend the Committee approves the contract with Heywood based on a 10 year term.

4. FINANCIAL IMPLICATIONS

4.1 The North East Scotland Pension Fund will meet the cost of the benefits administration software.

4.2 Due to the specialisation of pensions administration there is currently little competition so significant time and effort could be undertaken for potentially little realistic chance of driving out further value. By retaining the same service provider the Fund will avoid additional, possibly sizeable, data migration or data cleansing costs.

4.3 Based on the proposal terms from Heywood the main costs are summarised as follows:

- **£154,997 per annum** for Support and Maintenance Costs for Altair LGPS, Workflow, Image, MSS, Pensioner Payroll and Immediate Payments module. The initial licence fee being waived to the approximate value of £0.5m.
- **£97,949 per annum** hosting fees (based on current fee for 30 users), with an additional discounted fee of £3,000 per user from 31-35 and no further fee for users 36-40.
- **£1,000** payable to Northumberland for use of the Framework.
- **£11,907** (approximate) for GMP Reconciliation Tool based on 23,334 active members.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendations of this report.

6. MANAGEMENT OF RISK

6.1 Officers will manage the risk associated with procurement through the Funds Risk Register.

7. IMPACT SECTION

7.1 The administering authority is required to meet their statutory scheme duties. If sufficient resources are not provided there are potentially a number of negative outcomes such as non-compliance with requirements of the Pensions Regulator, LGPS and other pensions legislation, inability to make pension payments or the correct payments and failure to provide accurate data for valuation assumptions which could lead to increased employer contributions.

8. BACKGROUND PAPERS

8.1 None

9. APPENDICES

9.1 None

10. REPORT AUTHOR DETAILS

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