

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	13 SEPTEMBER 2019
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/SEPT19/STRAT
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TERMS OF REFERENCE	PENSIONS COMMITTEE 1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Review and approve changes made to the Investment Policy, to meet requirements set out in recent internal audit report AC1923, to document reporting requirements and management of underperforming fund managers (item 3.9.5);
- 2.2 Approve the amendments to the Pension Fund Authorised Signatory List as noted in Appendix II; and
- 2.3 Authorise the Chief Officer – Governance, following consultation with the Chief Officer – Finance, to make amendments to the Authorised Signatory List as required by changes in personnel subject to the positions as listed remaining the same.

3. BACKGROUND

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

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

3.2 The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

3.3 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 (<http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>) and email.

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

3.5 INVESTMENT

3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

3.5.2 **Local Authority Pension Fund Forum (LAPFF)**

Copies of the latest e-bulletins, quarterly engagement and annual reports are available at <http://www.lapfforum.org>

3.5.3 **Firstbus Merger/Buy-in – verbal update**

A progress update will be provided to the Committee on the Firstbus merger/buy-in (Project Dallas)

3.6 ACCOUNTING

3.6.1 *Audited Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Annual Report & Accounts*

Budget/Forecast 2019/20 Report

Separate Reports, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **McCloud Judgement**

3.7.1.1 The McCloud case concerned the transitional protections given to scheme members in the Judges and Firefighters schemes, who in 2012 were within 10 years of their Normal Retirement Age (NRA), as part of the public service pensions reform in 2015. Tapered protections were provided for those 3-4 years younger. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

3.7.1.2 These transitional protections were applied to members within 10 years of NRA in all public service schemes, including the LGPS, although the form of the protections varied across the schemes. It's anticipated the outcome of the case will be accepted as applying to all public service schemes. Unlike other public service schemes the LGPS moved all members into the CARE scheme in 2015, regardless of their age. However those active members within 10 years of their 2009 scheme NRA on 31 March 2012 were protected via a 'statutory underpin'. Protected members who meet the criteria for the underpin to apply, will receive the better of their CARE pension or the pension calculated under 2009 scheme rules.

3.7.1.3 The Supreme Court denied the Government's request to appeal the McCloud/Sargeant ruling on 27 June 2019. The impact of this decision on the LGPS is currently unknown, but what it confirms is that the transitional pension protections afforded to older members of the Fire and Judiciary Scheme, as part of the 2015 pensions reforms, constituted unlawful age discrimination.

3.7.1.4 Given the ruling, those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The matter has been referred back to the Employment Tribunal for a remedy but due to workload an outcome is not expected for some time. Further updates will be provided to Committee on the possible implications for the Scheme as they become available.

3.7.2 **LGPS Regulations**

3.7.2.1 The Scottish LGPS Fund's have been advised of further delays in the laying of the Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2019. SPPA have provided assurances that they will be introduced by October 2019 (PC/MAR19/GMP).

3.7.2.2 The LGPS (Miscellaneous Amendments)(Scotland) Regulations 2019 came into force on 28 June 2019, with some amendments being back dated to 1 April 2015. These Regulations provide that the entitlement to retire after reaching the age of 55 also applies to deferred pensioner members and also amend the requirements for co-habiting partner pensions in the scheme. This information

was communicated to deferred members through the annual benefit statements letters and despite signposting to Member Self Service, the benefit administration team now have a large number of age 55 estimate requests to work through.

3.7.2.3 To correct two minor drafting errors in the above, the LGPS (Miscellaneous Amendments)(Scotland) Amendment Regulations 2019 also came into force on 28 June, with backdated effect to 1 June.

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

Copies of the latest bulletins and meetings available at <http://lgpsab.scot>.

3.9.2 **Accommodation update**

Separate report, provided

3.9.3 **Pension Fund Annual Benefit Statements**

3.9.3.1 The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31 August each year.

3.9.3.2 In line with our move towards digital communication, deferred benefit statements moved online last year (17/18) and active benefit statements followed this year (18/19). Paper statements are no longer posted out to members unless they contact the Fund to 'opt in' to continue to receive paper copies. To meet disclosure requirements, letters were sent out to deferred members to provide 'activation keys' for those members not already registered with My Pension (MSS online facility) or to advise their statement is now available online. As at June 2019, 5,476 deferred members were registered for MSS.

3.9.3.3 Benefit Statement data was generated against 17,925 deferred records, with no reported errors, and letters subsequently issued to members on 12 July. In addition, paper statements were issued on request to approximately 350 deferred members from 16 July.

3.9.3.4 During last year's exercise, we identified an issue with 'gone away' deferred members. 'Gone Away's' are members for whom we no longer hold an up to date address on the administration system (approximately 1,141 unique members). Committee approved a Data Quality Improvement Plan' in March

2019 (PC/MAR19/STRAT) which included address tracing. In line with this plan, a bulk tracing exercise for all gone away members will be carried out every three years using an external tracing provider. In addition, a mortality check will be carried out against 'gone away's' annually using the National Fraud Initiative and ATMOS Data Services on alternate years to identify any deceased members. For any 'gone away' deferred members reaching age 55, an individual trace will be carried out through the DWP tracing service. These members will be identified through monthly reports.

3.9.3.5 A final update on the active member statements will be provided to the next meeting. However these are on course to be generated early August, with notification/activation key letters to members following mid month by post.

3.9.4 Pension Fund staffing Update

3.9.4.1 Following a successful external recruitment process, an Assistant Pensions Officer joined the employer relationship team in June, bringing the team up to full complement.

3.9.4.2 Interviews for a new Trainee Pensions Officer-Benefit Administration were also carried out at the end of June. A preferred candidate was selected and will be taking up position on 12 August.

3.9.4.3 In terms of the 4 new posts approved by Committee in March 2019 (PC/MAR19/STRAT), work is ongoing to finalise the business cases and update staff job profiles to progress with the recruitment process.

3.9.5 Document Review

The Investment Policy document has been updated (see section 'Monitoring and Review') to address recommendations made by Internal Audit in their recent Governance Report (IA/AC1923) which was taken to the June Committee meeting, specifically 2.5.1 and 2.5.2 on performance reporting and underperformance by fund managers.

A copy is available on the secure trustee area of the NESPF website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>

3.9.6 Authorised Signatory List

An amendment to the signatory list is attached at Appendix II for approval, to take effect from 1 October 2019.

The signatory list has been amended to account for changes in personnel within Legal Services. As some of these changes are on an interim basis, it is recommended that the Committee authorise the Chief Officer – Governance, following consultation with the Chief Officer – Finance, to make future amendments to the Authorised Signatory List as required by future changes to the personnel on the list as long as the job positions remain the same.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Year end process

3.10.1.1 All Scheme employers are required to submit an annual year end data return by 30 April. The year end process for 2018/19 was completed in just 23 days (down from 32 days in 2017/18).

3.10.1.2 The Fund continues to expand its online data exchange services, with all employers required to submit electronic monthly submissions. Monthly processing has a number of benefits for the Fund, one of which is significantly reducing time and resource drain at 'year end time'. To provide a more accurate overall picture, going forward, the employer relationship team will now record reconciliation time on a monthly basis.

3.11 Employer Discretions

3.11.1 Following enactment of the LGPS (Scotland) Amendment Regulations, the Fund will be prompting the administering authority and scheme employers to review their current discretions policies. An update will be provided to a future meeting.

3.11.2 As per regulation 58, a scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under regulations 16(2)(e) and 16(4)(d) (Funding of Additional Pension), 29(7)(Flexible Retirement), 29(9) Waiving of Actuarial Reduction) and 30 (Award of Additional Pension). In addition, there are number of discretions applicable to Aberdeen City Council as the administering authority of the Pension Fund.

3.11.3 Under the LGPS (Scotland) Regulations, the scheme employer must provide a copy of their discretions policy to the Fund by 1st April 2015. NESPF currently hold 85% of policies for our scheme employers. A body required to prepare such a statement must keep its statement under review and following revision, send a copy to the administering authority.

3.12 Procurement of Actuarial Services

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 recommendation in 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 III, Copy of Risk Register (August 2019)

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 1 Report 2019/20
Appendix II, Amendment to Authorised Signatory List

Appendix III, Copy of Risk Register (August 2019)

11. REPORT AUTHOR CONTACT DETAILS

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