

## ABERDEEN CITY COUNCIL

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<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	29 September 2020
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Strategy
<b>REPORT NUMBER</b>	PC/SEPT20/STRAT
<b>DIRECTOR</b>	Steven Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Laura Colliss and Mairi Suttie
<b>TERMS OF REFERENCE</b>	1 to 5

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### 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. RECOMMENDATION

- 2.1 That the Committee note the work undertaken to review and update the scheme policy documents to ensure continuing compliance with LGPS regulations (as per item 3.9.7)

### 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>).
- 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 *Procurement of Investment Consultancy Services*

*Separate report, provided*

#### 3.5.3 **Local Authority Pension Fund Forum (LAPFF)**

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

### 3.6 **ACCOUNTING**

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

*Budget/Forecast 2020/21 Report*

*Separate Reports, provided*

### 3.7 **BENEFIT ADMINISTRATION**

#### 3.7.1 **Scottish Public Pensions Agency Consultation**

3.7.1.1 The Scottish Public Pensions Agency (SPPA) are seeking views on changes to the Local Government Pension Scheme (LGPS) in Scotland. Changes are proposed to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements.

3.7.1.2 The proposed changes remove the condition requiring a member to have been within 10 years of their Normal Pension Age on 1 April 2012 to be eligible for underpin protection.

3.7.1.3 The consultation will run until 31 October 2020. The accompanying documentation can be found at <https://pensions.gov.scot/local-government/scheme-governance-and-legislation/consultations>

3.7.1.4 Pension Fund officers will prepare and submit a response to the consultation. A copy of which will be provided to the next Committee meeting.

#### 3.7.2 **Visit Scotland**

3.7.2.1 As a result of the desire of Visit Scotland to consolidate its liabilities and avoid costly termination fees from all Funds within the Scottish LGPS they have applied for a SPPA direction to transfer assets and liabilities to Lothian Pension

Fund, the receiving Fund of all their new joiners. As part of this large project all member records will transfer from NESPF with effect from September 2020, with Lothian being responsible for all administration following in early September and making the first pension payment from 15 October 2020. The assets will be transferred by March 2021 following completion of the transfer of liabilities from all other Funds.

3.7.2.2 The merge of employer liabilities for Visit Scotland is in line with LGPS (Scotland) regulations and is being carried out in collaboration with the system providers, scheme actuaries and the receiving scheme. This is the preferred approach for NESPF, offering the employer a risk free extract from the Fund whilst protecting the remaining participating employers.

### 3.8 **TECHNICAL**

3.8.1 Performance reporting is provided on a quarterly basis. An additional report has been prepared to further document the impact of COVID-19 on the Fund's ability to meet its statutory requirements.

*Appendix I, Pensions Administration Strategy Update*

*Appendix II, Impact Assessment of COVID-19 on PAS performance*

### 3.9 **GOVERNANCE**

#### 3.9.1 **Scheme Advisory Board**

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

#### 3.9.2 **Pension Fund Annual Benefit Statements**

3.9.2.1 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.

3.9.2.2 In line with our move towards increased digital communication, both deferred and active statements were issued online for 19/20. 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 members to provide 'activation keys' where they were not already registered with My Pension (MSS online facility). As at June 2020 6,075 deferred members were registered for MSS. Members registered for MSS receive an email notification advising them their statement is available to view online.

3.9.3.3 Benefit Statement data was generated against 17,505 deferred records, with no reported errors, and letters subsequently issued to members on 24 July. In addition, paper statements were issued on request to approximately 397 deferred members from 3 August.

3.9.3.4 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.

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 mid-August along with email notifications and letters following towards the end of the month by post for those members not registered for MSS or who have requested paper statements.

#### **3.9.4 Breaches of Law**

3.9.4.1 A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 27 new breaches of law recorded in the NESPF Breaches Register during 19/20. The majority were scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions.

3.9.4.2 The Pension Fund will continue to engage with scheme employers during 20/21 and build on the training and support already provided.

3.9.4.3 Following assessment none of the above breaches were deemed to be of 'material significance' to require reporting to the Pensions Regulator.

3.9.4.4 In line with the General Data Protection Regulation and the Data Protection Act 2018, certain personal data breaches must now be reported to the Information Commissioners' Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 19/20.

#### **3.9.5 Pension Fund Staff Training 2019/20**

3.9.5.1 The Fund had 2 Trainee Pensions Officers during the 19/20 year, one in year 1 and the other in year 2. On successful completion of the 2<sup>nd</sup> year exams, a TPO will progress to become a fully qualified Pensions Officer.

3.9.5.2 Pensions Staff continued to pursue individual training throughout the year as agreed as part of the new Continuous Review and Development (CR&D) process. All staff successfully completed their annual refresher training in relation to Information Governance.

#### **3.9.6 Pension Board Annual Report**

The Pension Board Annual report 2019/20 was agreed by Pension Board members. As part of the process, members were required to nominate and appoint a new Chair and Vice Chair for 2020/21. Councillor McKelvie

(employer) was appointed as Chair with Neil Stirling (member) acting as Vice Chair.

*Appendix III, Pension Board Annual Report 19/20*

### **3.9.7 Annual Documentation Review**

3.9.7.1 Following the completion of the rebranding exercise, the policy documents have all been updated to incorporate the new NESPF logo and branding guidelines. A full review is now underway, with the following policies revisions made to date:

- **Statement of Investment Principles**  
*Increase to headroom limits in respect of 'all contribution to partnerships'.*
- **Breaches of Law Policy**
- **Conflicts of Interest Policy**
- **Communications Policy**
- **Corporate Governance & SRI Policy**
- **Data Protection Policy**
- **Employer Engagement Policy**
- **Nomination and Appointment Process**  
*Minor structure and content changes e.g. supporting procedures section*
- **Record Keeping Policy**  
*Minor structure and content changes including reference to publishing training attendance and approval of Data Quality Improvement Plan.*

Copies are available online at [www.nespf.org.uk](http://www.nespf.org.uk) in the secure trustee area.

### **3.9.8 Pensions Committee and Board Training**

*Separate report, provided*

### **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 process for reconciliation of the data supplied for year end 2019/20 was completed by the Employer Relationship Team in 24 days (up from 23 in 2018/19). Year end processing increased primarily due to the COVID precautions but was also impacted due to delays in receiving monthly data from Aberdeen City Council during 2019/20 which were previously highlighted to Committee as part of the PAS reporting.

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 the employer relationship team now record reconciliation time on a monthly basis. On average the ERT spend 5.5 days per month on reconciliation.

### **3.10.2 Data Quality**

3.10.2.1 As part of the NESPF data quality improvement plan the Fund have entered into a three year contract with our system provider to use their Data Quality Analysis Tool. For year two of the contact, all data held by the Fund on the member database was analysed as at June 2020 and the results were made available in mid-July.

3.10.2.2 The score in relation to the Common Data held for members was 98.3% which is the same score that was published for 2019. A tracing exercise is planned for later in 2020 to gather data in respect of 'gone away' members which will improve the score from this already desirably high figure. The Scheme Specific Data improved by 1% from the figure published in 2019 of 97.3% to 98.3%. This improved score reflects the work of the Fund to amend historical data in line with the previous year's report and the continued effort to reconcile and check the monthly data being received into the Fund.

3.10.2.3 Both scores will be provided to the Pensions Regulator as part of the annual scheme return which will be completed in September. Work continues by all teams to improve the scores further on an annual basis.

### **3.10.3 Valuation**

3.10.3.1 Preliminary discussions have taken place with the scheme actuary, Mercer, around the approach for the triennial valuation as at 31 March 2020. These early discussions revolve around the assumptions that will be used for the valuation calculations and in particular the assumed rate of asset returns, that will be used for determining the discount rate, which has a significant impact on both the funding levels and the contribution requirements for employers.

3.10.3.2 The Fund takes direction around the assumptions from the scheme actuary as it is essential that they are comfortable with the level of prudence and certainty of the results, ensuring that the Fund solvency and contribution stability is maintained from valuation to valuation. However the Fund is also carrying out investigations around the appropriateness of the suggested assumptions to ensure that they accurately reflect market expectations in relation to the assets held. Discussions will continue to ensure that both parties are in accordance with one another in advance of the results, development of the Investment Strategy and Funding Strategy Statement being issued to employers for consultation.

3.10.3.3 The data for the valuation calculations has now been sent to Mercer to allow them to carry out their actual calculations. Preliminary results will be available by mid-October giving the team plenty of time to begin discussions with participating employers around the suggested contribution rate requirements and affordability. The valuation is due to be completed and signed off by 31 March 2021.

3.10.3.4 Further details of the valuation process, assumptions and preliminary results will be available to Committee in December.

#### **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 a number of legal implications arising from implementation of the strategy which have been identified and addressed as set out in this report.

#### **6. MANAGEMENT OF RISK**

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

*Appendix IV, Copy of Risk Register (August 2020)*

#### **7. OUTCOMES**

7.1 The proposals in this report have no impact on the Council Delivery Plan.

#### **8. IMPACT ASSESSMENTS**

<b>Assessment</b>	<b>Outcome</b>
<b>Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required

#### **9. BACKGROUND PAPERS**

None

#### **10. APPENDICES**

Appendix I, PAS Update  
Appendix II, Impact Assessment of COVID-19 on PAS performance  
Appendix III, Pension Board Annual Report 19/20  
Appendix IV, Copy of Risk Register (August 2020)

## 11. REPORT AUTHOR CONTACT DETAILS

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