

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	17 September 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/SEPT21/STRAT
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CHIEF OFFICER	Jonathan Belford
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TERMS OF REFERENCE	1-5

1. PURPOSE OF REPORT

- 1.1 To inform the Committee and provide recommendations (if applicable) 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 3.9.3)

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
 - Systems
 - 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 Investment Strategy Update Report*

Separate Reports, 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 **Investment Management Consultancy Services**

Following approval by Committee in September 2020 (PC/SEPT20/CONS) the Fund began the tender process for a single provider to provide services under all three Lots on the LGPS Framework for investment consultancy services, search/selection/monitoring services and investment management consultancy related specialist services. This process has finally concluded with ISIO, our current provider, successfully being awarded the contract.

3.6 **ACCOUNTING**

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

Budget/Forecast 21/22 Report

Separate Reports provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Draft Amendments to The Local Government Pension Scheme (Scotland) Regulations 2018**

3.7.2 In 2015, the Local Government Pensions Scheme (LGPS) in Scotland underwent reform and all active members were moved into the new Career Average (CARE) scheme. Transitional protection was provided by means of a “statutory underpin”, providing protected members with the higher of their pension under the new CARE scheme and the pension they would have been entitled to under the previous final salary scheme. Benefits built up in the pre-2015 scheme were protected by a “final salary link”. In December 2018, the Court of Appeal ruled in the McCloud case that the transitional arrangements for Judges’ and Firefighters’ schemes introduced under the Public Service Pensions Act 2013 (PSPA 2013) constituted unlawful discrimination. In July 2019, the Government accepted that the discrimination would have to be remedied across all public service schemes including the LGPS.

3.7.3 Consultation followed on what form this remedy should take. For the LGPS the proposal was to extend the underpin protection to younger qualifying members who joined before 31 March 2012. From April 2022, all LGPS members would

then accrue benefits on a CARE basis without underpin protection, to apply a fairer system to all future service.

- 3.7.4 On 13 May 2021, the Government confirmed that underpin protection would apply to all LGPS members who met the revised qualifying criteria and further information is to follow in the published response to the consultation.
- 3.7.5 Scottish Ministers intend to make regulations to fully introduce the “underpin” changes for the Local Government Pension Scheme once the primary legislation is in force in 2022.
- 3.7.6 In the interim, the Scottish Public Pensions Agency (SPPA) intend to make changes in an amending instrument to clarify the calculation of the underpin to address the issue of wrongly calculated benefits. They will also provide further flexibilities for Funds dealing with exiting employers as a result of the recent consultation on deferred debt arrangements and recommendations from the Scottish Scheme Advisory Board (SAB).
- 3.7.7 The regulations will correct the method for calculating the underpin which currently does not take the actuarial reduction into consideration when comparing the two options. Some members who have since left the scheme will not be receiving the correct level of pension benefits and the benefit administration team will be required to recalculate affected pensions once the regulatory powers are put in place.
- 3.7.8 SPPA were anticipating consultation on the amending regulations in late June/early July but as at the date of writing this had not been published.

3.8 **SYSTEMS**

- 3.8.1 Performance reporting is provided on a quarterly basis.

Appendix I, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

Copies of the latest bulletins and meetings are 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 in 2020/21. 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 are sent out to members to provide “activation keys” where the member is not

already registered with My Pension (MSS online facility). As at June 2021 9,717 deferred members were registered for MSS. Members registered for MSS receive an email notification advising them their annual statement is available to view online.

3.9.2.3 Benefit statement data was generated against 17,946 deferred records, with one reported error and letters subsequently issued to members on 29 June. In addition, paper statements were issued on request to two deferred members on 1 July.

3.9.2.4 The Committee approved a Data Quality Improvement Plan in March 2019 (PC/MAR19/STRAT) which included address training. In line with the plan, a bulk tracing exercise for all “gone away” members i.e. those who we do not hold a current address for, 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 alternative 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.

3.9.2.5 A final update on the active member statements will be provided to the next meeting. However these are on course to be generated and email notifications issued on 12 August with letters following by post on the 23 August for those members not registered for MSS or who have requested paper statements.

3.9.3 Document Update

The following documents have been updated and are available in the secure member of the trustee area of the NESPF website:

- Communications Policy
- Investment Policy
- Corporate Governance & SRI Policy
- Employer Engagement Policy
- Record Keeping Policy
- Reporting Breaches of Law
- Data Protection Policy

Copies of these documents are available on the secure area of the trustee area of the website. The Investment Policy and Corporate Governance & SRI Policy have both been updated following completion of the tri-ennial valuation and approval of the revised Statement of Investment Principles. Both the Communications and Employer Engagement Policies have been updated to reflect ongoing operating practices due to the impact of COVID-19 and homeworking. The final three documents have been updated to reflect changes to data protection terms following Brexit.

3.9.4 Pension Board Annual Report

The Pension Board Annual Report 2020/21 was agreed by Pension Board members at their meeting 25 June 2021. As part of the process, members were

required to nominate and appoint a new Chair and Vice Chair for 2021/22. These posts need to be rotated annually under the regulations. Neil Stirling (member) was appointed as Chair with Councillor McKelvie (employer) acting as Vice Chair.

Appendix II, Pension Board Annual Report 2020/21

3.9.5 CIPFA Knowledge and Skills Framework

A Knowledge and Skills Framework was developed by CIPFA (The Chartered Institute of Public Finance & Accountancy) in 2010. This was formally adopted by the Pension Fund and shapes our Training Policy.

An updated Code of Practice and Knowledge and Skills Framework was published by CIPFA in 2021. This applies to Pensions Committee members as well as Senior Officers. A separate framework exists for Pension Board members. CIPFA have identified eight core technical areas where appropriate knowledge and skills should be achieved and maintained:

- Pensions legislation and guidance
- Pensions governance
- Funding strategy and actuarial methods
- Pensions administration and communications
- Pensions financial strategy, management, accounting, reporting and audit standards
- Investment strategy, asset allocation, pooling, performance and risk management
- Financial markets and products
- Pension services procurement, contract management and relationship management

Copies of these documents will be published in the secure trustee area of the NESPF website and reflected in an updated Training Policy.

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 20/21 was completed in 31 days (up from 24 days in 19/20). Year end processing increased primarily due to the COVID/homeworking environment.

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 the 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 spent on average 7 days per month on reconciliation.

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

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy	L	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.
Compliance	N/A	N/A	N/A
Operational	N/A	N/A	N/A
Financial	N/A	N/A	N/A
Reputational	N/A	N/A	N/A
Environment / Climate	N/A	N/A	N/A

Appendix III, Copy of Risk Register (August 2021)

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update
Appendix II, Pension Board Annual Report 2020/21
Appendix III, Copy of Risk Register (August 2021)

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