

ABERDEEN CITY COUNCIL

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COMMITTEE	Council
DATE	9 February 2012
DIRECTOR	Stewart Carruth (Director of Corporate Governance)
TITLE OF REPORT	North East Scotland Pension Fund 2012/13
REPORT NUMBER:	CG12/012

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1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2012/13 General Fund budget that relates to the North East Scotland Pension Fund (NESPF).
- 1.2 This cost is based on Aberdeen City Council's statutory obligation to administer the scheme, the costs of which are met by the NESPF.

2. RECOMMENDATION(S)

- 2.1 It is recommended that Council:
- a) notes the provision contained within the Councils General Fund budget for 2012/13; and
  - b) instruct the Head of Finance to recover the actual costs from the NESPF.

3. FINANCIAL IMPLICATIONS

- 3.1 This report outlines the costs that the City Council incurs in acting as the administering authority for the Fund. These costs are recovered from the NESPF.

4. OTHER IMPLICATIONS

None.

5. BACKGROUND/MAIN ISSUES

FUND STRUCTURE

- 5.1 The North East Scotland Pension Fund (The Main Fund) and the Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations.

- 5.2 The Scheme was established under the Superannuation Fund Act 1972; it is a statutory scheme and is contracted out of the Second State Pension. The scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers).
- 5.3 Employees of admitted bodies can join the scheme subject to their individual admission criteria which are out with the control of Aberdeen City Council and administered by the NESPF.

#### SCHEME GOVERNANCE

- 5.4 Aberdeen City Council as the administering authority for the Pension Fund, delegates all pensions scheme matters to the Pensions Panel who have delegated powers. Support for the Pension Panel in investment matters is provided by the Joint Investment Advisory Committee. Detail of these roles is included in the Fund Governance Statement which is attached as Appendix 1 to this report. Support to both committees is provided by the Head of Finance of Aberdeen City Council.

#### KEY FACTS

##### 5.5 Key Facts as at 31 March 2011

- 5.5.1 The Fund has nearly 50,000 members and 57 scheme employers.
- 5.5.2 There are three main categories of membership, comprising of actively contributing members (21,300), members who have left employment but who have a deferred entitlement (13,800) and members in receipt of pensions (14,900).
- 5.5.3 A diversified portfolio of assets amounting to £2.2bn is managed externally by a number of appointed fund managers.
- 5.5.4 Total pension contributions in 2010/11 were £124m, comprising employer contributions of £98m and employee contributions of £26m.
- 5.5.5 The fund made payments to retired members during 2010/11 amounting to £68m. During the same period a total of £25m of lump sum payments were also made.
- 5.5.6 In operating the Fund the appointed actuary will examine the level of future commitments against the value (and future value) of the Fund. This calculation is known as the "funding position".
- 5.5.7 The funding position shows the Funds ability to meet its future liabilities such that a 100% funded scheme has the financial resources to meet its future commitments.
- 5.5.8 This is based on a number of assumptions that takes into account a range of factors including age profile, mortality rates etc. As such the

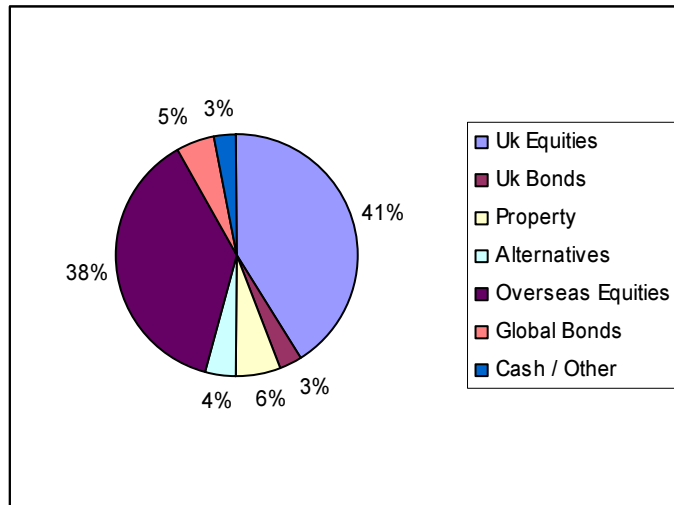
level the scheme is funded to will by its nature vary. The actuary will therefore set the employer contribution rate based around this. At present the NESPF has an estimated funding position of 89%. However, there is no current expectation that the employer rate will change for 2012/13.

## KEY ACHIEVEMENTS

### 5.6 Key Achievements 2011/12

- 5.6.1 New accounting and governance requirements saw the Fund publish its first Annual Report and Accounts separately from the accounts of Aberdeen City Council who acted as the Administering Authority for the financial year 2010/11.
- 5.6.2 The Pension Fund has produced an Annual Review of its performance and activities for the last 10 years. With effect from March 2011 the report became statutory with requirements to confirm the Fund's compliance with good Governance Practice and a management report explaining the Fund's overall investment performance. The main fund outperformed its customised benchmark over the year with a return of 10.64% versus the benchmark return of 8.49%.
- 5.6.3 The Fund was nominated for the second year running in the Large Fund category of the Professional Pensions Scheme Awards. The awards recognise high standards of service delivery to members, use of technology and overall investment performance.
- 5.6.4 The Fund continues to recognise its role as a shareholder in terms of Corporate Governance and Responsible Investment as a signatory to the United Nations Principles for Responsible Investment and membership of the Local Authority Pension Fund Forum where the Convener of the City Council Pensions Panel is a member of the Executive Committee.
- 5.6.4 Officers continued to work with the Fund's global custodian over the year to enhance the quality of information provided to Elected Members, via the Pensions Panel in terms of investment performance measurement and governance by the custodian.
- 5.6.5 The asset allocation of the Main Fund continues the Fund's commitment to invest in longer term performing assets such as UK & Overseas equities. The following diagram shows the allocation of assets as at 31 March 2011 as per the NESFP annual review 2011.

**Asset allocation - Main Fund as at 31 March 2011**



**2012/13 BUDGET**

5.7 The budget for Aberdeen City Council for 2012/13 is estimated at £1.4m and primarily relates to direct staff costs.

<b>Budget</b>	<b>£000's</b>	<b>Cost areas</b>
Salary costs	1,186	Direct salaries and costs for the management of the Fund
Corporate Governance Support Costs	200	Property, ICT, Payroll, Legal, Human Resources, Accounting Services
<b>Total estimate recharge</b>	<b>1,386</b>	

**GOVERNANCE**

5.8 The Pension Fund budgeted 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 Panel on a 6 monthly basis.

**6. IMPACT**

6.1 The Pension Fund budget promotes accountability and gives reassurance to the stakeholders in the Pension Fund. This report ensures transparency in costs from the administrator of the fund.

**7. BACKGROUND PAPERS**

Fund Governance Statement  
 North East Scotland Pension Fund Annual Review 2010/2011  
 Annual Accounts

8. REPORT AUTHOR DETAILS

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