

ABERDEEN CITY COUNCIL

COMMITTEE	Finance & Resources
DATE	6 December 2012
DIRECTOR	Stewart Carruth (Director of Corporate Governance)
TITLE OF REPORT	North East Scotland Pension Fund 2013/14 and indicative 2014/15 - 2017/18 Budget
REPORT NUMBER:	CG/12/1022

1. **PURPOSE OF REPORT**

- 1.1 The purpose of this report is to provide the Committee with details of the budget included in the 2013/14 General Fund budget that relates to the North East Scotland Pension Fund (NESPF) and an indicative 2014/15 -2017/18 Budget.
- 1.2 This cost is based on Aberdeen City Council's statutory obligation to administer the scheme, the costs of which are fully met by the NESPF.

2. **RECOMMENDATION(S)**

- 2.1 It is recommended that Committee:
 - a) notes the provision contained within the Councils General Fund budget for 2013/14,
 - b) notes the 2014/15 -2017/18 indicative budget,
 - c) instruct the Head of Finance to recover the actual costs from the NESPF, and
 - d) instruct the Head of Finance to draw up a Service Level Agreement (SLA) and report back to the relevant Committees.

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.
- 3.2 In recovering these costs a great deal of staff time is required both during the year end and at the year end to calculate and evidence the level of actual costs incurred both from the Council and the NESPF.

- 3.3 This is an inefficient use of staff time and could lead to cost variances during the year and increases the level of uncertainty of financial reporting during the year.
- 3.4 To streamline this process it is recommended that a Service Level Agreement is prepared and agreed between the Council and the NESPF which will:
- detail the level of service to be provided by the Council;
 - provide details of the standard of work the NESPF can expect;
 - clearly articulate the cost to the NESPF for these services; and
 - demonstrate greater accountability and Best Value.
- 3.5 Once this exercise is completed it will be reported to the relevant Committees for both parties before being signed off and implemented.

4. OTHER IMPLICATIONS

- 4.1 The Government is in the process of introducing a range of workplace pension reforms in light of people living longer and therefore likely to enjoy longer retirements. One of the key reforms is the introduction of legislation on Auto-enrolment, implemented from 1 October 2012 on a phased basis. This is part of the policy of the Government to encourage people to save more for retirement.
- 4.2 Auto-enrolment will place a duty on employers to automatically enroll all eligible job holders into a qualifying pension scheme and inform them that they have done so.
- 4.3 The financial implications of Auto-enrolment for the Council are likely to be the incurrance of extra on-costs in the form of employer pension contributions, as a result of more employees and workers being taken in, opting in or choosing to join one of the pension schemes.
- 4.4 There could also be some extra costs associated with implementation and maintenance of Auto-enrolment e.g. additional staffing time / resource and system changes on Pse.

5. BACKGROUND/MAIN ISSUES

5.1 FUND STRUCTURE

- 5.1.1 The North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are administered by Aberdeen City Council within the Local Government Pension Scheme regulations (2009).
- 5.1.2 The Scheme was established under the Superannuation Fund Act 1972 and is a statutory scheme contracted out of the Second State Pension Scheme. 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. Teachers (Appendix 1, paragraph 1.2 lists the 13 scheduled bodies).

5.1.3 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.

5.2 SCHEME GOVERNANCE

5.2.1 Aberdeen City Council as the administering authority for the Pension Fund delegates all pension 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 Policy Statement ¹ which is attached as Appendix 1 to this report. Support to both committees is provided by the Head of Finance of Aberdeen City Council.

5.3 KEY FACTS – as at 31 March 2012

5.3.1 The Fund has nearly 50,000 members and 54 scheme employers.

5.3.2 There are three main categories of membership, comprising of actively contributing members (20,361), members who have left employment but who have a deferred entitlement (16,425) and members in receipt of pensions (15,768).

5.3.3 A diversified portfolio of assets amounting to £2.2 billion is managed externally by a number of appointed fund managers.

5.3.4 Total pension contributions in 2011/12 were £136 million comprising of employer contributions of £111 million and employee contributions of £25 million.

5.3.5 The fund made payments to retired members during 2011/12 amounting to £74 million. During the same period a total of £23 million of lump sum payments were also made.

5.3.6 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”.

5.3.7 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.

5.3.8 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

¹ NESPF – Governance Policy Statement is provided courtesy of the NESPF

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 88%. However, there is no current expectation that the employer rate will change for 2013/14.

5.4 KEY ACHIEVEMENTS – 2011/12

5.4.1 New accounting and governance requirements saw the Fund publish its second Annual Report and Accounts separately from the accounts of Aberdeen City Council who acted as the Administering Authority for the financial year 2011/12.

5.4.2 The Pension Fund has produced an Annual Report of its performance and activities for the last 11 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.

5.4.3 The North East Scotland Pension Fund underperformed its customised benchmark over the year with a return of 0.94% versus the benchmark return of 2.18%. This underperformance is a combination of the continued restructuring of the Property portfolio and the underperformance from the Funds UK Equity portfolio. The fund continues to outperform its benchmark over the longer term.

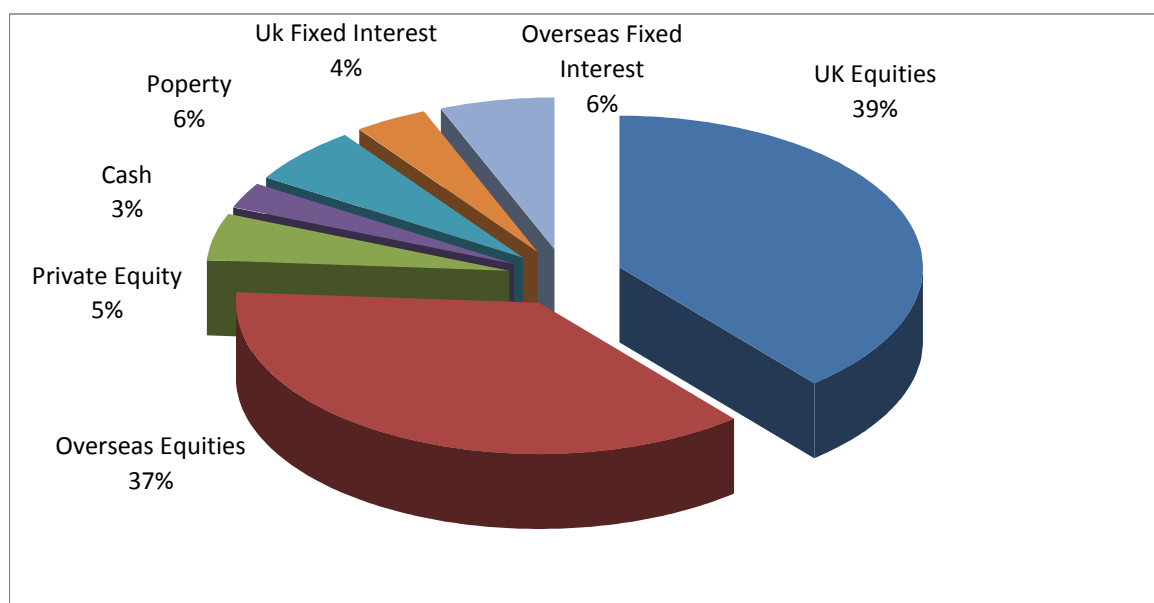
5.4.4 The Fund was nominated for the third year running in the Large Fund category of the Professional Pensions Scheme Awards. The awards recognise high standards of service delivery to members, use of technology and overall investment performance.

5.4.5 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.

5.4.6 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.

5.4.7 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 2012, as per the NESFP Annual Report 2012.

Asset allocation - Main Fund as at 31 March 2012



5.5 2012/13 BUDGET

5.5.1 The budget for Aberdeen City Council (ACC) for 2012/13 is estimated at £1.4 million and primarily relates to direct staff costs. Indicative budgets for the next 5 years are shown below to align reporting on the Pension Fund budget included in the ACC General Fund budget to a 5 year cycle to dovetail with the now embedded process within ACC of Priority Based Budgeting which underpins the Five Year Business Plan.

Budget - cost areas	2013/14	2014/15	2015/16	2016/17	2017/18
	£'000	£'000	£'000	£'000	£'000
Salary costs Direct salaries and costs for the management of the Fund	1,202	1,213	1,226	1,239	1,251
Support Costs Property, ICT, Payroll, Legal, Human Resources, Accounting Services	202	206	209	212	215
Total estimate recharge	1,404	1,419	1,435	1,451	1,467

5.6 **GOVERNANCE**

- 5.6.1 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**

North East Scotland Pension Fund Annual Report (2011/2012)
Fund Governance Policy Statement
Annual Accounts 2011/12

8. **REPORT AUTHOR DETAILS**

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