

ABERDEEN CITY COUNCIL

COMMITTEE	Council - Budget
DATE	6 February 2014
DIRECTOR	Angela Scott (Director of Corporate Governance)
TITLE OF REPORT	North East Scotland Pension Fund 2014/15 and indicative 2015/16 - 2018/19 Budget
REPORT NUMBER:	CG/14/007

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2014/15 General Fund budget that relates to the North East Scotland Pension Fund (NESPF) and an indicative 2015/16 - 2018/19 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. RECOMMENDATIONS

- 2.1 It is recommended that Council:
- a) notes the provision contained within the Councils General Fund budget for 2014/15;
 - b) notes the 2015/16 to 2018/19 indicative budget;
 - c) instructs the Head of Finance to recover the actual costs from the NESPF; and
 - d) notes progress on the introduction of a Service Level Agreement (SLA).

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 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 The Pension Fund Manager has drafted a Service Level Agreement which is a substantial document and is currently out for consultation across the Council's services. This document 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 Aberdeen City Council implemented auto-enrolment on 1 April 2013. This is part of the Government's policy to encourage people to save more for retirement.

4.2 Aberdeen City Council is the first local authority to have introduced this fully of all the North East Scotland Pension Fund admitted bodies. Aberdeenshire and Moray Councils are expected to join in September 2017.

5. REPORT

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.

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. Support to both committees is provided by the Head of Finance and the Head of Legal & Democratic Services of Aberdeen City Council.

5.3 KEY FACTS – as at 31 March 2013

5.3.1 The Fund has 54,217 members and 55 scheme employers.

5.3.2 There are three main categories of membership, comprising of actively contributing members (20,869), members who have left employment but who have a deferred entitlement (16,876) and members in receipt of pensions (16,472).

5.3.3 A diversified portfolio of assets amounting to £2.6 billion is managed externally by a number of appointed fund managers.

5.3.4 Total pension contributions in 2012/13 were £102.5 million comprising employer contributions of £77.6 million and employee contributions of £24.9 million.

5.3.5 The fund made payments to retired members during 2012/13 amounting to £80 million. During the same period a total of £16 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.

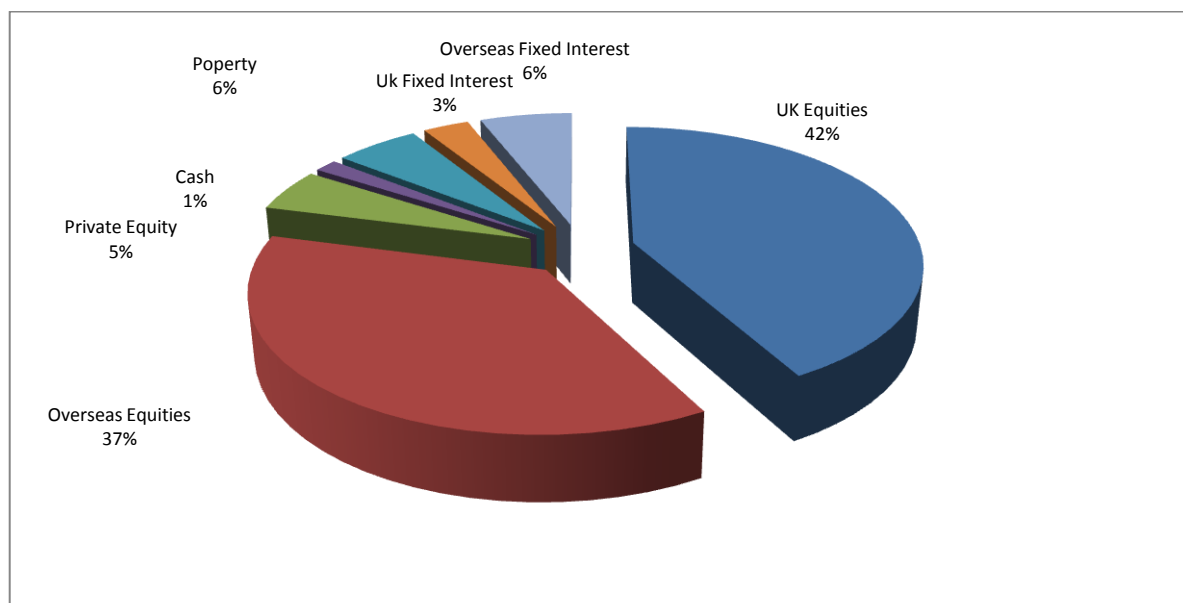
5.3.8 This is based on a number of assumptions that takes into account a range of factors including age profile, mortality rates etc. As such the level the scheme is funded to will by its nature, vary. The actuary will therefore set the employer contribution rate based around this. Following the 31 March 2011 valuation the NESPF had a funding position of 88%. However, there is no current expectation that the employer rate will change for 2014/15.

5.4 KEY ACHIEVEMENTS – 2012/13

- 5.4.1 The Fund's outstanding achievement during 2012/2013 was the implementation of Altair Payroll, an integrated payroll system designed specifically to pay pension benefits. The project implementation started in March 2012 following an initial payroll survey, with data mapping being completed during July 2012.
- 5.4.2 Once these milestones were achieved Altair Payroll was run in parallel with the existing payroll system, going live during November 2012. The project was completed and signed off in March 2013 following the final merge of the standalone payroll database into the existing Altair live service. The new payroll system provides straight through processing while improving administration and eliminates many areas of risk.
- 5.4.3 New accounting and governance requirements saw the Fund publish its third Annual Report and Accounts separately from the accounts of Aberdeen City Council who acted as the Administering Authority for the financial year 2012/13.
- 5.4.4 The Pension Fund has produced an Annual Report of its performance and activities for the last 12 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.
- 5.4.5 The North East Scotland Pension Fund underperformed its customised benchmark over the year with a return of 12.89% versus the benchmark return of 14.64%. 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.
- 5.4.6 The Fund was shorted listed once again in three categories of the Professional Pensions Scheme Awards. The awards recognise high standards of service delivery to members, use of technology and overall investment performance.
- 5.4.7 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.
- 5.4.8 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.

5.4.9 The asset allocation of NESPF 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 2013, as per the NESPF Annual Report 2013.

Asset allocation - Main Fund as at 31 March 2013



5.5 2014/15 BUDGET

5.5.1 The budget for Aberdeen City Council (ACC) for 2014/15 is estimated at £1.4 million and primarily relates to direct staff costs. Indicative budgets for the next 5 years are shown below. This aligns 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	2014/15	2015/16	2016/17	2017/18	2018/19
	£'000	£'000	£'000	£'000	£'000
Salary costs Direct salaries and costs for the management of the Fund	1,160	1,178	1,195	1,213	1,231
Support Costs Property, ICT, Payroll, Legal, Human Resources, Accounting Services	256	259	263	267	271
Total estimate recharge	1,416	1,437	1,458	1,480	1,502

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 & Accounts (2012/2013) and Fund Governance Policy Statement.

8. **REPORT AUTHOR DETAILS**

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