

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	5 February 2015
ACTING DIRECTOR	Ewan Sutherland
TITLE OF REPORT	North East Scotland Pension Fund Budget 2015/16 and indicative 2016/17-2019/20 Budget
REPORT NUMBER	CG/15/09
CHECKLIST RECEIVED	Yes

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2015/16 General Fund budget that relates to the North East Scotland Pension Fund (NESPF) and an indicative 2016/17-2019/20 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 2015/16;
 - b) Notes the 2016/17 to 2019/20 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 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 outwith 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 Committee who have delegated powers. Support for the Pension Committee 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 2014

5.3.1 The Fund has 57,253 members and 57 employers.

5.3.2 There are three main categories of membership, comprising of actively contributing members (22,880), members who have left employment but who have a deferred entitlement (17,267) and members in receipt of pensions (17,106).

5.3.3 A diversified portfolio of assets amounting to £2.8 billion is managed externally by a number of appointed fund managers.

5.3.4 Total pension contributions in 2013/14 were £107.7 million comprising employer contributions of £81.7 million and employee contributions of £26 million.

5.3.5 The fund made payments to retired members during 2013/14 amounting to £84 million. During the same period a total of £17 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%.

5.4 KEY ACHIEVEMENTS – 2013/14

- 5.4.1 The Fund's outstanding achievement during 2013/2014 was the implementation of our Pensions Administration Strategy (PAS). This was developed and published in July 2013 following a consultation with employers. The strategy specifies the levels of service and performance measures for participating employers and the NESPF. Over two thirds of the Fund's employers have already signed up, with work to finalise agreements for the remaining employers continuing.
- 5.4.2 In conjunction with the PAS and following the implementation of secure remote access to our administration system via Employer Services, the Fund has continued to develop and roll out the facility. The number of employers using the service increased from 10 to 34 in 2013/2014 with file submissions increasing 5 fold. Long term this will help to reduce processing times and costs.
- 5.4.3 Year End data checks were carried out on approximately 22,000 member records with benefit statements being issued to over 36,000 active and deferred members.
- 5.4.4 In 2013/2014, new task allocation procedures were introduced to enable benefits staff to better prioritise their workloads. This resulted in an 82% reduction in outstanding tasks over a 9 week period.
- 5.4.5 New accounting and governance requirements saw the Fund publish its fourth Annual Report and Accounts separately from the accounts of Aberdeen City Council who acted as the Administering Authority for the financial year 2013/14.
- 5.4.6 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.
- 5.4.7 The North East Scotland Pension Fund exceeded its customised benchmark over the year with a return of 10.39% versus a benchmark of 9.06%. This surpassed our aim of performing 1% over our benchmark target. The Fund continues to outperform its benchmark over the longer term.
- 5.4.8 The Fund was shorted listed in four categories at the Professional Pensions Scheme Awards. This included Public Sector Scheme of the Year, Best use of IT & Technology, Best Administration and Large Scheme of the Year. The awards recognise high standards of service

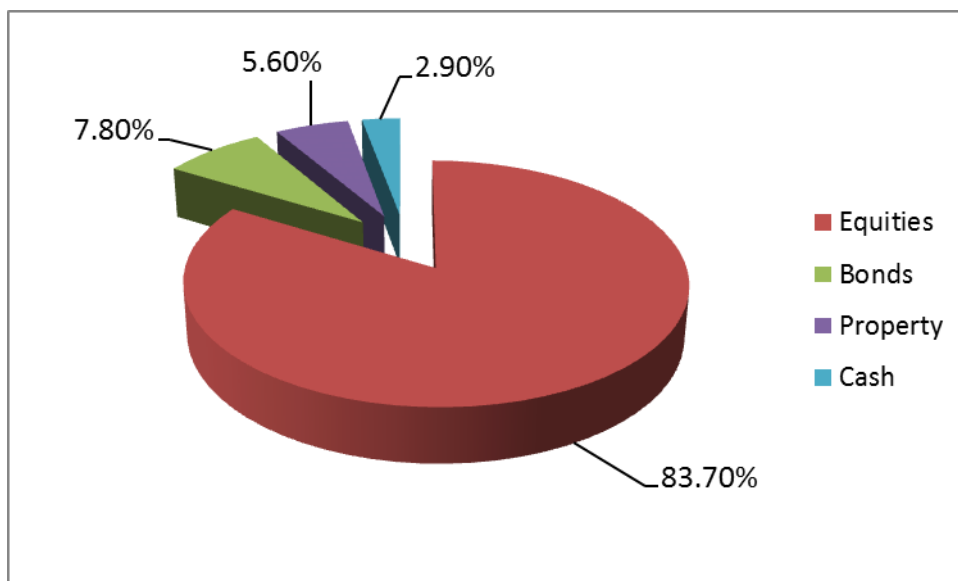
delivery to members, use of technology and overall investment performance.

5.4.9 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.

5.4.10 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 Committee, in terms of investment performance measurement and governance by the custodian.

5.4.11 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 2014, as per the NESPF Annual Report 2014.

Asset allocation - Main Fund as at 31 March 2014



5.5 2015/16 BUDGET

5.5.1 The budget for Aberdeen City Council (ACC) for 2015/16 is estimated at £1.4 million and primarily relates to direct staff costs. Indicative budgets for the next 5 years are shown below.

Budget - cost areas	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Salary costs Direct salaries and costs for the management of the Fund	1,186	1,201	1,216	1,231	1,246
Support Costs <i>Property, ICT, Payroll, Legal, Human Resources, Accounting Services</i>	259	263	267	271	275
Total estimate recharge	1,445	1,464	1,483	1,502	1,521

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 Committee 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 (2013/14) and Fund Governance Policy Statement.

8. **REPORT AUTHOR DETAILS**

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