

ABERDEEN CITY COUNCIL

COMMITTEE: PENSION COMMITTEE
DATE: 15 JUNE 2015
REPORT BY: HEAD OF FINANCE
TITLE OF REPORT BUSINESS PLAN 2015 - 2017
REPORT NUMBER: PC/JUN15/BUSP

1. PURPOSE OF REPORT

To present to Committee a Business Plan for 2015 - 2017 for the North East Scotland Pension Funds and the Pension Section. The Business Plan sets out the way in which the Pension Section will deliver modern, efficient, effective and accessible services to all Pension Fund stakeholders. It also identifies the way in which the performance of the service will be monitored.

2. RECOMMENDATION(S)

It is recommended that the Committee approve the report

3. FINANCIAL IMPLICATIONS

The business plan supports the Fund's objective to deliver an efficient and cost effective service to its stakeholders.

Increased costs will arise in a number of areas over the next three years as a consequence of the roll out of the new scheme and development of new governance structures. The objective of the Fund is to ensure that delivery of these changes is managed in a cost effective and efficient manner.

4. OTHER IMPLICATIONS

None

5. BUSINESS PLAN

5.1 **Background**

The business plan provides the focus for the delivery of the pension fund investment and benefits administration services in an efficient and cost effective manner.

The Plan is reported annually to the Pension Committee and forms part of the monthly monitoring of the Pension Fund Section by the Head of Finance.

5.2 Fund Profile

5.2.1 Role and Responsibilities

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (“LGPS”) in the North East of Scotland, both on its own behalf and in respect of the other 3 local authorities and over 50 other large and small employers.

The main functions are:

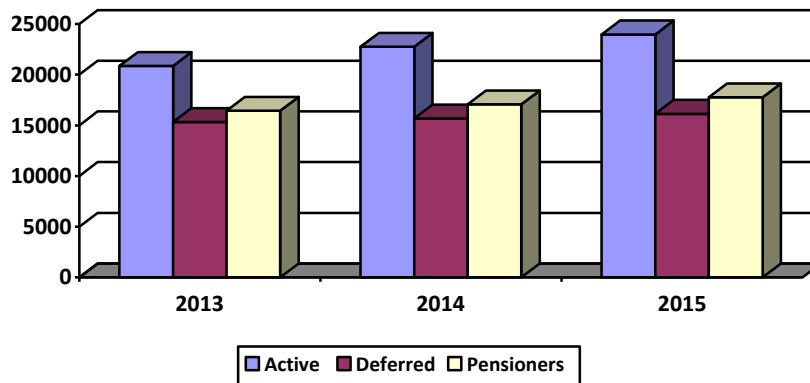
- management and investment of scheme funds; and
- administration of scheme benefits

These functions are carried out in accordance with the Local Government Pension Scheme (Scotland) Regulations which are statutory instruments made under the Superannuation Act 1972 and Public Sector Pensions Act 2013.

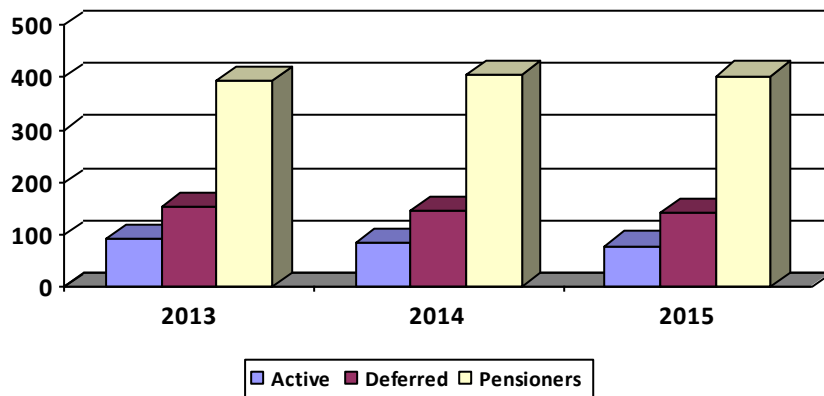
Aberdeen City Council carries out its role as Administering Authority via:

- the City Council Pension Committee;
- the Pension Fund Section within the Council’s Finance Department

5.2.2 Membership of the North East Scotland Pension Fund



Membership of the Transport Fund



5.2.3 NESPF Assets & Liabilities

As at 31 March 2015 the Fund had total investment assets of approximately £3,163 billion (2014: £2,830bn).

Estimated value of liabilities was £3,420 billion (£2,218bn) giving an estimated funding position of 83% (88%).

5.2.4 NESPF Revenue and Expenditure

Revenue figures for 2014/2015 include total contributions and other income of around £118m (£111m).

Total pensions and other payments for 2014/2015 of £116m (£107m) and investment income of £49m (£55m).

5.2.5 Resources

Staffing

Total staff in post at 31 March 2015 was 33 (FTE 28.4) providing, a range of services:

- Member Benefit Administration (FTE 17.7)
- Communication (FTE 2)
- IT Management (FTE 2)
- Investment Management and Accountancy services (FTE 4)
- Employer Relationship (FTE 1.7)
- Staff training (FTE 1)

Training and Development

The Pension Fund has made a demonstrable commitment to training and development.

As at 31 March 2015, 1 member of staff had gained the IPP Diploma in Pensions Management, 9 members of staff had attained the IPP Foundation Degree in Pensions Administration and Management and a further 2 staff were studying for the Foundation Degree.

Pension Fund staff also participate fully in, and benefit from the various elements of Aberdeen City Council's training plans.

5.3 Systems

The North East Scotland Pension Fund is an established user of *Altair* – a bespoke Local Government Pension Scheme benefit administration and payroll system.

The system ensures continuity of service throughout the pension's life-cycle, from new start, through employment history to payment of pension on retirement.

Within *Altair*, the Fund has implemented *Task Management Workflow* and *Performance Measurement* modules. These now form the core of process planning, management and monitoring. *Altair* is aligned with a Document Image Processing

System (DIPS) to achieve straight-through electronic processing.

Altair also provides internet based Member self-service and Employer self-service functionality.

For other finance functions, the Fund uses the Council's E-financial accounting system. The Investments Team has secure, on-line access to detailed investment portfolio data via the *Workbench* system of the Fund's global custodian, Bank of New York Mellon, which forms the primary accounting record for the Fund's investments.

5.3 Business Plan Outcome Review of 2014/2015

5.3.1 Outcome

The 2014/2017 business plan identified a number of major new projects to be undertaken by the Pension Fund Section. Several of which have now been successfully completed. The remainder are on-going in response to the constantly changing environment in which the Pension Section functions.

5.3.2 Completed Projects

Introduction of the New LGPS Scotland 2015 - The major project undertaken by the Pension Fund Section in 2014/2015 was the delivering the new LGPS Scotland 2015. Every member of staff was involved from project planning, IT testing and implementation, engagement, training and communication with both scheme employers and scheme members. A separate report has been prepared for Committee regarding the successful completion of this project.

2014 Actuarial Valuation - 2014 also saw the completion of the triennial actuarial valuation exercise. The valuation exercise continues to be challenging for scheme employers with a number seeing increases in employer contribution rates. A separate report has been prepared for Committee regarding the successful completion of this project.

Transport Fund De-Risking Strategy - After initial work in early 2013 to determine the future funding requirements of the Transport Fund, a tendering exercise began in December 2013 to appoint a single provider to manage the long term investment strategy of the Transport Fund.

Aberdeen Asset Managers were awarded the contract in summer 2014, with the new investment strategy implemented from 1 April 2015. Reporting to Committee on the new investment strategy will commence from September 2015.

Investment Consultancy Tender – A tender exercise was undertaken in early 2015 through a national framework agreement, to provide investment consultancy support to both the Pension Committee and Officers in setting future investment strategy. KPMG were successfully appointed with effect from 1 June 2015.

Member Communication – As part of an Fund's continued programme to improve employer and members communication, the Fund hosted a successful, second Pensioner open day in April 2015.

5.3.3 Ongoing and New Projects 2015 – 2017

Service Level Agreement - Ongoing service changes and developments within Aberdeen City Council have seen delay in the drafting of the Service Level Agreement between the Pension Fund and the City Council. Work has now recommenced and a draft document should be completed by Autumn 2015.

Governance – The new governance requirements introduced as part of the new LGPS 2015, will see a review of reporting for both the Pension Committee and Pension Board, focusing on key factors such as:

- Performance measures in respect of service delivery to scheme employers and scheme members
- Risk management
- Investment Performance
- Monitoring of business priorities as set out at 5.4.1 below

Document Register - The Pensions Fund has historically maintained documents in various systems. A single document register is currently being drafted bringing together all policies and procedures, fund contracts and published documents. The introduction of the LGPS Scotland Scheme 2015 has seen the introduction of new documentation requirements and these will be incorporated in the document register by Autumn 2015.

Risk Management - Work continues throughout 2014 aligning the Fund's Risk Review of 2012 with guidance issued from the Pensions Regulator. A report on the requirements set out for administration of the Fund by the Pensions Regulator will be presented to a future meeting of the Pension Committee.

Investment Strategy Review – Work commenced during 2014 to implement the Pension Committee decision to increase diversification within the Fund and thereby reduce overall investment risk. Officers will now take forward work regarding overall investment risk management and strategy with a report and recommendations presented to a future meeting of the Pension Committee.

Local Engagement – As part of the Fund's review of investment strategy an assessment will be made of the opportunities available to Fund to seek investment returns from local investment within the North East of Scotland.

Global Custody Tender – The Pension Fund will be undertaking a tender exercise in 2015 to review the Funds Global Custody arrangements. The Global Custody provides:

- Safekeeping of scheme assets
- Trade settlement
- Income collection (i.e. dividend and cash interest)
- Accounting & Performance Measurement
- Proxy Voting
- Tax reclaims

Employer Engagement and Covenant Review - A programme of employer

engagement and assessment of employer covenants has taken place over recent years. Following the outcome of the 2014 actuarial valuation officers will be engaging with scheme employers on number of issues, including employer covenant reviews, membership, administration training.

Communication Review - The Fund recognises the key role of communication, both within the Pension Fund section and external across all stakeholders. The Pension Fund senior communications officer is currently undertaking a major review of all the Fund's communication with scheme employers and scheme members, covering:

- face to face engagement
- "hard copy" correspondence
- web structure and content

Benefit Administration - GMP reconciliation with HMRC which is now underway – we have registered and received our data and received a license variation to use the Heywood programs designed for this exercise which will take a couple of years.

Technical Revisions – Ongoing participation in the national Testing Working Party for 2 further CARE/Pension Reform software releases, 2015.0.2 currently in Test and 2015.1 around August/September.

Staffing - Review of staffing requirements – A review of staffing requirements has been completed and will be taken forward. The review has identified the need for additional resources in the areas of employer engagement, fund management and management of the Fund's governance arrangement and communication

5.3.4 Performance Measures

The Fund has in place a range of performance measures covering both benefit administration and investment management.

Customer Service

- The Fund issues a customer survey to all those joining the scheme and carries out a range of ad –hoc surveys targeting both scheme member and scheme employers. Returns are collated and used internally to monitor and improve customer service quality

System and Compliance

- The Fund has in place a range of safeguards to protect member data, financial malpractice, system security and business continuity.

Member Records

- A key function of the Pension Fund section is to accurately maintain and update member records. An annual statement on the quality of the Pension Fund data is given by the scheme actuary and reported to the Pensions Committee

Benefit Processing

- Accuracy is ensured through rigorous system and manual checks.
- Efficiency figures are produced by the performance measurement module of the Altair system and measure average times taken to turnaround tasks on the system, workflow and backlogs

- The Pension Administration Strategy (PAS) sets out the key deliverables in terms of turnaround times in processing New Starts (electronic), Early Leavers notifications, Retirements notifications, Death in Service notifications and Transfer Estimates notifications
- Performance against the above measures are reported annually to the Pensions Committee and detailed in the Pension Fund annual report

Financial

- The single most important function of NESPF is to ensure that the monthly pension's payroll runs on its due date, ensuring that all necessary additions, deletions and amendments have been made before it runs.
- Ensure that all contributions income is received by the due date.

Funding Level

- The scheme actuary provides quarterly updates on the Main Fund and Transport Fund, providing historic information since the last valuation. Reporting on the funding position is quarterly to the Pensions Committee

Fund Investment Performance

- The Fund's global custodian, Bank of New York Mellon, is responsible for independent performance measurement and provides detailed quarterly reports on all aspects of investment performance.
- Performance is measured on a total return basis including investment income and capital gains.
- Each Fund management agreement sets performance benchmarks and targets. Targets are relative rather than absolute.
- Reporting on investment performance is quarterly to the Pension Committee

5.4 Business Plan 2015/2017

5.4.1 Overview

The Three Year Business Plan outlines the actions the Pension Fund will take to ensure the organisation is fully focused on the key priorities for the next three years :

Local Priorities

- Promote the scheme to new members
- Engagement with Scheme Employers
- Promote a transformation agenda in electronic data delivery and processing
- Engage with staff to meet the new challenges in order to promote a more costs effective and efficient workforce
- Enhancing reporting to both the Pension Committee and the Pension Board
- Effective management of scheme costs

National Priorities

- Engagement in the development of the Pension Fund cost cap
- Engagement in the Long term implementations of the 2015 LGPS with regard to creation of the local Pensions Board and central Scheme Advisory Board
- Engagement in the wider review of the LGPS in Scotland

Many of the above priorities will already have been addressed as part of the 2014/2015 business plan however they will remain key over the longer term in

maintaining a long term vision to deliver an efficient and effective services all the Funds stakeholder

Changes in the way we manage the Pension Fund will be vital in ensuring we are able to rise to the challenges affecting both out scheme members and our scheme employers.

5.4.2 Key Priorities 2015/2017

The key business and development priorities for 2015/2017 are listed in Appendix I.

They relate principally to:

- tender for new Global Custody
- review of investment strategy
- further development in the areas of employer and member communication
- GMP reconciliation with HMRC records
- ongoing implementation of LGPS 2015 and associated governance arrangements; and
- ongoing improvements to business efficiency and risk management

5.4.3 Pension Section Deliverables

In support of the Key Priorities a number of deliverables have been identified to be addresses by teams within the Pension Fund section covering areas such as:

- Staff training
- Enhancement to internal reporting
- Data management
- Review of workflow management

5.4.4 Risk Register

The risk register is attached at Appendix II and brings together not only a number of ongoing risks inherent in the administration of the Pension Fund but also the key priorities identified in Appendix I. An updated risk registers will be presented quarterly to the Pensions Committee.

6. IMPACT ON THE PENSION FUND

The Local Government Pension Scheme is constantly evolving and changing. The Pension Fund business plan will ensure that the Fund remains focused on the key issues it faces over the coming years and has in place appropriate resources to meet those future challenges.

7. BACKGROUND PAPERS

Draft Pension Fund Accounts 2014/2015

8. REPORT AUTHOR DETAILS

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