

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	25 February, 2016
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	North East Scotland Pension Fund Budget 2016/17 and indicative 2017/18 - 2020/21 Budget
REPORT NUMBER:	CG/16/012

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2016/17 General Fund budget that relates to the North East Scotland Pension Fund (NESPF) and an indicative 2017/18 – 2020/21 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 Council's General Fund budget for 2016/17;
 - b) Notes the 2017/18 to 2020/21 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 The completed document will be presented to the Pensions committee at the March 2016 meeting.

4. OTHER IMPLICATIONS

- 4.1 Following the implementation of auto-enrolment in April 2013 Aberdeen City Council will be carrying out the re-enrolment process as of June/July 2016. This is in line with the government requirement to automatically opt employees into a contributory pension scheme every three years.
- 4.2 In 2013 Aberdeen City Council put 762 employees into the scheme as part of auto enrolment. Of those employees 59% have opted to remain in the scheme. Re-enrolment will be carried out for around 460 members of staff who have chosen to opt out of the scheme or join the 50/50 scheme over the last 3 years. These figures do not include those employees that have been contractually enrolled into the scheme as a result of starting a new job within Aberdeen City Council.

5. REPORT

5.1 FUND STRUCTURE

- 5.1.1 Aberdeen City Council, as the administering authority, is responsible for the administration of the Local Government Pension Scheme (LGPS), and does this through both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund.
- 5.1.2 The LGPS was established under the Superannuation Fund Act 1972 and is a statutory scheme contracted out of the Second State Pension. Within the main Fund, the scheme is open to all employees of the 11 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.

5.1.4 The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

5.1.5 Due to the maturity of the Aberdeen City Council Transport Fund and taking into account that the Fund is closed the Administering Authority has implemented a De-Risking Strategy in consultation with the employer and the Schemes Actuary.

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 to the Pensions Committee is provided by the Head of Finance and the Head of Legal & Democratic Services of Aberdeen City Council.

5.3 KEY FACTS FOR THE MAIN FUND – as at 31 March 2015

5.3.1 The main Fund has 59,574 members and 54 employers.

5.3.2 There are three main categories of membership, comprising of actively contributing members (24,089), members who have left employment but who have a deferred entitlement (17,759) and members in receipt of pensions (17,726).

5.3.3 A diversified portfolio of assets amounting to £3.2 billion is managed externally by a number of appointed fund managers.

5.3.4 Total pension contributions in 2014/15 were £113.3 million comprising employer contributions of £86.6 million and employee contributions of £26.7 million.

5.3.5 The Fund made payments to retired members during 2014/15 amounting to £88 million. During the same period a total of £20 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.

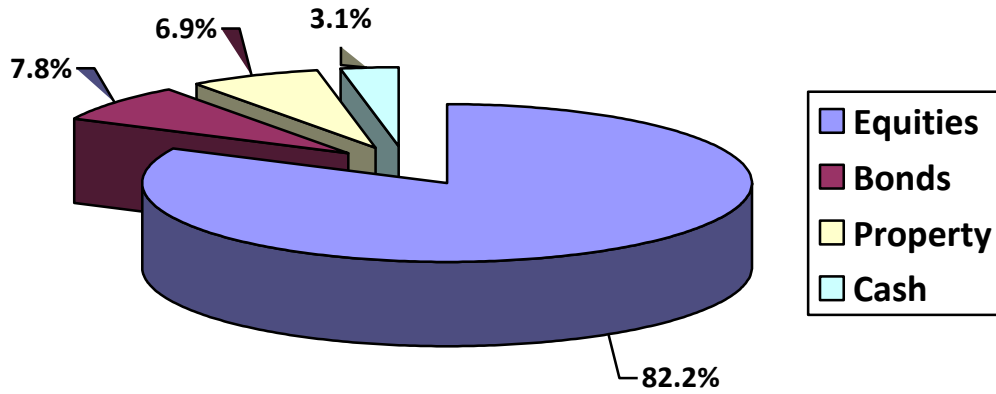
Following the 31 March 2014 valuation the NESPF had a funding position of 94%.

5.4 KEY ACHIEVEMENTS – 2014/15

- 5.4.1 The Fund's outstanding achievement during 2014/15 was the introduction of the new CARE scheme. Within the Fund a project team was established to oversee the implementation of the new scheme, with roles and responsibilities outlined from the beginning.
- 5.4.2 The Fund as part of the CLASS user group, extensively tested the pension software to ensure it was capable of both administering pension benefits in the new scheme and old scheme. As part of the implementation plan, staff participated in a comprehensive training programme which included 2 external training workshops as well as a series of internal training sessions delivered by the Fund's Training and Development Officer.
- 5.4.3 In addition to developing staff knowledge, Pension Officers delivered over 50 LGPS 2015 presentations, helping to inform approximately 1,500 members about the new scheme.
- 5.4.4 The Fund continued to evaluate administration performance as part of its Pension Administration Strategy (PAS). NESPF's overall performance for 2014/15 was consistent and remains above 90% for KPIs. Employer performance rose significantly by 16% to 86%. This was a result of the continued implementation of online solutions which enabled employers to provide data electronically and thus more quickly, allowing them to meet deadline targets outlined in the PAS.
- 5.4.5 With increasing membership levels the Benefits Team have dealt exceptionally well with the rising number of queries and administrative tasks; the team answered nearly 16,000 calls, responded to over 4,200 emails and delivered 10 member courses and pension surgeries. Year-end data checks were conducted by the team on approximately 22,000 member records, with benefit statements issued to over 36,000 active and deferred members.
- 5.4.6 The Fund continued to implement two online solutions, I-Connect and Employer Services, which allow employers to provide electronic data for automated processing on the pensions administration system. Through I-Connect 266,850 events have been automatically processed on our pension administration system with a further 899 interface files received from Employer Services.
- 5.4.7 NESPF monitor the quality as well as the quantity of electronic data received throughout the year from employers. During 2014/15 92% of data received contained high quality data, 8% contained medium quality and no low quality data was received.

- 5.4.8 The Fund successfully transferred the administration of over 2,000 Police and Fire member records to the Scottish Public Pensions Agency (SPPA) and did so in line with the agreed timescales. Members were notified via their annual benefit statement in November 2014 with the transfer completed in December 2014.
- 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 2015, as per the NESPF Annual Report 2015.

Asset allocation - Main Fund as at 31 March 2015



5.5 2016/17 BUDGET

5.5.1 The budget for Aberdeen City Council (ACC) for 2016/17 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	2016/17	2017/18	2018/19	2019/20	2020/21
	£'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>	250	254	258	262	266
Total estimate recharge	1,436	1,455	1,474	1,493	1,512

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 quarterly 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 (2014/15) and Fund Governance Policy Statement.

8. REPORT AUTHOR DETAILS

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