

ABERDEEN CITY COUNCIL

COMMITTEE	Council
DATE	22 February, 2017
INTERIM DIRECTOR	Richard Ellis
TITLE OF REPORT	North East Scotland Pension Fund Budget 2017/18 - 2021/22
REPORT NUMBER:	CG/17/009
CHECKLIST COMPLETED:	YES

1. **PURPOSE OF REPORT**

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2017/18 – 2021/22 General Fund budget that relates to the North East Scotland Pension Fund (NESPF).
- 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 2017/18 to 2021/22;
 - b) Instructs the Head of Finance to recover the actual costs from the NESPF; and
 - c) 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 by the Head of Finance.
- 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 A Service Level Agreement has now been completed and is currently with Legal Services for review. This document:

- details the level of service to be provided by the Council;
- provides details of the standard of work the NESPF can expect;
- clearly articulates the cost to the NESPF for these services; and
- demonstrates greater accountability and Best Value.

4. REPORT

4.1 FUND STRUCTURE

4.1.1 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.

4.1.2 The LGPS was established under the Superannuation 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.

4.1.3 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.

4.1.4 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.

4.1.5 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.

4.2 SCHEME GOVERNANCE

4.2.1 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.

4.3 KEY FACTS FOR THE MAIN FUND – as at 31 March 2016

- 4.3.1 The main Fund has 61,329 members and 55 employers.
- 4.3.2 There are three main categories of membership, comprising of actively contributing members (24,546), members who have left employment but who have a deferred entitlement (18,455) and members in receipt of pensions (18,328).
- 4.3.3 A diversified portfolio of assets amounting to £3.2 billion is managed externally by a number of appointed fund managers.
- 4.3.4 Total pension contributions in 2015/16 were £120.2 million comprising employer contributions of £92.7 million and employee contributions of £27.5 million.
- 4.3.5 The Fund made payments to retired members during 2015/16 amounting to £91 million. During the same period a total of £18 million of lump sum payments were also made.
- 4.3.6 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”.
- 4.3.7 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.
- 4.3.8 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%.

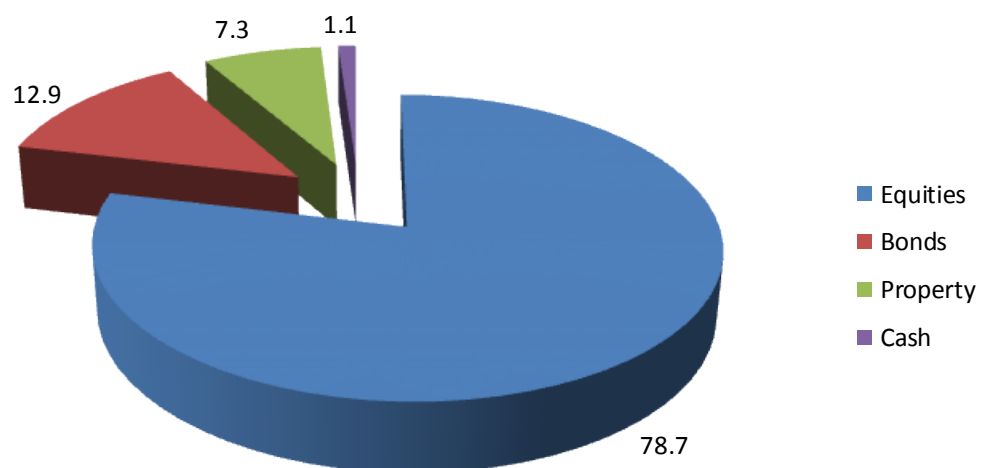
4.4 KEY ACHIEVEMENTS – 2015/16

- 4.4.1 The Fund’s outstanding achievement during 2015/16 was the continued implementation and promotion of our online data exchange facilities (i-Connect, Employer Services and ALCARE) which allow employers to provide information electronically to the Fund.
- 4.4.2 The mobilisation of these three technologies has improved data efficiency and accuracy, resulting in several benefits including:
- Monthly updates for 97% of active members
 - A reduction in the cost of processing member updates from £1.04 to £0.15
 - Reduced year end processing by 108 days

- 682,787 system updates automatically processed (up from 66,850 in 2014/15), reducing processing times and the potential for keying errors.
- 4.4.3 The Fund continued to evaluate administration performance as part of its Pension Administration Strategy (PAS). NESPF's overall performance for 2015/16 increased by 3% to 95% for KPIs and is the highest ever published.
- 4.4.4 Throughout the year the NESPF were involved locally and nationally to help deliver new LGPS requirements, participating in:
- National Pensions Group (SPLG) to discuss new scheme experience, administration and regulations
 - Class TWP and user group meetings to test pension software and discuss system performance and requirements going forward
 - Site visits and calls with other Fund's to discuss the NESPF's automated processing using i-Connect
- 4.4.5 With increasing membership levels the Benefits Team have dealt exceptionally well with the rising number of queries and administrative tasks; the team answered 14,500 calls, responded to over 5,000 emails and delivered 11 member courses and pension surgeries. Benefit statements were issued to over 36,000 active and deferred members.
- 4.4.6 The first ever customer satisfaction survey was conducted in 2016 which revealed 81% of respondents were satisfied or very satisfied with the overall service provided, while 77% were satisfied or very satisfied with Fund Communication.
- 4.4.7 Near the end of 2015/16 the Fund began the process of upgrading the online member self-service facility, My Pension, as part of the Fund's long term move to e-communications. The facility will be more user friendly, engaging and have increased functionality to enable members to automatically update details and calculate future pension value.
- 4.4.8 The Fund was nominated for four national awards including Best Use of IT and Technology, DB Scheme of the Year and Public Sector Scheme of the Year.
- 4.4.9 The Fund continues to recognise its role as a shareholder in terms of Corporate Governance and Responsible Investment voting at 210 Annual General Meetings/Special Meetings on 3,300 resolutions as well as holding membership of the Local Authority Pension Fund Forum and being signatories for the Sustainable Stock Exchange.

4.4.10 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 2016, as per the NESPF Annual Report 2016.

Asset allocation - Main Fund as at 31 March 2016



4.5 2017/18 BUDGET

4.5.1 The budget for Aberdeen City Council (ACC) for 2017/18 is estimated at £1.5 million and primarily relates to direct staff costs

Budget - cost areas	2017/18	2018/19	2019/20	2020/21	2021/22
	£'000	£'000	£'000	£'000	£'000
Salary costs Direct salaries and costs for the management of the Fund	1,301	1,314	1,327	1,340	1,353
Support Costs <i>Property, ICT, Payroll, Legal, Human Resources, Accounting Services</i>	200	202	204	206	208
Total estimate recharge	1,501	1,516	1,531	1,546	1,561

4.6 GOVERNANCE

4.6.1 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.

5. IMPACT

5.1 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.

6. BACKGROUND PAPERS

North East Scotland Pension Fund Annual Report & Accounts (2015/16) and Fund Governance Policy Statement.

7. REPORT AUTHOR DETAILS

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