

ABERDEEN CITY COUNCIL

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| COMMITTEE | PENSIONS COMMITTEE |
| DATE | 10 MARCH 2017 |
| REPORT BY | HEAD OF FINANCE |
| TITLE OF REPORT | STRATEGY |
| REPORT NUMBER | PC/MAR17/STRATEGY |

1. PURPOSE OF REPORT

To inform the Committee and provide recommendations to any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

2. RECOMMENDATION(S)

- i. Review and approve policy document changes as noted in Appendix II
- ii. Review and approve Pension Administration Strategy (2017) as noted in Appendix VII
- iii. Approve additional resources as stated in 5.5.1
- iv. Note the remainder of the report

3. FINANCIAL IMPLICATIONS

The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long term liabilities.

4. OTHER IMPLICATIONS

None

5. BACKGROUND/MAIN ISSUES

In line with the structural review of the Pension Fund, six specific areas have been identified which fully address the strategic management of the Fund;

- Investment
- Accounting
- Benefit Administration
- Technical
- Governance
- Employer Relations

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report information bulletins covering the six strategic areas will also be available via the secure website and email.

Also available on the Pension Fund Website are all the Policy documents that govern the Pension Fund including its various strategies.

5.1 **INVESTMENT**

5.1.1 *Asset & Investment Manager Performance Report Investment Strategy Update Report*

Separate Reports, provided.

5.2 **ACCOUNTING**

5.2.1 *Budget / Forecast Report*

Statement of Accounts 2016/17 – Action Plan

Separate Reports, provided.

5.3 **BENEFIT ADMINISTRATION**

5.3.1 **GMP Equalisation & Indexation**

A consultation exercise is running until 20th February 2017 to consider the options for future Guaranteed Minimum Pension (GMP) equalization and indexation of public service scheme members who reach State Pension Age after 5 December 2018.

There are three options being proposed: - full indexation, conversion on a 1:1 basis for main Scheme pension or on a case by case basis. A response to the consultation will be provided by NESPF Fund Officers as each of the 3 proposed options are either, administratively complex and costly, or increase the cost of the LGPS, or both.

5.4 **TECHNICAL**

5.4.1 Appendix I, Pensions Administration Strategy December 2016 Report

5.5 **GOVERNANCE**

5.5.1 **Pension Fund Staff Appointments**

Interviews for the Pension Officer (Accounting) post took place in late November. Unfortunately the decision was made not to appoint any of the candidates. The post has now been re-advertised to internal candidates only and interviews are expected shortly.

The Benefits Administration team is advertising internally for two Trainee Pension Officers. One of these posts will be permanent and the other temporary (to cover maternity leave).

Pension Fund Staff Structure

Following the implementation of the restructure on 1 April 2016, officers have been monitoring and reviewing the structure that was put in place. While it has only been a relatively short period of implementation officers have identified a couple of areas that require attention.

Due to the ever increasing size and complexity of the asset base of the Fund and following the successful recruitment of the Investment Manager position, the Fund is looking for approval to add an Investment Pension Officer post to support the Senior Pension Officer and the Investment Manager. This post will also help to address succession planning for the future.

The other area to address is the Employer Relationship Team, the Fund is looking for approval to add an additional Pension Officer within this team. With an increasing work load due to this team taking on more of the administrative workload from the Benefits team we are looking to add an additional member to the team and this will also assist in future succession planning.

5.5.2 Annual Review of Scheme Documentation

The Fund undertakes an annual review of all major scheme policies and statements. Revisions as at 1 February 2017 have been made to the following policies.

- Governance Policy
- Governance Compliance Statement
- Communication Policy
- Statement of Investment Principles
- Investment Policy

Further details of the revisions to each of the above policies and statements are provided at Appendix II. All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk.

5.5.3 Annual Governance Review

Review of NESPF Implementation of the Public Service Pensions Act 2013 and Compliance with Pension Regulator Requirements Report

Separate report, provided

5.5.4 Fraud, Whistleblowing & Breaches of Bribery Act

There have been no cases during the year 2016/17.

5.5.5 Internal Audit

Appendix III, Update on Internal Audit recommendations

5.5.6 External Audit

Appendix IV, Update on External Audit recommendations

5.5.7 Scheme Advisory Board

New Scheme Advisory Board website now available at <http://lgpsab.scot/>

Appendix V, Transparency Code

5.5.8 Accounts Commission

Appendix VI, Local Government Financial Overview Report 2015/16 and supplement

5.5.9 Training

September 2016 Training Feedback

Following the training event held in London during September 2016, feedback was requested on 6 January 2017 with the Fund receiving three responses from Committee and Board members.

The responses are as follows;

1. "I thoroughly enjoyed the training, very informative. Some of the investment information was very enlightening". "Trip was well organized and we were well looked after".
2. "The training/meetings in London were a good opportunity to meet and talk formally and informally to the investment managers and find out some of the rationale behind the choices and types of investments especially in a difficult market. I found it both informative and interesting".
3. "I think there is discussion to be had which would clarify any lessons to be learned from the visit. As the Convener pointed out, it is in the nature of things that some advisors will recommend bailing out of a market at the same time as others are seeing an opportunity there.

For instance, while others are going lukewarm on renewables, Barings seem very keen on wind-turbine generating electricity in Texas, thanks to the development of inter-connectors.

Property, by definition, is a long-term investment and I found it hard to see up side in the retail or office development in the London area. Advisors agreed that it will be a disaster for London if they cannot get free movement to continue despite the UK's EU referendum vote.

I was surprised in Aberdeen Asset Management's portfolio, the only property out of 25 in Scotland was an industrial property in Westhill – and they were unaware that it is over the county line and in Aberdeenshire. I was disappointed that given the name of the company and who their presentation was aimed at, they seemed light on details.

Similarly, they decided against investing in the Volvo training and development centre – although it was a bespoke unit specific to Volvo's use – lest Volvo should relocate as a result of the 'Brexit' vote.

Obviously these are commercial judgements, but criteria to justify some investments seemed to be given greater or less weight in different investment proposals.

I was confused by their answers, felt we could be doing better and would like to hear the views of others on how we balance our investments generally and who, during the trip, impressed most.”

Although the Fund received only a few responses these were mainly positive and encouraging with a few specific questions which will be addressed at Committee in March.

5.6 EMPLOYER RELATIONSHIP

5.6.1 Liquidation of Admitted Body

Moray Anchor Projects (MAP) went into liquidation on 13 December 2016. They were contributing to the NESPF until July 2016 when the last active member left the Scheme. At this time, the Employer Relationship Team commenced discussions with MAP and sought a termination valuation from the Scheme Actuary. NESPF have now registered a claim for £211,900.00 with the liquidator in terms of the outstanding termination amount. The first creditor meeting was held on 23 January 2017 and we await further update.

5.6.2 Pension Administration Strategy (PAS) 2017

The Pension Administration Strategy was first introduced in 2013 and details responsibilities, service standards, levels of performance and policies required for the Fund to meet its statutory and regulatory requirements.

The revised version of the PAS (appendix VII) incorporates new scheme regulations and the requirement for all employers to provide monthly data using I-Connect. The revised PAS was distributed to all employers for consultation (commencing 6 February for 4 weeks). The results of the consultation and the

final version will be issued to all employers and the Scottish Ministers prior to implementation from 1 April 2017.

Appendix VII, Pensions Administration Strategy 2017

5.6.3 Request for Admitted Body Status

Separate report, provided

6. IMPACT

The Pension Committee has a fiduciary duty to monitor the Pension Fund Strategies across all areas and timelines to deliver a timely, accurate and compliant service to all stakeholders.

7. MANAGEMENT OF RISK

The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee.

Appendix VIII, Risk Register

8. BACKGROUND PAPERS

None

9. REPORT AUTHOR DETAILS

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