

## ABERDEEN CITY COUNCIL

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COMMITTEE	PENSIONS COMMITTEE
DATE	15 SEPTEMBER 2017
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/SEPT17/STRATEGY
DIRECTOR	HEAD OF FINANCE
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### **1. PURPOSE OF REPORT:-**

- 1.1 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)**

- 2.1 It is recommended that the Committee:
- i. Note the report

### **3. BACKGROUND/MAIN ISSUES**

- 3.1 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
- 3.2 The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.
- 3.3 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 service updates covering the six strategic areas will also be available via the secure website and email.

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

### 3.5 **INVESTMENT**

- 3.5.1 *Asset & Investment Manager Performance Report*  
*Investment Strategy Update Report*

*Separate Reports, provided.*

### 3.6 **AVC Review**

- 3.6.1 Under the Scheme rules, members can pay Additional Voluntary Contributions (AVCs) to boost their retirement benefits. AVCs are invested separately in individual members 'pots', managed by the AVC provider. The Pension Fund currently uses Prudential as our in house AVC provider. A small number of members still have AVC accounts with Standard Life but they are not open to new members.
- 3.6.2 Under the Pension Regulator's (tPR) Code of Practice, AVC arrangements for Defined Benefit Schemes should meet certain aims – they should be efficient, effective and give members value for money. In order to ensure we are complying with *the Code* the Fund has been working with Prudential to review our current AVC arrangements.
- 3.6.3 As a result a small number of underperforming funds will 'soft close' i.e. to new members and three new funds will be added. In addition, the current lifestyle option will be closed and a new option introduced using Prudential's Diversified Growth Funds. A communication will go out to scheme members shortly to notify them of the changes.

### 3.7 **ACCOUNTING**

- 3.7.1 *Audited Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Annual Report & Accounts*

*Budget/Forecast Report*

*Separate Reports, provided.*

### 3.8 **BENEFIT ADMINISTRATION**

- 3.8.1 **LGPS Regulation Update** - The Scottish Public Pensions Agency (SPPA) is in the process of drafting amendments to the main and transitional Local Government Pension Scheme (LGPS) regulations. One of the proposed amendments is removing the requirement for employers consent for voluntary

retirement between ages 55 and 59. This is already in place for LGPS members in England and Wales. The SPPA do not yet have a date for when the change is likely to be implemented.

**3.8.2 Parallel Running** - Aquila Heywood (the provider of the Altair system) has now completed the change of programming language in the background of the pensioner payroll system from Kobol to Java. The benefit administration team carried out parallel running of the two systems throughout June and July which involved double input of payroll data into the old and new system as well as running and reconciling the pensioner payroll for these periods. A few minor issues were discovered when running the payroll and immediate payment runs over the month. However these issues were resolved and the new reporting went live from the opening of input for the September payroll. There is still one outstanding issue which will be addressed in the next software release, until which time a workaround is in place. Extra support has been made available throughout the process from Heywood.

**3.8.3 Proposed Increases to State Pension Age** - The Department for Work and Pensions (DWP) published a report in July 2017 proposing an increase of State Pension Age (SPA) to 68 between 2037 and 2039, seven years earlier than currently scheduled.

**3.8.4** The Normal Pension Age in the LGPS has been linked to SPA following the scheme changes introduced from 1 April 2015. Therefore, any changes to the SPA will impact on LGPS members who have been paying into the scheme on or after this date.

**3.8.5** At this stage, the report only constitutes DWP's proposals; Parliamentary agreement would still be required to implement any changes to SPA. The next SPA review is not due to take place until 2023 and further information will be made available at that time.

**3.8.6** A copy of DWP's final report can be accessed here: <https://www.gov.uk/government/publications/state-pension-age-review-final-report>

### **3.9 TECHNICAL**

**3.9.1** Appendix I, Pensions Administration Strategy Update

### **3.10 GOVERNANCE**

**3.10.1 Pension Fund Staffing Update** - In March 2017 approval was given to add two further Pension Officer posts, one within Investments and the other within the Employer Relationship Team. These posts, in addition to Assistant Pensions Officers posts, are currently awaiting advertisement.

3.10.2 An internal candidate from within the Pension Fund has been successfully recruited into the Trainee Pension Officer – Benefit Administration post and started their new role at the end of June 2017.

3.10.3 There are two upcoming staff retirements in September – the Senior Pensions Officer (Training and Development) and an Assistant Pensions Officer.

3.11 **Annual Benefit Statements** - The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31 August each year. The Fund reported 99.62% compliance in terms of the 2015/16 benefit statements.

3.11.1 The annual benefit statements for 2016/17 were issued to deferred member's week commencing 26<sup>th</sup> June 2017, with active benefit statements currently on schedule to be issued on the 18<sup>th</sup> August. A final outcome report will be taken to the next Committee meeting.

3.12 **Scheme Advisory Board** - Scheme Advisory Board website available at <http://lgpsab.scot>

3.13 **Document Updates** - Appendix II, Pension Groups Update

3.14 **EU General Data Protection Regulation**

3.14.1 The European Union's General Data Protection Regulation (GDPR) will replace the UK's existing data protection legislation when it comes into force on 25 May 2018.

3.14.2 The requirements contained in the GDPR are more onerous than current data protection rules in many areas and higher fines will be available for serious breaches. A working group of senior officers have begun preparations to ensure the Pension Fund is able to meet the requirements of the GDPR by May 2018. Regular progress updates will be provided to the Pension Committee.

3.15 **External Audit** - *Separate report*, provided

3.16 **EMPLOYER RELATIONSHIP**

3.16.1 **Year End/Valuation Process Update** - In order to facilitate the valuation process, employers are required to submit an annual year-end data return by 30<sup>th</sup> April.

3.16.2 The year end process for 2016/17 was completed in just 55 days (down from 63 in 2015/16 and 220 in 2014/15). The Fund continues to expand its online data exchange services, with all employers moving to online monthly submissions from 1 April 2017. This provides several benefits including improved data quality and a reduced year end process for both individual employers and the Fund.

3.16.3 The Employer Relationship Team processes and reconciles each year-end data return. Approximately 25,000 active member records were updated, between April and July 2017, with employer and employer contributions as well as salary information and CARE pay for the year. The completion of this resource and data intensive exercise meant that a full extract of all member information could be sent to the scheme actuary Mercer to allow them to carry out the scheme valuation on 30 June 2017. It also means that the Fund can produce and issue its annual member benefits statements in time to meet the 31 August statutory deadline.

#### **4. FINANCIAL IMPLICATIONS**

4.1 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.

#### **5. LEGAL IMPLICATIONS**

5.1 There are no direct legal implications arising from the recommendations of this report.

#### **6. MANAGEMENT OF RISK**

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

Appendix III, Copy of Risk Register (August 2017)

#### **7. IMPACT SECTION**

7.1 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.

#### **8. BACKGROUND PAPERS**

8.1 None

## **9. APPENDICES**

- 9.1 Appendix I, Pension Administration Strategy report  
Appendix II, Pension Groups Update  
Appendix III, NESPF Risk Register

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