

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	1 DECEMBER 2017
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/DEC17/STRATEGY
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	LAURA COLLISS

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. Approve the delegation of power to the Pensions Manager to authorise deviations from the Local Government Pension Scheme (Scotland) Regulations, as set out in 3.6.3.
- ii. Approve the appointment of an external legal advisor to the Fund, as set out in 3.6.4, following consultation with the Head of Commercial and Procurement Services and approve the associated estimated expenditure;
- iii. Approve the Overseas Travel, as set out in 3.6.8
- iv. Otherwise 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

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 service updates 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.

3.2 **INVESTMENT**

- 3.2.1 *Asset & Investment Manager Performance Report*
Investment Strategy Update Report
Separate Reports, provided.

3.3 **ACCOUNTING**

Budget/Forecast Report
Separate Report, provided.

3.4 **BENEFIT ADMINISTRATION**

3.4.1 **Regulations Update**

SPPA have confirmed that planned updates to the LGPS Regulations to allow members to access benefits from age 55 without employers consent and around tax changes and UFPLS payments will now not be done until an effective date of 01/04/2018.

3.5 **TECHNICAL**

- 3.5.1 Appendix I, Pensions Administration Strategy Update

- 3.5.2 **Benefit Administration Software Contract**
Separate Report, provided

3.6 **GOVERNANCE**

- 3.6.1 **Annual Benefit Statements**
Separate report, provided

3.6.2 **Document Review**

The Fund undertakes an annual review of all major Scheme policies and statements. Revisions as at October 2017 have been made to the following policies:

- Investment Policy
- Conflicts of Interest Policy

- Corporate Governance and SRI Policy
- Stewardship Code
- Overpayment of Pension Policy (new)
- Statutory Deadlines for Staff (new)

A detail of the revisions to each policy is provided at Appendix II. Copies of the revised policies are available on request from the Governance Team or in the secure area of the NESPF website (www.nespf.org.uk).

3.6.3 Request for Delegation of Power

Aberdeen City Council as the administering authority has delegated certain powers to the Pensions Committee and to senior Council officers as set out in the Scheme of Delegated Powers. The Fund now requires confirmation of a delegation of power enabling the Pensions Manager to authorize deviations (where necessary) from the Local Government Pension Scheme (Scotland) Regulations. For example it may be necessary for Officers to deviate from the Regulations in the process of calculating a Scheme member's pension entitlement. In any such cases, where a deviation is authorized, a report will be provided to Committee.

3.6.4 Legal Services Tender

3.6.4.1 The Fund routinely requires legal services during the course of its business e.g. in relation to new investment management agreements, when a new admission body wishes to join the Scheme etc. At present the Fund utilizes the internal ACC legal services team as well as external legal advisors for more specialist or time sensitive advice. An external legal advisor is appointed using a Framework which includes Brodies, Morton Fraser and DWF. The advisors on the framework are utilized by both ACC and Aberdeenshire Council.

3.6.4.2 However reliance on this arrangement leaves the Fund open to potential or actual conflicts of interest. This was demonstrated recently when the Fund required legal advice interpreting the LGPS Regulations in connection with equal pay cases being settled by both ACC and Aberdeenshire Council. As a result of the conflict the Fund was unable to either seek internal legal advice or appoint any of the Framework providers.

3.6.4.3 With this in mind, Officers recommend that the Fund seeks a separate external legal advisor. Officers will fully investigate the best options prior to the appointment of any advisor for example the National LGPS Framework for Legal Services. Framework agreements are widely used across the Public Sector and can deliver considerable savings (both in time and resources). A framework is an agreement put in place with a supplier or range of suppliers that enables purchasers to place orders with service providers without running a full tender exercise and it is fully compliant with the Public Contracts Regulations 2006. The Fund can use this framework to procure legal services matched to its own specific requirements.

3.6.4.4 The cost of accessing the National LGPS Framework for Full Legal Services is approximately £3,500.00.

Appendix III, National LGPS Framework for Legal Services

3.6.5 Internal Audit

Separate report, provided

3.6.6 Scheme Advisory Board

There were no new meetings held over the summer.

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

3.6.7 Review of the secure online area of NESPF website

A secure online area is available on the NESPF website (www.nespf.org.uk) for members of the Pensions Committee and Pension Board. All Committee and Board members have been previously issued with login details to access this secure area. Currently members can find a variety of information on here e.g. fund managers reports, committee packs and Scheme documents etc. However as part of the wider NESPF website review we will also be reviewing the content held within the secure members' area. As such any feedback and/or suggestions on ways to improve this area is welcome to ensure it is fully utilized to support Committee and Board members in their roles.

3.6.8 Overseas Travel

3.6.8.1 With the Pension Fund's increasing allocation to alternatives which usually come in the form of Funds/Fund of Funds there is a requirement for greater due diligence and scrutiny given the nature of these investments being privately owned. Following the Funds continued commitment to the likes of Harbourvest, Partners Group and RCP, overseas travel has been previously authorised and will be required going forward as these companies continue to be global investors, globally headquartered and have global clients.

3.6.8.2 The vast majority of private investment funds have limited partner advisory committees, these committees are composed of representatives of the limited partners, usually significant institutional limited partners/clients, dealing with a number of issues regarding conflicts, investment restrictions, and general oversight and using the committee as a sounding board for other matters.

3.6.8.3 As stated due to the increased allocation from the Pension Fund to alternatives, depending on the level of commitment the Fund will request or be invited to accept a position on Advisory Committees, the Fund also has positions on the SL Capital, Capital Dynamics, and the Scottish Loan Fund/Maven advisory committees.

- 3.6.8.4 Advisory Committees are Officer Lead and by invitation/request only, managers seek to appoint Officers from their clients that have significant experience within the industry to ensure meaningful scrutiny and challenge.
- 3.6.8.5 Officers and elected members have clear statutory responsibilities for the management and investment of the Pension Fund, part of those responsibilities is to monitor and review external investment manager's performance. This is usually achieved by means of regular reporting, presentations to officers/members and attending annual client conferences.
- 3.6.8.6 The Advisory Committee is additional to the above and provides the Pension Fund with greater access to the Manager and the management of those investments and access to the General Partners (underlying assets). Given the increased value of commitments within this asset class this type of forum strengthens the governance arrangements for the Fund together with the Fund Manager.
- 3.6.8.7 Officers recommend the approval for overseas travel to the following Advisory Committees;
1. Harbourvest, 5th/6th December 2017, Boston.
 2. Partners Group, 13th – 16th March 2018, Switzerland.
 3. Harbourvest, May 2018, Boston.
 4. RCP, June 2018, Chicago.
 5. HarbourVest, December 2018, Boston
- 3.6.8.8 Approval is requested for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer Substitute) to attend.
- 3.6.8.9 All travel costs are covered by the individual Fund Managers, these committees are perceived to be of great value by the Fund Managers providing additional governance and transparency, some are also rotated to the UK to deliver a balance to all global clients.

3.7 **EMPLOYER RELATIONSHIP**

3.7.1 **Funding Update**

2017 Actuarial Valuation and Funding Strategy Statement – Initial Results

Separate report, provided

3.7.2 **Request for Admitted Body**

Separate report, provided

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 IV, Copy of Risk Register (October 2017)

7. IMPACT SECTION

- 7.1 The Pensions 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, Document Review
Appendix III, National LGPS Framework for Legal Services
Appendix IV, NESPF Risk Register

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