

ABERDEEN CITY COUNCIL

COMMITTEE	Full Council
DATE	6 th March 2018
REPORT TITLE	North East Scotland Pension Fund Budget 2018/19 - 2022/23
REPORT NUMBER	CG/18/027
DIRECTOR	Steven Whyte
REPORT AUTHORS	Gill Mutch & Laura Colliss

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Council with details of the budget included in the 2018/19 – 2022/23 General Fund budget that relates to the North East Scotland Pension Fund (NESPF).
- 1.2 The costs of administering the NESPF is based on Aberdeen City Council's statutory obligation to administer the Local Government Pension Scheme (LGPS), the costs of which are fully met by the NESPF.

2. RECOMMENDATIONS

- 2.1 It is recommended that Council:
 - a) Notes the provision in respect of the North East Scotland Pension Fund (NESPF) contained within the Council's General Fund budget for 2018/19 to 2022/23; and
 - b) Instructs the Chief Officer – Finance to recover, from the NESPF, the actual costs incurred by the Council in acting as the administering authority for the NESPF.

3. BACKGROUND

3.1 FUND STRUCTURE

- 3.1.1 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.
- 3.1.2 The LGPS was established under the Superannuation Act 1972 and is a statutory scheme. The Scheme Regulations are now made under the Public Service Pension Schemes Act 2013 and in the case of the LGPS (Transitional Provisions and Savings) (Scotland) Regulations 2014, under the

Superannuation Act 1972. 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.

3.1.3 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.

3.1.4 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.

3.1.5 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 Scheme's Actuary.

3.2 SCHEME GOVERNANCE

3.2.1 Aberdeen City Council, as the administering authority for the Pension Fund, delegates all pension scheme matters to the Pensions Committee which has the relevant authority via its terms of reference. Support to the Pensions Committee is provided by the Chief Officer – Finance and the Chief Officer – Governance of Aberdeen City Council.

3.2.2 In line with Scheme Regulations, the Funds established a Pensions Board. The Pensions Board is responsible for assisting the Scheme Manager in relation to compliance with Scheme Regulations and the requirements of the Pensions Regulator.

3.3 KEY FACTS FOR THE MAIN FUND – as at 31 March 2017

3.3.1 The main Fund has 63,560 members and 56 employers.

3.3.2 There are three main categories of membership, comprising actively contributing members (25,329), members who have left employment but who have a deferred entitlement (19,111) and members in receipt of pensions (19,120).

3.3.3 A diversified portfolio of assets amounting to £3.8 billion is managed externally by a number of appointed fund managers.

3.3.4 Total pension contributions in 2016/17 were £127.4 million comprising employer contributions of £98.5 million and employee contributions of £28.9 million.

3.3.5 The Fund made payments to retired members during 2016/17 amounting to £94.6 million. During the same period a total of £22.6 million of lump sum payments were also made.

- 3.3.6 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”.
- 3.3.7 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.
- 3.3.8 This is based on a number of assumptions that take 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%.

3.4 KEY ACHIEVEMENTS – 2016/17

- 3.4.1 The Fund’s outstanding achievement during 2016/17 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.
- 3.4.2 The mobilisation of these three technologies has improved data efficiency and accuracy, resulting in several benefits including:
- Further reduced the time taken to complete year end from 220 staff days to 63
 - Successfully issued 99.6% of benefit statements before the 31st August deadline
 - 558,844 system updates automatically processed reducing processing times and the potential for keying errors.
- 3.4.3 In line with the Funds’ long term move to digital information exchange and communication, the Fund also upgraded and relaunched our Member Self Service (MSS) facility “My Pension.”
- 3.4.4 Activation Keys to register for MSS were issued with active and deferred benefit statements. In the month that followed, the number of registered users increased by 112% for active members and by 286.7% for deferred members. In total by the end of 2016/17 there were over 10,000 registered users, with over 6,000 pension calculations performed and 1,000 death grant nominations updated.
- 3.4.5 The Fund continued to evaluate administration performance as part of its Pension Administration Strategy (PAS). Of our seven KPIs, five measurements increased on the previous year, with our best ever percentages recorded in three areas.
- 3.4.6 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 test working party and user group meetings to test pension software and discuss system performance and requirements going forward
- Site visits and calls with other Funds to discuss the NESPF's automated processing using i-Connect and MSS

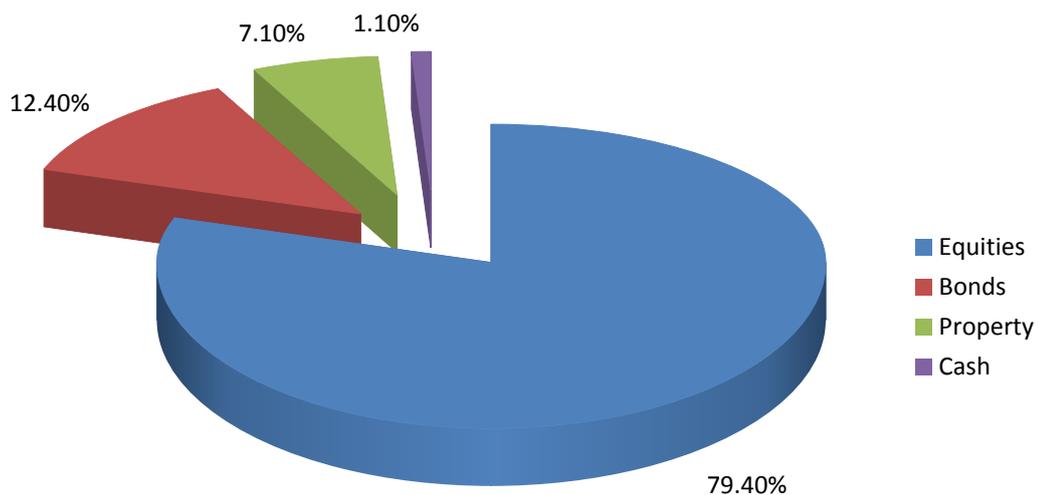
3.4.7 The Fund won the Quality of Service award at the LGC Investment Awards 2017. The Fund was shortlisted for a further six national awards including Best Use of IT and Technology, DB Scheme of the Year and Public Sector Scheme of the Year.

3.4.8 An interim valuation was carried out in 2016, prior to the required triennial valuation of 2017. The process was an overwhelming success, with the actuary commending the Fund on the high quality of its data. Going forward the Fund will look to replicate the successful process and outcome for the 2017 valuation.

3.4.9 The Fund continues to recognise its role as a shareholder in terms of Corporate Governance and Responsible Investment, voting at 191 Annual General Meetings/Special Meetings on 2,998 resolutions as well as holding membership of the Local Authority Pension Fund Forum and being signatories for the Sustainable Stock Exchange.

3.4.10 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 2017, as per the NESPF Annual Report 2017.

Asset allocation - Main Fund as at 31 March 2017



3.5 2018/19 BUDGET

3.5.1 The budget for Aberdeen City Council (ACC) for 2018/19 is estimated at £1.6 million and primarily relates to direct staff costs

Budget - cost areas	2018/19	2019/20	2020/21	2021/22	2022/23
	£'000	£'000	£'000	£'000	£'000
Salary costs Direct salaries and costs for the management of the Fund	1,414	1,442	1,471	1,501	1,531
Support Costs <i>Property, ICT, Payroll, Legal, Human Resources, Accounting Services</i>	202	204	206	208	210
Total estimate recharge	1,616	1,646	1,677	1,709	1,741

3.6 GOVERNANCE

3.6.1 The Pension Fund budgeted costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Chief Officer – Finance reports to the Pensions Committee on a quarterly basis.

4. FINANCIAL IMPLICATIONS

4.1 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 Chief Officer – Finance and a recommendation to this effect is included above.

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. IMPACT SECTION

The administering authority via 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

North East Scotland Pension Fund Annual Report & Accounts (2016/17) and Fund Governance Policy Statement.

9. APPENDICES (if applicable)

N/A

10. REPORT AUTHOR DETAILS

Gill Mutch
Finance Manager (Projects)
 (52)2556
Email gmutch@aberdeencity.gov.uk

Laura Colliss
Pensions Manager
 (26)4158
Email lcolliss@nespf.org.uk

HEAD OF SERVICE DETAILS

Steven Whyte
Director of Resources
SWhyte@aberdeencity.gov.uk
(01224) 523566