

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	30 NOVEMBER 2018
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/NOV18/STRAT
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TERMS OF REFERENCE	PENSIONS COMMITTEE 1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee: -

- 2.1 approve the submission of the response to the Scheme Advisory Board formal consultation on the LGPS (Scotland) Structure Review, as set out in Appendix II (item 3.9.2);
- 2.2 approve the travel for one appointed Advisory Committee Officer to attend the following:-
- Partners Group, Singapore, March 2019
 - RCP, Chicago, June 2019
 - Harbourvest, Boston, December 2019
- (item 3.9.4); and
- 2.3 approve the changes to the NESPF Funding Strategy Statement, incorporating how the Fund will deal with any potential surplus amounts upon termination, following the introduction of the Local Government Pension Scheme (Scotland) Regulations 2018 (item 3.10).

3. BACKGROUND

- 3.1 In line with the structural review of the Pension Fund, six specific areas were identified to 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 (<http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>) 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 Report, provided

3.5.2 **Local Authority Pension Fund Forum (LAPFF)**

Copies of the latest e-bulletins, quarterly engagement and annual reports are available at <http://www.lapfforum.org>

3.6 **ACCOUNTING**

3.6.1 *Budget/Forecast 2018/19 Report*

Separate Report, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Annual Benefit Statements**

Separate report, provided

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.8.2 **NESPF Website Proposal**

Separate Report, provided

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

Copies of the latest bulletins and meetings available at <http://lgpsab.scot>

3.9.2 **Scheme Structure Review Update**

Following September's Pensions Committee, a formal response to the SAB consultation has been drafted by Officers as instructed which sets out preference to retain the status quo, along with greater co-operation and collaboration.

Appendix II, Draft Consultation Response

3.9.3 **Pension Fund Staffing Update**

Following successful interviews, the positions of Senior Pensions Officer - Training & Development and Pensions Officer - Employer Relationship have now been filled. Both candidates were internal appointments which demonstrates that the current staff design is delivering in terms of succession planning but now means that their previous positions will need to be backfilled. Interviews are also scheduled to take place shortly to recruit two Assistant Pensions Officer and a Trainee Pensions Officer-Benefit Administration.

3.9.4 **Overseas Travel**

3.9.4.1 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 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.

3.9.4.2 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, general oversight and using the committee as a sounding board for other matters.

- 3.9.4.3 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 the Advisory Committees, the Fund also has positions on the SL Capital, Capital Dynamics, and the Scottish Loan Fund/Maven Advisory Committees.
- 3.9.4.4 Advisory Committees are Officer led 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.
- 3.9.4.5 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 manager's performance. This is usually achieved by means of regular reporting, presentations to Officers/Members and attending client conferences.
- 3.9.4.6 The Advisory Committee is additional to the above and provides the Pension Fund with greater access to the Manger 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.
- 3.9.4.7 Officers recommend the approval for overseas travel to the following Advisory Committees:
- 1. Partners Group, Singapore, March 2019**
 - 2. RCP, Chicago, June 2019**
 - 3. Harbourvest, Boston, December 2019**
- 3.9.4.8 Approval is requested for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer Substitute) to attend.
- 3.9.4.9 Most 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.

3.9.5 Document Updates

The following new draft document has been created and is available to view in the secure members area of the website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>

- Business Continuity Plan

3.10 EMPLOYER RELATIONSHIP

3.10.1 Funding Strategy Statement Update

3.10.2 The Local Government Pension Scheme (Scotland) Regulations effective from 1 June 2018 allow for payment of a calculated surplus to employers exiting the Fund upon a termination event.

3.10.3 This change addresses an imbalance which existed in previous regulations, whereby employers exiting the Fund were required to meet any deficit requirements but no allowance was given to refunding surplus.

3.10.4 The Fund has a robust Termination Policy imbedded within the Funding Strategy Statement which determines how liabilities are calculated for exiting employers. Following the regulation changes, the Fund now needs to specify how it treats a surplus situation, in particular where a Scheme employer has agreed to act as guarantor for an admission body. The FSS 2018 has been drafted in conjunction with the Scheme actuary.

3.10.5 In accordance with the Scheme regulations a full consultation with all participating employers was carried out from 28 September to 19 October 2018 to invite comments on the new FSS 2018. Only four participating employers requested further clarification or provided feedback during the consultation process. No changes have been recommended following the consultation.

Appendix III, Draft Funding Strategy Statement

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 recommendation in 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 (November 2018)

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 3 Report 2018/19
Appendix II, Draft Consultation Response
Appendix III, Draft Funding Strategy Statement
Appendix IV, Copy of Risk Register (November 2018)

11. REPORT AUTHOR CONTACT DETAILS

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