

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	17 December 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/DEC21/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1, 4-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee: -

- 2.1 note the final outcome of the annual benefit statement project, which was completed successfully despite challenges of covid and homeworking, for assurance (3.9.2 of the report refers);
- 2.2 note the updates to the Fund Policy documents as set out in 3.9.3; and
- 2.3 approve the travel for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer substitute) to attend the following Advisory Committees (as per item 3.9.6):
- Partners Group, Denver, March 2022
 - Harbourvest, Boston, May 2022 (TBC)
 - Harbourvest, Boston, December 2022 (TBC)
 - Blackrock, Europe, 2022 (TBC)

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
 - Systems
 - 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>).

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

3.5.2 **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 and Projected Spend 2021/22 Report*

Separate Report, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Regulatory Updates**

Pension Schemes Act 2021

3.7.2 This is the most significant piece of UK pensions legislation since the Pensions Act 2004. It significantly broadens the powers of the Pensions Regulator, introducing criminal offences that are drafted in a very broad manner. It will be supplemented by a range of Codes of Practice, guidance and regulations to flesh out the details. Along with the increased powers for tPR, the Act introduces powers to make regulations in relation to climate change risk and also requires Fund's including the Local Government Pension Scheme to supply data for the pensions dashboard, with onboarding expected around October 2023.

A guide to the Pensions Schemes Act is available at <https://cms.law/en/gbr/publication/pension-schemes-act-2021>

The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021

- 3.7.3 These regulations introduce further legal restrictions to a member's statutory right to transfer and come into effect from 30 November 2021. The regulations give administering authorities tools to act where suspicions about the circumstances that have prompted the transfer request are identified. It will no longer be the case that a member can insist on a statutory transfer taking place in such circumstances.

3.8 **SYSTEMS**

- 3.8.1 Performance reporting is provided on a quarterly basis.

Appendix I, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

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

3.9.2 **Pension Fund Annual Benefit Statements Final Update**

- 3.9.2.1 Following on from the update to Committee in September (PC/SEPT21/STRAT), the annual benefit statement project has now been successfully completed.

- 3.9.2.2 Active benefit statements were issued electronically to members through My Pension (MSS) by the statutory deadline of 31 August. Letters and emails were issued in advance to active members advising them that their statements were available to be viewed online and activation keys were issued to those members not already registered for MSS.

- 3.9.2.3 The Fund recorded 99.64% compliance for all benefit statements in 2020/21 (Active, Deferred and Councillors). This is a slight decrease from the reported figure of 99.74% in 19/20. Despite the ongoing Covid-19 and home working challenges, the hard work of both NESPF staff and our employers has ensured another very successful outcome from the ABS project.

- 3.9.2.4 In line with our Breaches Policy, the ABS result will be recorded on the Breaches Register but not reported to the Pensions Regulator as we do not deem the breach to be of material significance. Officers have already investigated the member records which did not generate an annual benefit statement. 155 errors were identified on active records out of the total 43,030 records processed. 2 of these errors were rectified and the members received their statements by the 31 August deadline. Of the remaining errors, 79 members were not issued statements as they had not paid any pension contributions during the year 20/21 i.e. they were employees taken onto the payroll in February or March and had not received any pay by 31 March.

3.9.2.5 However 74 errors occurred on records where the member should have received a statement. These were casual members who had not paid pension contributions in 19/20 and for whom the administration system did not correctly record them as "C" for casual. Having identified the errors, statements were generated manually and issued but after the 31 August deadline. A project has been undertaken to ensure all casual employees are now correctly recorded on the system, this will ensure a statement is automatically generated without any further issue from next year.

3.9.2.6 Costs for the ABS project this year were down from 2020 due to reduced mailing costs with less letters being mailed, and reduced printing costs due to email broadcasts. For example, the cost of each ABS letter is approximately 53p compared to an email notification which only costs 18p. Overall the move to online benefit statements has delivered a cost saving for the Fund, we anticipate costs to continue to reduce as the process is streamlined and more members register for MSS.

3.9.2.7 At present 651 (-18 from 19/20) active and 448 (+33 from 19/20) deferred members have opted in to receive traditional paper statements and letters will still be sent to members not registered for MSS.

3.9.2.8 In terms of online usage following the mailing, we saw respectively an increase of 3.3% in deferred members registering for MSS and a 6.7% increase for active members. In addition to viewing benefit statements, MSS is a useful tool for members to view up to date pensions data, keep the Fund informed of changes to personal data and help plan for their retirement using the online calculator. Officers continue to participate in the MSS working group to help future developments.

3.9.3 Document Update

The following documents have been updated and are available in the secure member of the trustee area of the NESPF website:

- Governance Compliance Statement (updated from partial to full compliance to reflect changes agreed as part of Annual Report and Accounts)
- Training Policy (updated to reflect revised CIPFA Knowledge and Skills Framework)

3.9.4 The Pensions Regulator New Code of Practice

The Pensions Regulator has published an interim response to their consultation on the new single Code of Practice. TPR have issued their interim response to allow further time to consider the responses they received and to incorporate code content arising from the Pension Schemes Act 2021 into the new code. They expect to lay the new Code in Parliament in Spring 2022, with an effective date from Summer 2022. Officers are already considering the new draft Code and what actions need to be taken to ensure the Fund remains fully compliant.

3.9.5 Procurement

Separate report, *provided*

3.9.6 Overseas Travel

- 3.9.6.1 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 Blackrock, 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.
- 3.9.6.2 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.
- 3.9.6.3 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.
- 3.9.6.4 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.
- 3.9.6.5 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 managers' performance. This is usually achieved by means of regular reporting, presentations to Officers/Members and attending client conferences.
- 3.9.6.6 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.
- 3.9.6.7 Officers recommend the approval for overseas travel to the following Advisory Committees:
- 1. Partners Group, Denver, March 2022**
 - 2. Harbourvest, Boston, May 2022 (TBC)**
 - 3. Harbourvest, Boston, December 2022 (TBC)**
 - 4. Blackrock, Europe 2022 (TBC)**
- 3.9.6.8 Approval is requested for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer Substitute) to attend.

3.9.6.9 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.

3.10 **EMPLOYER RELATIONSHIP**

3.10.1 **Data Quality**

Updated Data Quality Improvement Plan and quarterly scheme reports from Insights.

*Appendix II and III, NESPF Scheme Reports
Appendix IV, Data Quality Improvement Plan*

3.10.2 **Deferred Debt Arrangements**

Separate report, provided

3.10.3 **Investment Buckets – Risk Management**

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 a number of legal implications arising from implementation of the strategy which have been identified and addressed as set out in this report.

6. **MANAGEMENT OF RISK**

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	L	The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.
Compliance	N/A	N/A	N/A
Operational	N/A	N/A	N/A
Financial	N/A	N/A	N/A
Reputational	N/A	N/A	N/A

Environment / Climate	N/A	N/A	N/A
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Appendix V, Copy of Risk Register (November 2021)

7. OUTCOMES

7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update
Appendix II and III NESPF Scheme Reports
Appendix IV, Data Quality Improvement Plan
Appendix V, Copy of Risk Register (November 2021)

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