



North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting March 2023

1. Background

1.1 Quarterly Report to March 2023

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations.

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

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

To support this support services updates covering the six strategic areas will also be available via the secure website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>.

Also available on the Pension Fund website are all the policy documents that govern the Pension Fund including its various strategies.

2. Investment

2.1 Asset & Investment Manager Performance Report

Separate report, provided

2.2 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. Accounting

3.1 Budget/Forecast and Projected Spend 22/23 Report Statement of Accounts 2022-23 Action Plan

Separate reports, provided

4. Benefit Administration

4.1 Award Success

The Pension Fund were winners at the Local Authority Pension Fund (LAPF) Awards that took place on 15 December 2022, winning the Scheme Administration Award, having been shortlisted for this award and LGPS Fund of the Year (assets over £2.5 billion).

The Fund is also currently shortlisted for two awards with Pensions Age for DB Scheme of the Year and Best Investment Strategy Award – Pension Fund. The award ceremony will be held on 21 March 2023.

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to December 2022 is attached to this report.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

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

6.2 Staff Training Update

Individual staff training and development continued during 2022/23.

All staff once again completed the mandatory annual Information Governance refresher training. Focus then turned to completion of a range of other “mandatory” Aberdeen City Council online learning courses, with the aim of having all these completed by December 2023.

The Fund currently has 7 Trainee Pensions Officer (TPO) – Benefit Administration navigating through its internally developed training programme under the guidance of the Training & Development Team. The internal training programme was re-vamped at the end of 2022, the new learning modules will be more flexible and ensure training can be aligned to current work pressure demands within the wider benefits administration team. Given the number of Trainees, there will be an increased workload on the Training & Development Team during 2023/24, however we are confident in seeing a number of highly qualified Pensions Officers emerge at the end of the programme.

6.3 Recruitment

Two unfilled posts within the existing Pension Fund staff structure have now been converted to Modern Apprentice (grade 4) positions. The aim is to use the government backed scheme to get young, enthusiastic staff into the pensions department and train them up, with the hope of them then going on to become permanent members of staff. This is one solution for helping address the issue of staff recruitment and retention going forward.

6.4 Annual Governance Review

Review of NESPF compliance with the Public Service Pensions Act 2013 and the Pensions Regulator Code of Practice no.14.

Separate report, provided

6.5 Fraud, Whistleblowing and Breaches of the Bribery Act

There have been no cases during the year. All NESPF staff are required to familiarise themselves with the Whistleblowing Policy and compliance is monitored by the Governance Team. Aberdeen City Council will approve an updated Whistleblowing Policy in 2023.

7. Employer Relationship

7.1 Data Quality Improvement Plan

The last update to the Data Quality Improvement Plan was noted in the Strategy Report taken to the December 2021 Committee meeting (PC/DEC21/STRAT). The Plan has now been updated for 23/24.

Appendix III, Data Quality Improvement Plan

7.2 Terminations/Exiting the Fund

Under the current Termination Policy, for employers with no guarantor in the Fund (i.e. someone who agrees to take on responsibility for the exiting employer's orphaned liabilities), the termination position is assessed on an "insurance" basis upon exiting. This is a more cautious basis of assessment of the final liabilities for the employer than compared to an ongoing employer who would fund their liabilities in the longer term.

Further details of the current approach are set out in the Funding Strategy Statement (FSS) but critically the financial assumptions are predominately related to the yields on Government debt (known as Gilts). The principle of the Termination Policy and the assumptions used is to ensure, as far as possible, that there is sufficient monies to pay all the benefits due in relation to the members of the outgoing employer. The Fund chooses to take a more cautious view to avoid these costs falling to remaining employers via their contributions at subsequent valuations.

More recently, interest rates have risen and bond markets have been volatile which has led to a fundamental shift in the termination assumptions, generally resulting in lower termination liabilities and thus less money being requested on termination. The Fund therefore needs to consider if this is appropriate, given the risk associated with funding the liabilities left behind by an exiting employer then being passed to other Fund employers and ultimately the tax payer. In the short term, the Fund intends to consider this on a case by case basis taking into account all factors (financial and non-financial) as per the discretion in the FSS. A more formal review of the Termination Policy will be undertaken in conjunction with the Fund Actuary as part of the 2023 valuation and employers and Committee will be consulted with on any changes as part of the FSS consultation towards the end of 2023.

7.3 Employer Update

Osprey Housing exited the scheme with effect from 31 December 2022. All liabilities have been discharged following payment of the termination fee.

Inspire have secured a guarantee with Aberdeen City Council, Aberdeenshire and The Moray Council.

Aberlour Childcare Trust, having entered into a deferred debt arrangement in August 2022, have now terminated from the Fund with effect from 30 November 2022. In accordance with the Regulations the Scheme Actuary calculated the value of the liabilities as at the exit date in line with the NESPF Termination Policy. Due to the recent interest rate increases and volatility in the bond markets (as described above in 7.2) additional considerations were given to the appropriateness of the assumptions used. This resulted in a slight adjustment to the inflation assumption to take a more prudent approach to inflation risk. Following completion

of the termination process a termination certificate will be issued to Aberlour Childcare Trust and the liabilities will be discharged.

7.4 Financial Forum & Training

With the arrival of the bad weather in December, the decision was taken to postpone the Financial Forum and training session which had been scheduled to follow.

The Financial Forum will now take place the day preceding the September Committee meeting on 14 September, with the training session following the meeting on the 15 September 2023. This will allow the event and training to tie in with the results from the whole Fund valuation.