Public Document Pack

ABERDEEN
CITY COUNCIL

To: **Pension Committee Members** - Councillor Crockett, Convener; Councillor Reynolds, Vice Convener; and Councillors Donnelly, Kiddie, MacGregor, Malik, Malone, Noble and Young

Pension Board Members – Councillor Howatson, Chairperson; Mr J Mulholland, Vice Chairperson; Councillors Cowe, and Ironside; and Mr K Masson and Mr A Walker (and one vacancy)

Town House,
ABERDEEN, 24 November 2016

PENSION COMMITTEE AND PENSION BOARD

The Members of the **PENSION COMMITTEE AND PENSION BOARD** are requested to meet in Committee Room 2 - Town House on **FRIDAY, 2 DECEMBER 2016 at 10.30 am**.

FRASER BELL
HEAD OF LEGAL AND DEMOCRATIC SERVICES

B U S I N E S S

DETERMINATION OF EXEMPT BUSINESS

1 Members are requested to determine that the exempt business be considered with the press and public excluded

MINUTES AND MOTIONS LIST

2 Minutes of Previous Meetings of 24 June and 19 September 2016 (Pages 3 - 14)

3 Matters Arising

4 Motions List (Pages 15 - 16)

GOVERNANCE

5 Strategy (Pages 17 - 78)

6 Interim Valuation Results for the North East Scotland Pension Fund (Pages 79 - 82)

7 Interim Valuation Results for the Aberdeen City Council Transport Fund (Pages 83 - 86)

8 Risk - Employer Covenant (Pages 87 - 90)

ACCOUNTING

9 Budget/Forecast and Projected Spend 2016-17 (Pages 91 - 98)

10 Update on Annual Benefit Statements (Pages 99 - 102)

ADMINISTRATION

11 Meeting Dates for 2017 (Pages 103 - 104)

NOT FOR PUBLICATION

INVESTMENT

12 Asset and Investment Manager Performance Report (Pages 105 - 132)

13 Investment Strategy Update (Pages 133 - 164)

Website Address: www.aberdeencity.gov.uk

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, tel 522503 or email sdunsmuir@aberdeencity.gov.uk

PENSION COMMITTEE AND PENSION BOARD

ABERDEEN, 24 June 2016. Minute of Meeting of the PENSION COMMITTEE AND PENSION BOARD. Present:- Councillor Crockett, Convener; Councillor Reynolds, Vice-Convener; and Councillors Donnelly, MacGregor, Malik, Noble and Young (Pension Committee); and Councillor Howatson, Chairperson, Mr J Mulholland, Vice Chairperson, Councillor Cowe, Councillor Ironside CBE, Mr K Masson and Mr A Walker (Pension Board).

The agenda and reports associated with this minute can be found at:- http://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MId=3907&Ver=4

Please note that if any changes are made to this minute at the point of approval, these will be outlined in the subsequent minute and this document will not be retrospectively altered.

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business, which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – items 13 (Asset and Investment Manager Performance Report) and 14 (Investment Strategy Update).

The Committee resolved:-
in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of items 13 and 14, so as to avoid disclosure of exempt information of the class described in paragraph 6.

The Board resolved:-
to note the decision of the Committee.

MINUTE OF PREVIOUS MEETING OF THE PENSION COMMITTEE AND PENSION BOARD

2. The Committee and Board had before them the minute of the Pension Committee and Board meeting of 11 March 2016.

The Committee and Board resolved:-
to approve the minute as a correct record.

MINUTE OF PENSION BOARD OF 13 MAY 2016

3. The Committee had before it for information the minute of the annual Pension Board meeting of 13 May 2016.

The Committee resolved:-
to note the minute.

MOTIONS LIST

4. The Committee had before it a motions list prepared by the Head of Legal and Democratic Services. In relation to the motion from Councillor Kiddie requiring a report on ethical investments in respect of the Pension Fund, it was noted that the report from KPMG (article 10 of the minute of 17 December 2015 refers) would possibly not solely satisfy the terms of the motion, and that the Committee had agreed to defer consideration of this item until Councillor Kiddie was in attendance.

The Committee resolved:-
to note the motions list.

The Board resolved:-
to note the decision of the Pension Committee.

PENSIONS INVESTMENT STRATEGY

5. The Committee had before it a report by the Internal Auditor in respect of the North East Scotland Pension Fund – Investment Strategy and Investment Performance Management.

The Committee heard from David Hughes, Internal Auditor, who spoke to the report and advised that the recommendations for improvement contained within the report had been responded to positively by Management.

The Committee resolved:-
to note the report.

The Board resolved:-
to note the decision of the Committee.

INTERNAL AUDIT PLAN FOR 2016/17

6. The Committee had before it a report by the Internal Auditor which sought approval for the Internal Audit plan for 2016/17.

The report explained that although one of the functions of the Audit, Risk and Scrutiny Committee was to review the activities of the Internal Audit function and to approve the

Internal Audit plan for Aberdeen City Council, that remit did not extend to any Internal Audit issues relating to the Pension Fund.

The report recommended:-
that the Committee approve the Internal Audit Plan for 2016/17.

The Committee resolved:-
to approve the recommendation.

The Board resolved:-
to note the decision of the Committee.

PROGRESS UPDATE ON THE 2015/16 AUDIT

7. The Committee had before it a report by the External Auditor which provided an update on progress with the 2015/16 audit of North East Scotland Pension Funds.

The Committee resolved:-
to note the report.

STRATEGY

8. The Committee had before it a report by the Pensions Manager which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report contained updates on the Pension Fund Staff Restructure; an update from the External Auditors and Internal Audit; the annual report of the Pensions Board; the Scheme Advisory Board; and the Risk Register.

The Committee resolved:-
to note the report

The Board resolved:-
to note the decision of the Committee.

REQUEST FOR ADMITTED BODY STATUS

9. The Committee had before it a report by the Head of Finance which set out a request from Visit Aberdeenshire for admitted body status within the Local Government Pension Scheme administered by Aberdeen City Council.

The report advised that as of 1 July 2016, Aberdeenshire Council would transfer one member of staff to Visit Aberdeenshire under the Transfer of Undertakings (Protection of Employment) Regulations (TUPE). The regulations required that Visit Aberdeenshire provide pension benefits of an equal or greater value for the transferring member, therefore a request had been received for Visit Aberdeenshire to become an admission body within the NESPF.

The report recommended:-
that the Committee agree to allow Visit Aberdeenshire to participate in the Local Government Pension Scheme administered by Aberdeen City Council to enable them to meet the requirements of the TUPE transfer of one member of staff from Aberdeenshire Council.

The Committee resolved:-
to approve the recommendation.

The Board resolved:-
to note the decision of the Committee.

TRAINING

10. With reference to article 1(C) of the minute of the meeting of the Pension Board of 13 May 2016, the Committee had before it a report by the Head of Finance which provided details of the 2016/17 training plan for the Pension Committee and Pension Board of the North East Scotland Pension Fund.

The Committee resolved:-
to note the report.

The Board resolved:-
to note the decision of the Committee.

BUDGET/FORECAST AND ACTUAL SPEND 2015-16 AND BUDGET/FORECAST 2016-17

11. The Committee had before it a report by the Head of Finance which set out the details of the Management Expenses Budget / Forecast and Actual Spend 2015/16 for the North East Scotland Pension Fund and a proposed budget / forecast for 2016/17.

Members heard that although there had been an overspend on Administrative Staff costs in 2015/16, the additional £10,000 spend in 2016/17 was required to enable the staff structure to accurately reflect the required increase in capacity as a result of the Fund growth.

The report recommended:-
that the Committee –
(a) note the update on the NESPF Management Expenses Budget / Forecast and Actual Spend 2015/16; and
(b) approve the indicative NESPF Management Expenses Budget / Forecast 2016/17.

The Committee resolved:-
to approve the recommendations.

The Board resolved:-
to note the decision of the Committee.

NESPF ANNUAL REPORT AND ANNUAL ACCOUNTS 2015-16

12. The Committee had before it the North East Scotland Pension Fund Unaudited Annual Report and Accounts for the period 1 April 2015 to 31 March 2016. The report included the Management Commentary as required by The Local Authority Accounts (Scotland) Regulations 2014 which set out details of the Fund's business, risk and the uncertainties facing the Fund, performance and financial position including key performance indicators and environmental and social issues.

The Committee then heard from the Head of Finance in respect of the report.

It was recommended:-
that the Committee –
(a) note the annual report and accounts as presented; and
(b) approve the annual governance statement.

The Committee resolved:-
(i) to approve the recommendations; and
(ii) to thank all staff for their work on the preparation of the accounts, particularly Michael Scroggie and Louise Campbell.

The Board resolved:-
to note the decision of the Committee.

In accordance with the decision recorded under article 1 of this minute, the following items were considered with the press and public excluded.

ASSET & INVESTMENT MANAGER PERFORMANCE REPORT

13. With reference to article 12 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 March 2016. The report was supported by the BNY Mellon Fund Analysis and Performance Report and the Fund Managers' quarterly investment reports.

The Committee resolved:-
to note the report.

The Board resolved:-
to note the decision of the Committee.

DECLARATION OF INTEREST

Councillors Donnelly and Young declared an interest in the following item by virtue of their position as Trustees of Oakbank School. Both members considered that the nature of their interest required them to withdraw from the meeting during discussion of the item.

UPDATE ON LEGAL MATTER

14. With reference to article 13 of the minute of its previous meeting, the Committee received an update from the Head of Finance in respect of the ongoing legal matter.

Mr Whyte explained that it had been intended to provide a report to the June Committee as discussed at the last meeting, however the financial position was still to be concluded. He advised that if the matter was not settled by June / July then officers would contact the Committee to ask if they wished a special meeting to be arranged to discuss the action to be taken.

The Committee resolved:-
to note the update.

The Board resolved:-
to note the decision of the Committee.

Councillors Donnelly and Young rejoined the meeting at this juncture.

DECLARATION OF INTEREST

At this juncture, the Head of Finance left the meeting due to his role as adviser to Aberdeen City Council in respect of one of the items under consideration in the following article.

INVESTMENT STRATEGY UPDATE

15. The Committee had before it a report by the Head of Finance which provided an update on the Fund's investment strategy and proposed actions to secure compliance and adherence to the Fund's benchmark allocation.

The report recommended:-
that the Committee –
(a) approve item 5.3, points 1 to 6 as set out in the report;
(b) approve item 5.4 as set out in the report; and
(c) note the remainder of the report.

In respect of the recommendation at item 5.4, it was noted that the wording required to be amended to, "to agree the investment opportunity in principle, with the final decision falling to the Pension Fund Manager ***in conjunction with*** the Pension Committee Convener, following full due diligence."

The Committee resolved:-
to approve the recommendations.

The Board resolved:-
to note the decision of the Committee.
- **COUNCILLOR BARNEY CROCKETT, Convener**

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PENSION COMMITTEE AND PENSION BOARD

ABERDEEN, 19 September 2016. Minute of Meeting of the PENSION COMMITTEE AND PENSION BOARD**.** Present:- Councillor Crockett, Convener; and Councillors Donnelly, MacGregor, Malik and Young (Pension Committee); and Councillor Howatson, Chairperson; Mr J Mulholland, Vice Chairperson; and Mr K Masson (Pension Board).

The agenda and reports associated with this minute can be found at:-
http://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MId=4424&Ver=4

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UPDATE FROM HEAD OF FINANCE - LEGAL MATTER

1. With reference to article 14 of the minute of the meeting of 24 June 2016, Members received an update from the Head of Finance on the outstanding legal matter that was still to be concluded in respect of the debt as a result of the termination agreement due from an admitted body. Mr Whyte explained that as of 16 September 2016, the matter had now been settled in full.

CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS

2. The Committee had before it a report by the Head of Finance which set out the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for consideration and signing.

The Convener thanked the Head of Finance and the Pensions team for their work over the last year, and particularly highlighted the organisation of the visit to the Fund Managers in London in September, adding that the benefits of the visit had been clear. He also noted the good working relationship between the Pension Committee and the Pension Board and highlighted the activity undertaken on behalf of the Pension Fund through the Local Authority Pension Fund Forum. Finally, he welcomed the scrutiny undertaken by the Audit team over the year and thanked them for their work.

The Head of Finance then outlined key highlights from the report, including the increases in North East Pension Fund member contributions; the total overall member income; expenditure and investment income.

Mr Whyte thanked officers for their work on the preparation of the accounts, paying particular thanks to Michael Scroggie, Gary Ferguson, Sheena Shirreffs, Louise Campbell, Cristina Clemente and Laura Colliss.

He also noted that it was the final year of work with the current Audit Team and thanked Anne MacDonald and her team for their hard work and assistance.

Councillor Young echoed the comments of the Convener and the Head of Finance and also thanked the Board for their scrutiny of the Committee decisions over the past year. Councillor Malik also thanked Mr Whyte and his team, the Audit team, and the Pension Board. Finally, he thanked the Convener.

Members then asked questions in respect of the annual report.

The Committee resolved:-
to consider and sign off on the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The Board resolved:-
to note the decision of the Committee.

NORTH EAST SCOTLAND PENSION FUND 2015/16 AUDIT - REPORT BY THE EXTERNAL AUDITOR

3. The Committee had before it the External Auditor's 2015/16 Annual Audit Report to Members and the Controller of Audit, a summary of findings resulting from the 2015/16 audit of the North East Scotland Pension Fund. The report provided detail on financial statements; financial management and sustainability; governance and transparency; and best value and value for money. The report also contained an action plan which set out the recommendations to address the risks identified during the course of the audit. These had been agreed with officers and the Management response was also reflected in the report.

Ms MacDonald spoke to the report and highlighted key sections. She also circulated an amended section of the report to reflect the change in circumstances outlined by the Head of Finance earlier in the meeting (article 1 refers). She advised that as a result of the outstanding matter being concluded, the action plan in the report would also be amended, with item 4 being removed.

Members asked questions of the report, and Councillor Howatson asked for more information about the online toolkit. Members heard that this was accessed through the Exchange facility and housed both the online toolkit and the scheme returns. It was agreed that officers could recirculate details of the online toolkit to Members.

The Committee resolved:-
to note the annual audit report and the agreed action plan.

The Board resolved:-
to note the decision of the Committee.

FEEDBACK FROM FUND MANAGER MEETING, LONDON

4. Members discussed some of the issues which had arisen at the recent session in London and Mr Whyte suggested that they email him with any feedback. He further proposed that a general report be submitted to the next meeting and there could be a further debrief and discussion on training in December.
- **COUNCILLOR BARNEY CROCKETT, Convener**

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PENSIONS COMMITTEE
MOTIONS LIST – 2 DECEMBER 2016

No.	Motion	Date of Council/ Committee Meeting	Committee Motion referred to / date/ decision of Committee	Action taken / Proposed Future Action	Responsible Head(s) of Service	Due Date	Is authority sought to remove motion from list?
1.	Motion by Councillor Kiddie "Council agrees to instruct the Head of Finance to provide a report on ethical investments in respect of the Pension Fund and the impact of such a strategy and reports back to Council within a 6 month period on such a strategy."	19.08.15 (Council)	The Council resolved: to refer the motion to the Pensions Committee.	It was noted that the report from KPMG (article 10 of the minute of 17 December 2015 refers) would possibly not solely satisfy the terms of the motion, and that the Committee had agreed to defer consideration of this item until Councillor Kiddie was in attendance.	Head of Finance	11/03/16	

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	2ND DECEMBER 2016
REPORT BY	HEAD OF FINANCE
TITLE OF REPORT	STRATEGY
REPORT NUMBER	PC/DEC16/STRATEGY

1. PURPOSE OF REPORT

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)

i. Approve the update to the Pension Fund Signatory List as noted in Appendix IX (5.5.8)

ii. To note the remainder of the report

3. FINANCIAL IMPLICATIONS

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.

4. OTHER IMPLICATIONS

None

5. BACKGROUND/MAIN ISSUES

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 information bulletins 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.

5.1 **INVESTMENT**

5.1.1 *Asset & Investment Manager Performance Report*
Investment Strategy Update Report

Separate Reports, provided.

5.2 **ACCOUNTING**

5.2.1 *Budget / Forecast Report*

Separate Report, provided.

5.3 **BENEFIT ADMINISTRATION**

5.3.1 **LGPS Regulation amendment**

With the increased flexibility allowed through the Taxation of Pensions Act 2014, there is a discretion for Scheme managers to override Scheme rules and pay an uncrystallised funds pension lump sum (UFPLS) from defined contribution pension savings such as Additional Voluntary Contribution (AVCs) arrangements.

To avoid inconsistencies between Scheme managers a request was raised to amend the LGPS Regulations to include an UFPLS as one of the options available to scheme members when they access their AVCs.

A letter has been issued from the Scottish Government confirming that these payments can be made until such time as the legislative changes can be made.

There will be further meetings with Prudential, as the main AVC provider for the Scottish LGPS, and discussions with other providers to organise how these payments will be made and what documentation will be required.

Appendix I Copy of Letter from Scottish Government

5.4 **TECHNICAL**

5.4.1 Appendix II, Pensions Administration Strategy September 2016 Report

5.5 **GOVERNANCE**

5.5.1 **Pension Fund Staff Appointments**

With the restructure completed (1 April) and all existing staff job matched, the recruitment process for the remaining posts is nearing completion.

Following external advertisement for three Assistant Pensions Officers, a Pensions Officer (Technical) and an Investment Manager, these posts have all now been successfully filled.

Recruitment of the Pensions Officer (Accounting) post is progressing with interviews scheduled to take place in November.

Appendix III, Organisational Chart.

5.5.2 **Internal Audit**

Appendix IV, Update on Internal Audit recommendations

5.5.3 **Corporate Governance & Corporate SRI Policy**

Appendix V, Corporate Governance & Corporate Social Responsibility Policy

5.5.4 **Scheme Advisory Board**

New Scheme Advisory Board website now available at http://lgpsab.scot/

Appendix VI, List of Pensions Related Groups
Appendix VII, SAB report on Fiduciary Duties and June & September Bulletins

5.5.5 **Annual Benefit Statements**

Annual Benefit Statements Update Report

Separate report, provided

5.5.6 **Document Review**

The Fund undertakes an annual review of all major scheme policies and statements. Revisions as at 1 September 2016 have been made to the following policies.

- Conflicts of Interest Policy
- Reporting Breaches of Law Policy

A detail of the revisions to each policy is provided at Appendix VIII. 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).

5.5.7 **Pension Board Resignation/Appointment**

Following the formal resignation of David Briggs from the NESPF Pension Board in September invitations were issued to the Funds' Scheduled & Admitted Bodies to nominate a representative for the vacant Board position.

One valid nomination was received by the closing date of 21st October 2016. We will be writing out to the nominee shortly to confirm their appointment.

5.5.8 **Update to Signatory List**

Due to a number of staff changes within Aberdeen City Council and the Pension Fund, an update to the Signatory list is provided in Appendix IX for approval.

5.6 **EMPLOYER RELATIONSHIP**

5.6.1 **Funding Update**

Interim Valuation Results for the Aberdeen City Council Main Fund & Transport Fund Report

Separate reports, provided

5.6.2 **Employer Covenant**

Risk – Employer Covenant Report

Separate report, provided

5.6.3 **System Development and I-Connect renewal**

I-Connect is used by large employers to securely provide monthly data from their payroll systems into Altair (the pensions administration system). System development later in the year will enable all employers, irrespective of size, to use I-Connect which increases accuracy of member data held and removes the requirement for employers to submit year end returns. In addition to this, there will no longer be a requirement for employers to contract directly with I-Connect. This change was reflected in the Pension Fund's contract which was renewed from 1st July 2016 following legal review.

6. IMPACT

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.

7. MANAGEMENT OF RISK

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

Appendix X, Risk Register

8. BACKGROUND PAPERS

None

9. REPORT AUTHOR DETAILS

Laura Colliss
Pensions Manager
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Cabinet Secretary for Finance and the Constitution
Derek Mackay MSP

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The Scottish Government
Riaghaltas na h-Alba

Local Government Pension Scheme (Scotland)
Scheme Managers
Alastair McGirr
Chair, Scottish Pensions Liaison Group

28 July 2016

Dear Alastair

In the Budget of 2014, the UK Government announced that it would change the rules to enable individuals with defined contribution (DC) pension savings to withdraw them "at a time of their choosing, subject to their marginal rate of income tax."

The Taxation of Pensions Act 2014 allows greater flexibility in how members access their DC, or money purchase, pension savings. Changes brought in with this Act remove certain restrictions relating to pension annuities to which members, aged 55 or above, become entitled on or after 6 April 2015.

The Taxation of Pensions Act 2014 introduced an uncrystallised funds pension lump sum (UFPLS) as a type of payment that may be paid to a member of a registered pension scheme as an authorised payment. Subject to the availability of lifetime allowance and the age of the member, 25% of the UFPLS is paid free of income tax, and 75% is taxed as income.

As The Local Government Pension Scheme (LGPS) (Scotland) is a defined benefit (DB) scheme, these new provisions do not apply to LGPS(S) pension benefits, however the LGPS(S) additional voluntary contributions (AVCs) arrangement, to which many scheme members contribute, is a DC arrangement and is therefore included in the new flexibilities introduced by the Taxation of Pensions Act.

The LGPS(S) regulations do not currently allow the increased flexibility, provided by the Taxation of Pensions Act 2014, however the Act allows scheme trustees and managers to override their scheme's rules to pay an UFPLS from DC pension savings.

Under the Taxation of Pensions Act 2014, the discretion to exercise the scheme rules override is a decision for the scheme manager which, under the Public Service Pensions Act 2013, for the LGPS(S) is the administering authority. In the interest of avoiding inconsistencies between scheme managers who can make different local decisions, which would not be equitable for members of the scheme, stakeholders have requested that the scheme regulations be amended to include an UFPLS as one of the options available to scheme members when they access their AVCs.

Scottish Ministers have consulted stakeholders and taken advice from the Scottish Local Government Pension Scheme Advisory Board on this matter. The majority of respondents agree that the LGPS(S) regulations should be amended to include UFPLS payments, and that the override should be exercised for the whole of the LGPS(S) in the interim.

Members who wish to access flexible benefits other than UFPLS have the option to transfer their LGPS(S) AVC fund to another DC arrangement that offers those benefits. Members also have the option to transfer the value of their accrued LGPS(S) DB pension rights from the LGPS(S) to a DC arrangement that does offer flexible benefits, independently from their AVC fund.

This letter constitutes guidance to LGPS(S) scheme managers to exercise the permissive scheme rules override to allow UFPLS payments to be made until such time as the legislative changes can be made.

Yours

DEREK MACKAY

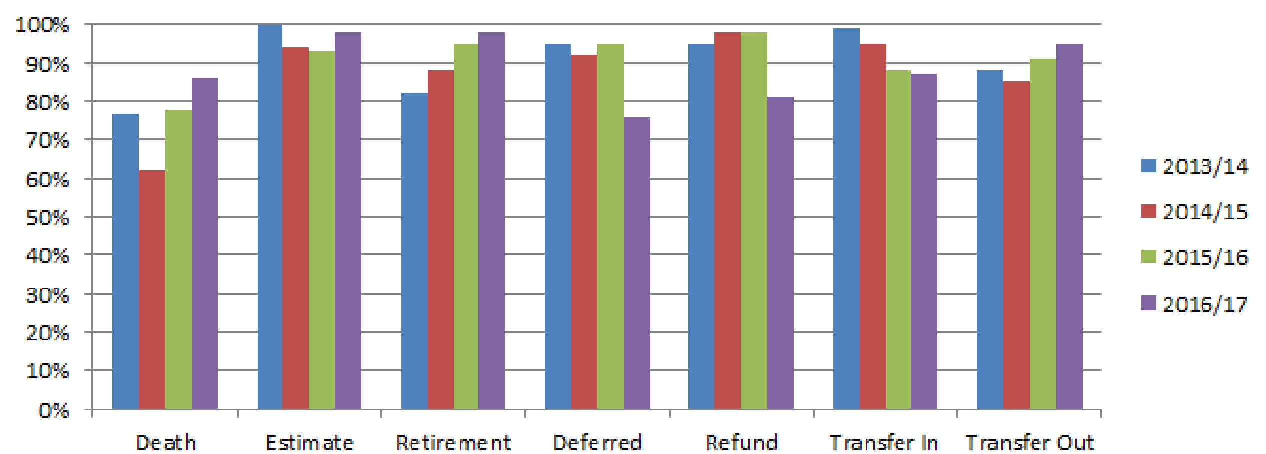
St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot

INVESTOR IN PEOPLE

Performance Reporting as at 30 September 2016

A Pension Administration Strategy was developed in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 and published in July 2013 following consultation with employers which specifies levels of service and performance measures for participating employers and the North East Scotland Pension Fund (NESPF). This report covers the period **1 April 2016 to 30 September 2016** and focuses on NESPF key performance measurements and the quantity and quality of electronic data received from employers.

NESPF performance measurement	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	29	25	86%
Notification of retirement estimate	10 days	476	466	98%
Notification of retirement benefits	10 days	685	672	98%
Notification of deferred benefits	10 days	836	635	76%
Notification of refund	10 days	739	599	81%
Notification of transfer in value	10 days	45	39	87%
Notification of transfer out value	10 days	135	128	95%
Benefit statements issued to active members prior to 31 August 2016	100%	23398	23308	99%



"Four of the seven measurements continue to improve with Retirement Estimates, Benefits and Transfers Out all well above 90% however Deferred and Refund processing has decreased and will be targeted next quarter"

North East Scotland **PENSION FUND**

Electronic Data Quantity from Employers

NESPF provide 2 methods of communication for employers to securely submit electronic data as detailed in the Pensions Administration Strategy:

- Employer Services is available to all employers for starter, amendment and leaver interfacing
- I-Connect is available to large employers for event processing including starters, amendments, leavers, contributions, salaries and CARE pay

Employer Services interface updates during 2016/17		
Starters	Amendments	Leavers
114	46	51

I-Connect event processing during 2016/17					
Starters	Amendments	Leavers	Contributions	Salaries	CARE Pay
1068	3636	827	68271	65196	65351

“Monthly file submissions from I-Connect improves the accuracy of member data held on the pensions administration system”

Total amount of electronic updates provided by employers during 2016/17	*204,560*

For more information on electronic data submission please contact Employer Relationship Team at employer@nespf.org.uk.

Electronic Data Quality from Employers

NESPF monitor the quality as well as the quantity of data provided by employers using Employer Services and I-Connect. Data is classed as being of high, medium or low quality depending on amount of events/interface updates successfully processed and validated.

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	I-Connect	H	H	H	H	H	H						
Aberdeenshire Council*	I-Connect												
Bon Accord Care	I-Connect	H	H	H	H	H	H						
Bon Accord Support	I-Connect	H	H	H	H	H	H						
Grampian Valuation Joint Board	I-Connect	H	H	H	H	H	H						
Northern Community Justice Association*	I-Connect												
NESTRANS*	I-Connect												
Police Scotland	I-Connect	H	H	H	H	H	H						
The Moray Council	I-Connect	H	H	H	H	H	H						
The Robert Gordon University	I-Connect	H	H	H	H	H	H						
Aberdeen Cyrenians	Emp Services	H											
Aberdeen Foyer	Emp Services		H										
Aberdeenshire Housing Partnership	Emp Services		H										
Aberlour	Emp Services		H	H									
Cairngorm Outdoor Access Trust	Emp Services			H	H								
First Bus	Emp Services						H						
Moray College	Emp Services	H	H	H	H	H	H						
North East Scotland College	Emp Services	H	H	H	H	H	H						
Peterhead Port Authority	Emp Services	H											
Robert Gordon College	Emp Services		H										
SCARF	Emp Services						H						
Scottish Fire and Rescue Service	Emp Services				H								
Scottish Water	Emp Services	H	H	H	H	H	H						

**data will be provided in November*

"High quality electronic data received throughout the year is essential for NESPF to comply with new scheme and The Pensions Regulator requirements"

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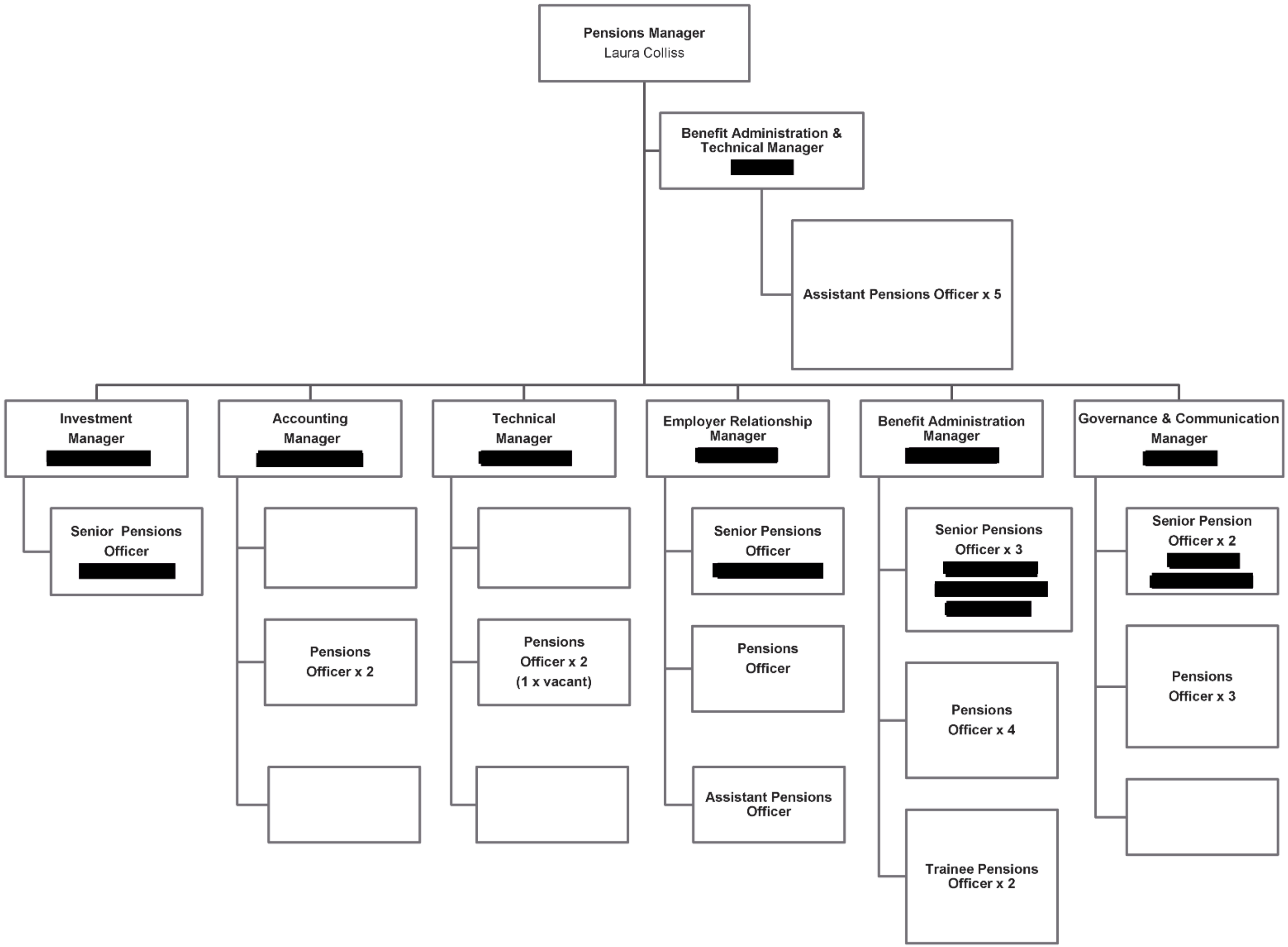
Appendix III

North East Scotland Pension Fund
Structure 2016



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30-Jun-16 2.1.2 The Administering Authority should ensure that the Pensions Committee's Orders of Reference reflect its current remit.

These have been updated and are currently with Legal for review.

30-Jun-16 2.1.8 The Administering Authority should ensure that it can demonstrate that all trustees have the understanding and knowledge they require to ensure proper Fund investment and management.

Training reports for the Pensions Committee and the Pensions Board were presented at the June and March meetings.

31-May-16 2.2.4 The Service should ensure that Investment Strategy documents always reflect current Pension Fund governance and investment arrangements and correspond to the Asset Class monitoring benchmarks within the quarterly monitoring.

These have been checked and website updated.

31-May-16 2.3.2 The Service should ensure justification for the level of independent assurance over IFM internal controls is documented.

Justification will form part of any future IFM due diligence and recommendations to Committee.

30-May-16 2.3.6 The Service should evidence periodic reviews of terms and conditions to provide assurance that Investment Fund Manager terms and conditions are up to date and appropriate.

Annual review of all terms and conditions will be implemented and evidenced via the contracts register.

30-Jun-16 2.4.6 i The Service should ensure an appropriate asset valuation variance threshold for fee invoice verification purposes is approved by the Committee.

The 10bps tolerance/variance will be confirmed to Committee in December 2016.

30-Jun-16 2.4.6 ii The Service should ensure that management approval is evidenced where variances exceed the asset valuation threshold.

Management approval of any variances exceeding the tolerance will be evidenced via the signing off by the Pensions Manager and the process has been included within the procedure notes.

30-Jun-16 2.6.4i The Service should ensure that quarterly reports provide adequate assurance over the current health of the pension fund, its performance and any action required.

This has been evidenced in the Asset & Investment Manager Performance Report, 5.4. June Report.

30-Jun-16 2.6.4ii The Service should separate out details of the different categories of fund movements.

The Market Value Reconciliation Report will form part of the Asset & Investment Manager Performance Report, which details the opening market value, purchases, sales, realised and unrealised profit and loss and the closing market value for the period by asset class.

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THE NORTH EAST SCOTLAND PENSION FUND (NESPF)

Corporate Governance and Corporate Social Responsibility Policy

Introduction

The North East Scotland Pension Funds are administered by Aberdeen City Council within the Local Government Pension Scheme regulations.

There are two funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACC Transport Fund). As at 31 March 2016 the value of the Funds' assets was £3.1bn and £86m respectively. (Both Funds will be referred to as NESPF within this document)
The Funds invests across all global markets with management carried out by a range of external asset managers.

The North East Scotland Pension Fund (NESPF) is aware of its fiduciary obligations to its members and scheme employers and seeks the best possible financial return on investments, whilst taking on no more than a suitable degree of risk.

Background

Whilst good corporate governance and good corporate social responsibility are two different things:

- Corporate Governance - refers to the mechanisms, processes and relations by which corporations are controlled and directed. Governance structures and principles identify the distribution of rights and responsibilities among different participants in the corporation and includes the rules and procedures for making decisions in corporate affairs.
- Corporate social responsibly - is a form of corporate self-regulation integrated into a business model. CSR policy functions as a self-regulatory mechanism whereby a business monitors and ensures its active compliance with the spirit of the law, ethical standards and national or international norms

Both have developed over the last two decades in response to legislative and stakeholder demands. NESPF has a long standing commitment to the support of good environmental, social and corporate governance within the companies in which we invest.

The companies in which NESPF invests vary significantly in their corporate governance and corporate social responsibility policies. NESPF supports the view that the willingness and ability of a company to adopt the highest standards of corporate governance and corporate social responsibility is increasingly important to its long-term growth.

Aims

Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large. Therefore, in order to protect and enhance the value of its investments, NESPF seeks to encourage the companies in which it invests:

- to operate to the highest standards of corporate governance
- to operate to the highest standards of corporate social responsibility

As a major long term shareholder, the main tools open to the NESPF to use its influence is by the responsible exercise of its voting power and active engagement on social and environmental factors with the companies in which it invests.

NESPF recognises that good corporate governance and good social and environmental practice will develop overtime and as such, will keep its approach to achieving its aims flexible.

The Fund's seeks to influence good practice in the following areas (but not limited to):

Environmental

- Climate change
- Sustainability

Social

- Diversify
- Human rights
- Consumer protection
- Supply chain management

Corporate governance

- Management structure
- Employee standards
- Accounting standards
- Executive compensation

Oversight

The Pension Committee is at all times responsible for the Fund's investments, including oversight of this policy and its implementation. Day to day responsibility for the implementation of this policy sits with the Director of Finance and dedicated staff within the Pension Fund Section. The Pensions Committee will review this policy annually, or in the event of a policy revision.

1. The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty

Risk

Fund Management

NESPF has a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. (1)

Companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs, (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

NESPF therefore has a duty to dedicate sufficient time and resource to monitoring the proper application of ESG factors in the approach our external fund managers take to investment and directly in the companies we invest in.

Investment Opportunities

There are some investment opportunities arising from environmental and social challenges which can be captured so long as they are aligned with the Fund's risk profile and investment strategy.

Positive Outcomes

In consideration of that risk and return profile NESPF engages with companies to:

- Improve the position of companies by increasing the prospects of them creating wealth for shareholders and interested parties by minimising business risks and maximising business opportunities.
- Address the risks to the Funds' assets that arise from poor governance.
- Recognised as good practice.
- Response to stakeholder interests

Implementation

This section describes NESPF approach to implementing our fiduciary duty.

Stewardship Code

NESPF has published its statement on compliance with the Stewardship Code which covers how investee companies are monitored, the investor's intervention strategy, voting policy and policy on Corporate Governance Code compliance as well as how stewardship interacts with the wider investment process.

Voting Policy

NESPF votes where possible at all AGM's & EGM's for companies in which we directly invest. PIRC (Pensions & Investment Research Consultants Ltd) as the

1. The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty

current service provider, provides voting advice to the pension fund. LAPFF (Local Authority Pension Fund Forum) also provide us with research including the receipt of regular alerts on FTSE 350 companies with serious corporate governance failings. Both sources of information are taken into account when making our voting decision. All Voting on behalf of our investments with external active Fund Managers is carried out In-house.

NESPF discloses is voting activity via the Pension Fund website on a quarterly basis at www.nespf.org.uk. Where investment is made via pooled vehicles details of the managers voting activity in respect of the underlying shares within the pooled vehicle is also monitored and also disclosed via the website

In the event that a stock is out on loan through a stock lending programme, NESPF will make a case by case base decision as to whether or not that stock should be recalled for voting purposes.

Fund Manager appointments and monitoring

NESPF assesses the ESG capability of a fund manager as a factor within each of the people, process and performance categories. In its decision to appoint a fund manager, NESPF takes a balanced consideration of all relevant factors including ESG.

Through regular reporting NESPF monitors the extent to which our external fund managers incorporate ESG issues in their investment processes, and hold those managers to account for improvement in their ESG performance.

Engagement

As stated above NESPF has a fiduciary duty to incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return.

- Engagement versus screening

  In considering its fiduciary duty NESPF seeks to adopt a policy of risk monitoring and engagement in order to positively influence company behaviour and enhance shareholder value, influence that would be lost through a dis-investment approach. NESPF extends this principle of engagement, to the due diligence, appointment and monitoring of external fund managers.

- Fund engagement is carried out through:

  LAPFF

  NESPF is an active member of the Local Authority Pension Fund Forum (LAPFF) whose aim is to maximise their influence as shareholders whilst promoting corporate social responsibility along with the highest standards of corporate governance and research. Details of LAPFF's activities can be found on their website at www.lapfforum.org

1. The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty

PRI

In becoming a signatory to the PRI, NESPF has publicly demonstrate its commitment to responsible investment and further places NESPF at the heart of a global community seeking to build a more sustainable financial system.

The PRI Initiative provides a high-level framework for integrating ESG issues into investment decision-making and ownership practices within the boundary of investors' fiduciary duties and offers a comprehensive range of tools and resources to support signatories.

Signatories have the opportunity to participate in more than 100 online and in-person events and webinars hosted by the Initiative around the world each year to network, collaborate and learn from their peers. This includes the annual signatory-only event, *PRI in Person,* which, like the Initiative as a whole, has an agenda designed to offer something for every signatory, regardless of their size, location, asset class focus, style of responsible investment or progress towards implementation. Details of UNPRI's activities can be found on their website at www.unpri.org

Shareholder Litigation

The Funds' recognises the importance of giving a clear shareholder view to companies, and this is best actioned if investors give a clear collective comment or view. As stated above NESPF is a member of LAPFF, Institutional Investors Group and PRI, taking an active part in working groups where appropriate. It will also join other shareholders in maximising shareholder value through class actions where appropriate.

Measuring the Funds' governance activity

The continued improvement in good environmental, social and governance practice by companies and the role of the Pension Fund in that improvement, can only be achieved through measurement of outcomes.

NESPF has therefore identified the following, as measures it is to achieve to demonstrate good governance of the assets it holds in a meaningful and measurable format.

Voting at company AGMs and EGMs

- Voting policy in place
- Votes cast in UK & Globally
- Regular reports to members
- Information available to interested parties
- Costs of voting known

Measurable outcomes

1. The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty

- Percentage of votes cast
- Example of changed company behaviour linked to Fund's voting actions

Engagement

- Active support for LAPFF meetings with companies
- Support for PRI initiatives
- Meet Myners' requirements

Communication/Accountability

- Annual report details governance activity
- Information on website on governance
- Information on website on votes cast

The above policy statement and supporting documentation is reviewed on an ongoing basis by the Pension Committee.

1. The Scottish Local Government Pension Scheme – Scheme Advisory Board 24 June 2016 – Guidance on Fiduciary Duty

Pensions Groups/Bodies (to be circulated to staff)

Group name	What do they do?	Website link, Guides/Tools available? Meetings?
CIPFA (The Chartered Institute of Public Finance & Accountancy)	Leading accountancy body for the public services providing education & training in accountancy and financial management.	https://www.cipfa.org/ • Training events • Publications & resources • Articles, briefings, blogs, reports on public finance topics
CIPP (Chartered Institute of Payroll Professionals)	Provides training for pensions & payroll. They have a policy & research team represented at government consultation forums relating to legislation which impacts on payroll & pensions.	http://www.cipp.org.uk/ • News • Pension Qualifications • Events
ECWG (Employer Covenant Working Group)	Provides a forum to discuss regulatory issues on matters connected with employer covenant. They participate in discussions with The Pensions Regulator or the Pension Protection Fund; act as a vehicle for raising standards of, and promoting, the employer covenant financial advisory industry generally amongst the pension's community.	http://ecwg.co.uk • New & publications
IGG (Investment Governance Group)	Sets out a practical framework of principles and best practice guidance to help those running work-based pension schemes improve their investment decision-making and scheme governance.	http://www.thepensionsregulator.gov.uk/about-us/investment-governance-group.aspx • Meetings held quarterly • Trustee toolkit • Codes of practice

ILPA (Institutional Limited Partners Association)	Leading global, member driven organisation dedicated to advancing the interests of private equity Limited Partners through education programs, independent research, best practices, networking opportunities and global collaborations.	https://ilpa.org • Events & training • News • Best practices & tools – reporting best practices (fee template), Private Equity principles, Due diligence.
The Investment Association	Represents UK investment managers with aim to improve investments and works with investors, Investment Managers, Regulators & Governments worldwide.	http://www.theinvestmentassociation.org • Policies & Consultations • Research & publications • Current initiatives • Training
LAPFF (The Local Authority Pension Fund Forum)	Leading collaborative shareholder engagement group bringing together Local Government Pension Funds in UK to discuss investment issues & stakeholder engagement.	http://www.lapfforum.org/ • Quarterly meetings attended by Pension Committee Member & Caroline • LAPFF publications, reports & consultations • Details of conferences & presentations
LGA (Local Government Association)	Represents employer's interests to central government and other bodies on local government pension policies. They provide a secretariat service for the Local Government Pensions Committee (LGPC) which is made up of Local Government Association, Welsh Local Government Association and Convention of Local Scottish Authorities (COLSA). They provide technical advice & guides on Local Government Pension Schemes and other compensation matters. Pensions Training is available on request.	http://www.local.gov.uk/web/lgaworkforcepensions/home • LGA publications/LGPC bulletins • Links to LGPS website & legislation • LGA training & events

ICO (Office of the Information Commissioner)	Public official appointed by Her Majesty The Queen on the nomination of the Scottish Parliament. They promote and enforce both the public's rights to ask for the information held by the Scottish public authorities and good practice by authorities. Their main aim is to promote openness, transparency and accountability of public bodies.	https://ico.org.uk/ • Searchable appeals relating to Freedom Of Information • Data protection online toolkit • Guidance notes
PASA (Pensions Administration Standards Association)	Aim is to promote and improve the quality of the pension's administration service for UK pension schemes.	http://www.pasa-uk.com • News • Publications
Pensions Infrastructure Platform (PiP)	An infrastructure investment platform which has been specifically developed to facilitate long term investment into UK infrastructure by pension schemes. Set up for pension schemes by pension schemes. Backed by group of leading UK pension schemes, offers transparency tailored to pension scheme needs.	http://www.pipfunds.co.uk • Information on multi strategy infrastructure fund & other available funds • News
PIRC (Pensions & Investment Research Consultants ltd)	Europe's largest independent corporate governance and shareholder advisory consultancy. They provide proxy research services to institutional investors on governance and other Environmental, Social and Governance (ESG) issues.	http://pirc.co.uk Proxy voting (Caroline) • News and resources • Events & publications

PLSA (Pension & Lifetime Savings Association), formerly NAPF (National Association of Pension Funds)	Represent the interests of the occupational pensions movement, organises conferences and training program for member.	http://www.plsa.co.uk/ • Policy & research • 'Made simple' guides • Link to training & events
PMI (Pensions Management Institute)	The Pensions Management Institute is the UK's largest and most recognisable professional body for employee benefit and retirement savings professionals, supporting over 6,500 members in 32 countries. The purpose of the institute is to set and promote standards of excellence and lifelong learning for employee benefits and retirement savings professionals and trustees through qualifications, membership and ongoing support services.	https://www.pensions-pmi.org.uk • News & publications • Events • qualifications
SPLG (Scottish Pensions Liaison Group)	Scottish Pensions Liaison Group hold quarterly meetings and are all the Scottish Pension Funds along with representatives from Northern Ireland Local Government Pension Scheme, Local Government Association, Scottish Public Pensions Agency, Prudential and actuaries in which they discuss any regulatory or administration issues/changes in order to ensure all funds have a consistent approach.	• Meetings attended quarterly by Eilidh (& Laura) • Meeting minutes available in Sup dat/Administration/SPLG Minutes
SPSO (Scottish Public Services Ombudsman)	The Scottish Public Services Ombudsman is the final stage for complaints against councils, National Health Service, housing associations, colleges & universities etc.	http://www.spso.org.uk • Leaflets

		• Training • Decision & investigation reports
SLOGPAG (Scottish Local Government Pensions Advisory Group)	Comprises representatives of the Convention of Local Scottish Authorities (COLSA) - on behalf of councils and administering authorities, Local Government Unions and the Scottish Government. Scottish Local Government Pensions Advisory Group is an advisory group, providing advice to the Scottish Government.	http://www.sppa.gov.uk • Meetings quarterly
The Pensions Regulator (TPR)	They work with pension scheme trustees, scheme managers and your employer to help protect your workplace pension. All breaches regarding the law in Pensions have to be reported to The Pensions Regulator.	http://www.thepensionsregulator.gov.uk/ • Online interactive education portal with online assessments (TPR Toolkit) • Reporting facility • Dedicated online employer area • Updates and news
The Pension Advice Service (TPAS)	Free, independent financial advice regarding pensions.	http://www.pensionsadvisoryservice.org.uk/ • Trace a lost pension • Annuity planner • Webchat facility, videos, publications
The Financial Conduct Authority (FCA)	The Financial Conduct Authority (FCA) oversees the conduct of individuals and companies who provide financial services. If you have a personal pension or stakeholder pension, or have used your pension pot to buy an income, your provider is likely to be overseen by the FCA.	https://www.the-fca.org.uk/ • Consultation papers & policy statements • Information on range of topics for firms, on Markets and for consumers • news

The Prudential Regulation Authority (PRA)	The Prudential Regulation Authority (PRA) is responsible for making sure that companies offering financial services, including banks, insurance companies and major investment firms are run properly, and that people using their services have some protection against loss if the company or individual goes out of business.	http://www.bankofengland.co.uk/pra/Pages/default.aspx • News & publications • The Final Services Register
UNPRI (Principles of Responsible Investment)	The world's leading proponent of responsible investment works to understand the investment implications of environmental, social and governance (ESG) factors and supports its international investor signatories in integrating these factors into their investment and ownership decisions.	https://www.unpri.org/ • Online interactive training • Reporting facility • News
Scheme Advisory Board (SAB)	The purpose of the Local Government Pension Scheme (Scotland) Advisory Board is to provide advice to the responsible authority, at the responsible authority's request, on the desirability of changes to scheme design and the implication of other policy issues	http://lgpsab.scot/ • News & bulletins • Guidance • Meetings • Terms of Reference

The Scottish Local Government Pension Scheme
c/o the Head of Service,
Convener of the Pensions Committee and Chair of the Pension Board of the respective Scottish LGPS Fund

24 June 2016

Fiduciary Duty

The Scheme Advisory Board (**SAB**) has been considering the application of the legal principles of Fiduciary Duty by the Pensions Committees of the Local Government Pension Scheme (**LGPS**) in Scotland. In doing so it has, following a tender exercise, appointed specialist legal advisors in this sector to produce a legal report and opinion (**Opinion**) which builds on the extensive advice from industry experts already obtained in this area but also provides clarity of the position under Scottish law.

We therefore attach the Opinion to assist your Pensions Committee and Pension Board in applying this fundamental principle in practice. We believe the Opinion is helpful in that it reaffirms the substantial majority of advice already obtained on this matter, and its consistent application in Scotland, but also provides further clarification on a number of important matters.

The SAB is acutely aware of the need for the Scottish LGPS to have the flexibility to apply these principles to specific circumstances and the latitude that this will necessarily require. With that in mind, the SAB would request that Pensions Committees and Pensions Boards have regard to the following when exercising their fiduciary duties in relation to their investment programmes and, more generally, in ensuring best practice stewardship of their assets:

1. *The Opinion of 11 February 2016 enclosed with this letter.*

2. *The expectation that Funds within the Scottish LGPS will:*

    a. *have long-term investment horizons which are appropriately aligned to their member and employer stakeholders and investment strategies that (when taken as a whole) reflect this;*

    b. *dedicate sufficient time and resource, taking advice from suitably expert and reputable advisors where appropriate, to properly inform their asset allocation, investment and manager selection decisions;*

    c. *exercise sufficient levels of attention, care and diligence, taking advice from suitably expert and reputable advisors where appropriate, in appraising particular investment opportunities. It is recognised that due to the large amount of potential investment opportunities available, Funds will necessarily require to manage their*

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resource to focus on those opportunities that are best aligned to their asset allocation and investment strategy;

d. *have due regard to any conflicts of interest when appraising particular investment opportunities and/or manager mandates;*

e. *have appropriate governance arrangements in place to effectively implement and review their investment strategies; and*

f. *incorporate Environmental, Social and Corporate Governance (ESG) factors as an active and embedded principle of risk and return assessment in managing and determining its investment portfolio and ensuring that any managers appointed by the Funds are doing likewise. Dedicating sufficient time and resource to monitoring the proper application of ESG factors in the manner set out above.*

These guidelines are deliberately broad to ensure that they do not conflict with the legal principles or analysis and take into account the fact that this is a complex area where the detail will necessarily be required to be considered on a case by case basis by Pensions Committees and Pension Boards. Nevertheless, they are also viewed as being sufficiently detailed to ensure that Funds will be required to take a responsible approach, grounded in industry best practice, to administering their investment programmes and in exercising their fiduciary duty. Importantly, the SAB is keen to guard against extremes or selective interpretation of the legal principles by Pension Committees and Pension Boards, for instance which might unduly restrict the consideration of ESG and other wider factors which the Opinion makes clear may influence the choice of investments so long as that does not risk material financial detriment to the Fund (with some more detailed advice and parameters included to assist Funds in assessing this).

Yours sincerely

Jonathan Sharma

Hayley Wotherspoon

Dave Watson

The Joint Secretaries of the Scottish Scheme Advisory Board

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Report for National Scheme Advisory Board

Pinsent Masons

Report on legal duties of LGPS Pensions Committees in relation to the investment of LGPS Funds

1. Introduction

This Report has been prepared for the benefit of the National Scheme Advisory Board ("**SAB**") for the Scottish Local Government Pension Scheme (the "**LGPSS**") and considers the application of fiduciary and other duties owed by Pensions Committees in relation to investment of LGPSS pension funds.

This Report refers to and summarises various pieces of legal advice which have been obtained for the benefit of LGPS funds in England and Wales and its Scheme Advisory Board. The Report then highlights where the two jurisdictions are aligned and where there are differences between the two jurisdictions.

The references marked throughout the Report can be found in section 7.

Finally, the Report sets out the views of our own QC, Craig Connal QC, ("**Scottish Counsel**") where we felt it would be of benefit to instruct a Scottish counsel to advise on these issues.

2. Background

The LGPSS consists of various pension funds administered by local authorities which provide pension schemes for local government and other eligible workers in Scotland. The LGPSS is established and governed by statute, and is similar in terms of legal structure to the English Local Government Pension Scheme (the "**LGPSE**").

The LGPSS and the LGPSE are not established as trust funds, and those who administer them are not trustees. It is therefore not immediately clear whether the duties of trustees in relation to investment apply also to the investment committees of the LGPSE and the LGPSS. In addition, the Pensions Committees of the LGPSE and the LGPSS (each multi-employer occupational pension funds) arguably owe a fiduciary duty to (i) the pension scheme members (beneficiaries); and (ii) the admitted employer bodies (which have financial exposure through their obligation to pay contributions and meet any liabilities) within the respective funds. The Pensions Committees may also be subject to certain public law duties in this regard. Advice has been received by the Local Government Association on these points from Nigel Giffen QC[1] in relation to the LGPSE, and in this Report we consider the extent to which that advice is applicable in Scotland to the LGPSS.

Directive 2003/41/EC[2] (the "**IORP Directive**") imposes obligations on EU Member States in relation to the activities and supervision of institutions for retirement provision. Among other things the Directive sets out in Article 18 the general requirement that Member States should require retirement institutions to invest in accordance with the "prudent person" rule, and more specific requirements concerning suitability of investments. Advice has been received by the Local Government Association on this point from Michael Furness QC[3]. in relation to the LGPSE, and in this Report we consider whether that advice is equally applicable to the LGPSS.

3. Executive Summary

- Although the LGPSS is not itself a trust, the duties of the Pensions Committee in Scotland are of a fiduciary nature. Accordingly, any decision (investment or otherwise) made by a Pensions Committee which may affect a party to whom the fiduciary duty is owed, should be made having regard to the best interests of that party.

- Administering authorities owe fiduciary duties to scheme employers and scheme members both generally and specifically in relation to investment matters.

- Article 18(1) of the IORP Directive[4], including the requirement to invest in accordance with the "prudent person" rule in the best interest of members and beneficiaries, does apply to the LGPSS and the Investment Regulations (defined herein) should be construed to include the relevant principles.

- Non-financial factors (including social, environmental or ethical considerations) may be taken into consideration as part of any investment decision making process, provided that:-

  (i) there is no policy in place limiting the scope of potential investments purely on the grounds of Non-Financial Considerations (as defined in Section 5 herein). A decision regarding any particular investment should not be made where the diversification of potential investments has been compromised; and

  (ii) the proposed investment is expected to generate financial returns similar to those expected from other investment opportunities available in the market at that time offering similar risk and return characteristics.

- When considering investments, Pensions Committees may look at environmental, social and governance (ESG) issues where the financial performance of that investment may be adversely impacted as a result of any particular environmental, social or governance factor. The investment options may be restricted where the investment returns to the fund may be negatively impacted by such environmental, social or governance factors.

- Given the uncertainties in relation to the LGPSE, we sought confirmation and clarification from Scottish Counsel on:-

  (i) whether he agrees with our analysis that the IORP Directive applies directly to the LGPSS;

  (ii) how Article 18 in particular interacts with the Investment Regulations and whether the Regulations must be considered as subject to and overridden by Article 18; and

  (iii) how the relevant case law is likely to be interpreted by a Scottish court in relation to the LGPSS.

  His advice is highlighted throughout this Report and reinforces the above conclusions, making no notable distinctions between the treatment of the LGPSE (under the laws of England and Wales) and the LGPSS (under Scots law).

- Neither we nor Scottish Counsel have identified any material points which, in our view, would require further analysis by counsel.

4. Duties of Pensions Committee Members

In this section we consider the legal obligations on Pensions Committee members in relation to the investment of LGPSS assets.

In particular we consider obligations under:-

- common law;

- public law;

- the Local Government (Management and Investment of Funds) (Scotland) Regulations 2010 (the "**Investment Regulations**")[5] ;and

- the IORP Directive.

We also seek to clarify to whom Pensions Committee members owe a fiduciary duty.

4.1 Duty of care at common law

The 1999 Joint Report of the Law Commission and the Scottish Law Commission (Law Com Report No 260, Scot Law Com Report No 172)[6] stated that:-

- trustees are under a duty to invest trust funds in their hands, subject to their overriding obligation to administer the trust in accordance with its terms.

- in performing their duty to invest trust funds, trustees must exercise proper care. The standard is that of the ordinary prudent man of business acting in the management of his own affairs.

- prudence requires more than mere honesty, good faith and sincerity. A level of proficiency and competence is expected of a trustee. However, quite what that level is will vary from case to case.

The Scottish case of *Martin v City of Edinburgh Council*[7] in 1987 is, in our view, the best authority available for the proposition that administering authorities owe a fiduciary duty to the beneficiaries of the LGPSS. Although on its facts the case concerned certain public and charitable funds held by the council in trust, Scottish Counsel considers that the analysis in that case is equally applicable to other situations where persons, such as local authorities have responsibility for investing funds for the benefit and/or the interests of third parties. In his opinion, referred to in Section 5, Nigel Giffin QC took a similar view.

In the *Martin* case Lord Murray stated that:-

- there was a legal duty on trustees to apply their minds to the best interests of the beneficiaries;

- there was an obligation to take appropriate professional advice in relation to a proposed investment decision; and

- failure to comply with these duties resulted in a breach of trust.

He stated:-

"…I conclude that the pursuer has proved a breach of trust by the council in pursuing a policy of disinvesting in South Africa without considering expressly whether it was in the best interests of the beneficiaries and without obtaining professional advice on this matter. That is sufficient for the decision of this case and it turns entirely on the general principles of law applicable to trusts in Scotland. In short the trustees acting on behalf of the council misdirected themselves in failing to comply with a prime duty of trustees, namely, to consider and seek advice as to the best interests of the beneficiaries, and so they are in breach of trust."

This case sets out the core obligations which apply to fiduciaries in relation to the investment of trust funds. In Scottish Counsel's view the case also supports the proposition that those obligations apply equally to those entrusted with investing LGPSS assets, even though the LGPSS is not itself a trust. Scottish Counsel considers that the investment duty of the Pensions Committee, and of those administering the funds, is a fiduciary one.

4.2 Public law duties

What is set out above considers (in inevitably simplified form) the general obligations encumbent under common law on public authorities. Different considerations arise (or may arise) in the event of obligations being imposed on decision-makers through the form of statutory public duties (outwith the specific pensions arena). In his opinion, Mr Giffin QC considers that point using as examples duties under The National Health Service Act 2006 (applicable in England and Wales) and The Equality Act 2010 (applicable throughout the UK). He points out that the duties in these statutes (and others are likely to be in similar terms) are couched in non-obligatory language. In the former what is "considered appropriate" for improving health and in the latter to have "due regard" to equalities considerations. In essence he then concludes that, at most, this might require a consideration to be brought into the equation when an investment or similar decision was being made and where the choice was neutral from an investment perspective. In other words, if the investment considerations pointed only in one direction, an obligation to “have regard” to other considerations would not require a different decision. Mr Giffin concludes that such situations are expected to be rare. We agree.

Accordingly, we conclude that in most circumstances the issue will not arise and where it does only where a decision on investment is otherwise neutral from an investment perspective. To take a Scottish example, the Climate Change (Scotland) Act 2009 imposes duties to exercise functions in a way “best calculated” to contribute to delivery of climate change targets and in a manner considered “most sustainable”. We see no reason why such generalised duties would not be treated in a similar way to the approach suggested by Mr Giffin. In the event of a decision neutral from an investment perspective which is viewed as significantly more sustainable, the sustainability obligation might come into play. What if the statute was more direct and less of an exhortation? If a circumstance arose where the investment body was satisfied that it fell within the ambit (usually a definition of public bodies) of the particular statutory obligation and that statutory obligation was worded in such a way as to direct action in one way only, then in our view the investment decision would require to be made in accordance with that direct statutory requirement. The law would require to be obeyed and it could not then be said that the investment decision taken in obedience to that law was in breach of a fiduciary or other general duty.

In our view, however, such circumstances are unlikely to arise, given the existence of special statutory and regulatory regimes directed at the proper functioning of pension arrangement.

Our overall conclusion is accordingly that public law duties are in practice unlikely to add much to the considerations which would arise in any event under the ambit of fiduciary duties and that statutory intervention is unlikely in practice (outwith the specialist pension field) to impact significantly on these decisions.

4.3 The Investment Regulations

The Investment Regulations set out the statutory obligations on the LGPSS in relation to investment. They are similar in terms to the current English equivalent[8] although we note that the concept of the "prudent man" will be legislated for explicitly in England & Wales as part of the proposed 2016 changes to the LGPSE investment regulations (see below).

Regulation 11[9] sets out the core obligations, which are (in summary):-
- to formulate a policy for the investment of fund money, with a view-

(a) to the advisability of investing fund money in a wide variety of investments; and

(b) to the suitability of particular investments and types of investments.

- to invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.

- to obtain proper advice at reasonable intervals about its investments.

- to consider such advice in taking any steps in relation to its investments.

These obligations do not contain any specific reference to a "prudent man" test, which is one of the common law duties of trustees in relation to investment, and is a key provision in IORP and, we anticipate, will underpin guidance behind the new investment regime for the LGPSE (which may be adopted in Scotland in due course depending on the attitude of Scottish Ministers following advice from the SAB).

The Department for Communities and Local Government (the "**DCLG**") is currently consulting[10] on the possible revocation and replacement of the English equivalent of the Investment Regulations. It notes (at paragraphs 2.12 to 2.22):-

- the suggestion that Article 18(1) of IORP (see below) should be transposed into the LGPSE investment regulations

- that the investment regulations applicable to private sector pension schemes did transpose Article 18(1)

- that the LGPS is not subject to trust law, but that those administering it are in a similar position to trustees

- those in local government responsible for making investment decisions must also act in accordance with ordinary public law principles, in particular, the ordinary public law principles of reasonableness. They risk challenge if a decision they make is so unreasonable that no reasonable person acting reasonably could have made it. (This analysis is consistent with the comments in paragraph 8 of opinion of Nigel Giffen QC).

The consultation on this point concludes by saying that:-

"Ministers are satisfied that the Scheme is consistent with the national legislative framework governing the duties placed on those responsible for making investment decisions. The position at common law is also indistinguishable from that produced by the 2005 Regulations applicable in respect of trust-based schemes."

In the absence of any clear reference in either the Investment Regulations or their English equivalent to the "prudent man" principle it is difficult to see how Ministers can be quite so confident about that conclusion, particularly when the private sector legislation has specifically transposed the requirements of Article 18(1) of IORP.

The consultation comments are nevertheless of interest since they seem to be in contrast to the views expressed by Michael Furness QC in relation to IORP (referred to in the next section). We would therefore draw your attention to the comments of Scottish Counsel below.

4.4 Article 18(1) of the IORP Directive

The IORP Directive applies to "institutions for occupational retirement provision". The full text of Article 18(1) is set out in section 7.

The key provisions for present purposes in relation to investment are that:-

- Member States must require institutions located in their territories to invest in accordance with the "prudent person" rule

- the assets must be invested in the best interests of members and beneficiaries

- in the case of a potential conflict of interest, the investment must be made in the sole interest of members and beneficiaries.

- assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.

If these provisions apply to the LGPSS then they impose an additional set of requirements which the LGPSS pension funds and those administering them require to observe. It should be noted though that the DCLG in its consultation document appears to be of the view that the LGPSE is already consistent with the requirements of the private sector investment regulations which transpose Article 18(1).

The question of whether the IORP Directive applies to the LGPSE was the subject of an opinion by Michael Furness QC in 2007. He concluded that:-

- the entire Directive applies to the LGPSE;

- Article18 specifically applies to the LGPSE in any event; and

- the LGPSE is not compliant with Articles 8[11] and 18 of the Directive.

We do not consider that the position of the Investment Regulations in Scotland is materially different from that of the English Regulations considered by Mr Furness in his opinion. The reasoning in his opinion seems to us to apply to the position in Scotland as it applies in England.

It seems that what Mr Furness is saying is that the IORP Directive does apply to the LGPSE, that it therefore ought to be operating in accordance with it, but that the national legislation which applies to it is inconsistent with the IORP Directive. (See in particular paragraphs 20 to 23 of his opinion.)

On the other hand, DCLG seems to take the view that the obligations under the IORP Directive already apply to the LGPSE, and that no specific legislative changes are needed for the LGPSE to be compliant with the IORP Directive. This is one area of uncertainty where in our view, it was helpful to obtain further advice from our own Scottish Counsel.

4.5 To whom do Pensions Committee members owe a fiduciary duty?

Nigel Giffin QC was of the view that administering authorities owed a fiduciary duty to both scheme employers and scheme members on the basis, in summary, that if the fund performs poorly it could result in:
- the requirement for higher employer contributions; and
- the potential loss of discretionary powers being exercised in favour of the member and/or legislative changes requiring higher member contributions.

In the English case of *Charles Terence Estates Ltd v Cornwall Council*[12], the court confirmed, having regard to previous cases[13], that the council had fiduciary duties to council tax payers, although that case related to lease arrangements rather than pension arrangements.

Whilst councils may have a fiduciary duty to tax payers where a decision by them has a direct impact on tax payers, as was the case in *Charles Terence Estates Ltd* and the cases to which it referred, in our view, the position can be distinguished from the duties on Pensions Committees in relation to their pension arrangements. There is not, in our view, a sufficiently direct relationship between the LGPSS and tax payers which would result in Pension Committees having a fiduciary duty to tax payers, or to take actions which are in the best interests of those tax payers.

Accordingly, on the basis that a poor investment decision may result directly in adverse consequences for (i) scheme employers; and (ii) scheme members, it is our view, which is shared by Scottish Counsel, that Pensions Committee members of the LGPSS owe a fiduciary duty to both of those entities both in general and in the context of investment decisions. Such duty is not, however, owed to the tax payer.

In certain circumstances, it may be difficult to balance these duties as there may be competing interests. In such circumstances, the Pensions Committee should consider both parties' interests and treat each of them fairly and equitably, but not necessarily equally where favouring one party over another can be justified. Further legal advice may be required in cases of uncertainty.

Scottish Counsel's opinion

Counsel's view is that the Scottish courts are likely to agree with opinions regarding fiduciary duties that have been received in relation to the LGPSE – i.e. that fiduciary duties do apply to those who hold funds in a fiduciary capacity, such as the LGPSS.

He is also of the view that as a point of principle, Scottish courts will not take a different approach to the application of the IORP Directive – i.e. that whilst the IORP Directive has not been explicitly transposed into the Investment Regulations, the Directive should be treated as being directly applicable to the LGPSS and the Investment Regulations should be read as subject to the principles set out on the IORP Directive and Article 18 in particular.

Given that the prudent man principle is well enshrined in Scots law, the reference to "prudent person" in the IORP Directive is less significant.

5. Scope for consideration of non-financial factors

Regulation 12(2)(f) of the Investment Regulations requires administering authorities to maintain a statement of investment principles which sets out, among other things, "the extent to which social, environmental or ethical considerations are take into account in the selection, retention and realisation of investments".

In isolation, this provision could be construed as entitling investment decisions to be made purely with regard to non-financial matters and so we sought the opinion of Scottish Counsel on this matter to establish the extent to which non-financial matters can of themselves influence investment decisions other than as a factor of assessing their impact on investment risk and return in the usual way.

An investment policy, such as an ethical investment policy, is one which is not guided solely by financial criteria, but takes into account non-financial considerations independent from the investment risk and return analysis ("**Non-Financial Considerations**").

On the basis that Article 18(1) of the IORP Directive applies to the LGPSS (or in any event that the prudent man principle applies under Scots law) and therefore that investment and other decisions must be exercised by the LGPSS in a 'fiduciary' capacity, we now consider the extent to which the LGPSS is entitled to consider Non-Financial Considerations when reaching decisions regarding investment and otherwise.

One of the leading cases on investment duties is the English case of *Cowan v Scargill*[14] in 1984. The general principles set out by Megarry V-C in this case in relation to investment decisions are that:

- the starting point is to exercise powers in the best financial interests of the beneficiaries;

- when considering what investments to make, the fiduciary's personal interests and views should be put aside;

- the ordinary prudent man test applies in making investment decisions;

- where the fiduciary is opposed to an investment for non-financial reasons, the fiduciary should not refrain from making the investment by reason of those views;

- Megarry V-C could see no reason to hold that different principles apply to pension fund trusts as apply to other trusts; and

- Trustees must do the best they can for the benefit of their beneficiaries, and not merely avoid harming them.

The conclusion is that in deciding how to invest pension scheme assets, moral and ethical principles should be put aside.

Nicholls V-C in another English decision *Harries v Church Commissioners*[15] in 1992 stated in summary that 'trustees must act prudently' and:

- investment decisions may be made on moral grounds, so long as that course of action "would not involve a risk of significant financial detriment"
- otherwise, investment decisions should not be made on non-financial grounds

Nigel Giffin QC summarised these cases and reached the view that the LGPSE can:

- have regard to non-financial considerations where that does not run the risk of material financial detriment to the fund; and

- the LGPSE should not place its own wider interest (whether its own or those of the areas inhabitants) above those of the scheme employer (i.e. the LGPSE must be "blind to its own interests").

The decision in the Scottish case of *Martin v City of Edinburgh* in 1987 (referred to in section 4.1 of this Report) is also relevant to these considerations.

In relation to taking non-financial matters into account, Lord Murray states (in summary):

- the position in Scotland is that trustees must act prudently and in the best interest of the beneficiaries;

- the fiduciary must recognise that he has his own preferences and principles but that he should "nonetheless do his best to exercise fair and impartial judgment on the merits of the issue before him"; and

- trustees must not simply adhere to a policy where that policy restricts the choice of investment.

In relation to the procedure to make investment decisions, the Law Commission has stated that in relation to trust arrangements "…the trustees may consider the views of their beneficiaries when making investment decisions, but there is no need for them to do so. Trustees must make the ultimate decisions."

In our view, the fiduciary duties on Pensions Committees both in relation to investment matters and more generally should be exercised by the Pensions Committees on whom the duties are bestowed, having taken professional advice (such as investment advice) where appropriate. It would not be appropriate, in our view, to canvas the views of the beneficiaries before such decisions are taken.

Scottish Counsel's opinion

Having considered the relevant cases outlined above and the opinions of Nigel Giffin QC and Michael Furness QC, Scottish Counsel's view is that the LGPSS should exercise its investment duties in a fiduciary capacity.

Counsel was also of the view that the decision in *Harries* should be limited to its own specific facts and that trustees (and by extension Pensions Committees) are required to do more than simply ensure that the investment "would not involve a risk of significant financial detriment".

In summary, Scottish Counsel's view on the application of Non-Financial Considerations to the LGPSS is that:-

- there should be no policy in place that would restrict the choice of investments available to the LGPSS, including those based purely on the grounds of Non-Financial Considerations, other than restrictions under the Investment Regulations and by law. However, when making an investment decision, Pensions Committees may take environmental, social and governance (ESG) considerations into account in relation to that investment if the financial performance of that investment may be impacted as a result of any particular environmental, social or governance factor;

- any policy which specifically excludes the choice of investment purely based on Non-Financial Considerations will be contrary to the Pensions Committees' fiduciary duties and should be set aside before any investment decision is made; and

- Pensions Committees should seek to obtain the best returns for the fund while acting prudently. Investments should be made with the intention of achieving the best financial position for the fund whilst balancing risk and return considerations. Provided there is compliance with the above, social, environment and/or ethical considerations may be taken into account.

6. Implications for SAB and Pensions Committees

Pension Boards were established under the Public Service Pensions Act 2013[16] and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. Pension Boards are responsible for assisting the administering authorities in relation to ensuring compliance with legislative and other requirements relating to the governance and administration of the LGPSS.

The Scheme Advisory Board (SAB) was also established under the Public Service Pensions Act 2013[17] and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2014. The purpose of the SAB is to provide advice to the Scottish Ministers and to the Pension Boards and managers of the LGPSS in relation to the effective and efficient administration and management of the LGPSS.

In summary, it is our view that Pensions Committees in Scotland owe a fiduciary duty to the scheme employers and the scheme members in general and specifically in relation to investment matters. Those duties should be exercised in the best interests of the beneficiaries and in relation to investment decisions, should aim to achieve the best financial position for the fund, balancing risk and return in the usual way.

The Pensions Committees should seek appropriate professional advice before exercising their investment powers. In relation to investment decisions, they should not have a policy in place which would limit their investment options and all decisions should be made on a "prudent man basis. However, Pensions Committees may take environmental, social and governance (ESG) factors into consideration in relation to any investment decision, if the financial performance of that investment may be impacted by one or more of those factors.

SAB should have procedures in place to monitor the Pensions Committees to ensure the effective and efficient administration and management of the LGPSS in accordance with legislative requirements and the recommendations in this report and to advise the Pensions Committees where these have not been met.

7. References

References are in the order they appear in this Report.

[1] Opinion by Nigel Giffin QC dated 25 March 2014

QCOpinionApril2014.pdf

[2] IORP Directive
[Directive 2003/41/EC]

[3] Opinion by Michael Furness QC dated 24 May 2007

QCMF.pdf

[4] Article 18(1) of IORP Directive

Investment rules
1 Member States shall require institutions located in their territories to invest in accordance with the "prudent person" rule and in particular in accordance with the following rules:
(a) the assets shall be invested in the best interests of members and beneficiaries. In the case of a potential conflict of interest, the institution, or the entity which manages its portfolio, shall ensure that the investment is made in the sole interest of members and beneficiaries;

(b) the assets shall be invested in such a manner as to ensure the security, quality, liquidity and profitability of the portfolio as a whole.
Assets held to cover the technical provisions shall also be invested in a manner appropriate to the nature and duration of the expected future retirement benefits;

(c) the assets shall be predominantly invested on regulated markets. Investment in assets which are not admitted to trading on a regulated financial market must in any event be kept to prudent levels;

(d) investment in derivative instruments shall be possible insofar as they contribute to a reduction of investment risks or facilitate efficient portfolio management. They must be valued on a prudent basis, taking into account the underlying asset, and included in the valuation of the institution's assets. The institution shall also avoid excessive risk exposure to a single counterparty and to other derivative operations;

(e) the assets shall be properly diversified in such a way as to avoid excessive reliance on any particular asset, issuer or group of undertakings and accumulations of risk in the portfolio as a whole.
Investments in assets issued by the same issuer or by issuers belonging to the same group shall not expose the institution to excessive risk concentration;

(f) investment in the sponsoring undertaking shall be no more than 5% of the portfolio as a whole and, when the sponsoring undertaking belongs to a group, investment in the undertakings belonging to the same group as the sponsoring undertaking shall not be more than 10% of the portfolio.
When the institution is sponsored by a number of undertakings, investment in these sponsoring undertakings shall be made prudently, taking into account the need for proper diversification.

Member States may decide not to apply the requirements referred to in points (e) and (f) to investment in government bonds.

[5] The Local Government (Management and Investment of Funds)(Scotland)Regulations 2010
http://www.legislation.gov.uk/ssi/2010/233/body/made

[6] Scottish Law Commission: Report on Trust Law 2014 (No 239)
http://www.scotlawcom.gov.uk/files/4014/0904/0426/Report_on_Trust_Law_SLC_239.pdf

[7] *Martin v City of Edinburgh Council* [1989]PLR, [1988] SLT 329

[8] the Law Commission report (No 350) on the Fiduciary Duties of Investment Intermediaries; http://www.lawcom.gov.uk/wp-content/uploads/2015/03/lc350_fiduciary_duties.pdf

[9] Regulation 11 of the Investment Regulations

11 Investment policy and investment of pension fund money
(1) An administering authority must formulate a policy for the investment of its fund money.

(2) The authority's investment policy must be formulated with a view -
(a) to the advisability of investing fund money in a wide variety of investments; and

(b) to the suitability of particular investments and types of investments.

(3) The authority must invest, in accordance with its investment policy, any fund money that is not needed immediately to make payments from the fund.

(4) The authority may vary its investments.

(5) The authority must obtain proper advice at reasonable intervals about its investments.

(6) The authority must consider such advice in taking any steps in relation to its investments.

[10] the Department for Communities and Local Government Consultation on the Local Government Pension Scheme: Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009: consultation

[11] Article 8 of the IORP Directive

Legal separation between sponsoring undertakings and institutions for occupational retirement provision

Each Member State shall ensure that there is a legal separation between a sponsoring undertaking and an institution for occupational retirement provision in order that the assets of the institution are safeguarded in the interests of members and beneficiaries in the event of bankruptcy of the sponsoring undertaking.

[12] *Charles Terence Estates Limited v Cornwall Council* [2012] EWCA Civ 1439

[13] *Hazell v Hammersmith LBC* [1992] 2 AC 1;
Bromley LBC v Greater London Council [1983] 1 AC 768

[14] *Cowan v Scargill* [1985] Ch 270

[15] *Harries v Church Commissioners for England* WLR 1241

[16] Section 5 of the Public Service Pensions Act 2013

[17] Section 7 of the Public Service Pensions Act 2013

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As a solicitor-advocate qualified in the jurisdictions of Scotland and England and Wales, he has rights of audience in all courts, civil and criminal, including the Supreme Court of the United Kingdom. Craig has appeared in high profile and complex litigation in a wide variety of courts, inquiries and tribunals and includes pensions within his areas of practice. He was the first solicitor-advocate in Scotland to be appointed to the rank of Q.C. (Queens Counsel) and won Solicitor Advocate of the Year category in The Law Society Excellence Awards 2012.

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9. Disclosure

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Pinsent Masons LLP
11 February 2016

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June 2016

BULLETIN

Structure Review
The SAB considered a scoping paper for the structural review of LGPS pension funds in Scotland. The paper set out the background to the review and the previous reports that have looked at the options for merging or sharing services between the eleven funds. The paper also updated the SAB on the pooling of investment funds in England and Wales.

It was agreed to establish a working group to take forward the review with the aim of producing an options report by December 2016.

Fiduciary Duty
The SAB considered covering guidance to the legal opinion commissioned on the issue of fiduciary duty on SLGPS funds. The trade union side believes the tone of the opinion is too negative and further work will be undertaken to reflect these concerns in the covering guidance.

Cessation Valuations
The SPPA has undertaken a data collection exercise to establish the scale of potential risks arising from admission bodies that have no guarantor. It was agreed to recommend that amendments to Regulation 62(2) and 62(5) of the LGPS (Scotland) Regulations should be considered by Scottish Government and agreed the key points to be included in a good practice guidance from the SAB.

Scheme Governance
When the new governance arrangements were introduced it was agreed that there would be a review after two years. The SPPA has started the process for a review of scheme governance arrangements across all public sector pension schemes in Scotland. This will include an independent reviewer and consultation with all the stakeholders. The review will report in February 2017.

People
Harry Frew from UCATT was the SAB Vice-Chair and he will be standing down following his retirement later this month. Jane O’Donnell is moving to a new role in COSLA and Hayley Wotherspoon and Jonathan Sharma will take over as Employers Side Secretary. The SAB thanked Harry and Jane for their contribution to the new board’s work.

Willie McGonigle from Unite was elected as the new Chair of the SAB. In the recent Cabinet appointments, Derek McKay MSP is the new pensions minister.

SAB Website
The new SAB website (http://lgpsab.scot) to improve communications with stakeholders is now operating.

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October 2016

BULLETIN

Structure Review
The working group on the structural review of pension funds in Scotland updated the SAB on progress with the project. This included Terms of Reference for the review, which were agreed. The working group is aiming to produce an options paper for the February meeting of the SAB.

Transparency Code
In February, the SAB received a presentation on the transparency of investment costs from Dr Chris Sier. The England and Wales SAB has now developed a code and template for cost reporting and it was agreed to follow this approach in Scotland.

Fiduciary Duty
The SAB has now published guidance on fiduciary duty together with the legal opinion commissioned by the board. These are available on the board's website www.lgpsab.scot.

Brexit
The Pensions Regulator has asked all pension schemes to consider the risks of Brexit for their schemes. It is likely that the IORP2 Directive will be implemented before Brexit and this strengthens EU rules on good governance (including ESG issues), information to scheme members and scheme transparency. Many financial regulations are founded in EU law, although others are global provisions. The SAB also recognised that uncertainty could have an impact on asset performance and agreed to keep this issue under review.

Valuations
The SAB received a presentation on the 2017 valuation outlook. While asset returns since 2014 have been very positive, the outlook is for much lower returns in future. This matters because a 1% lower return on assets, translates into an 8% increase in employer contributions.

Scheme Governance
KPMG has been appointed to undertake the governance review of public sector pension schemes in Scotland. It will be led by Ian Pollitt, who worked on the Hutton Report.

Cessation Valuations
The recommended changes to the regulations may take some time, so it was agreed to issue some interim best practice guidance to funds on this issue.

People
Frank Gray (UCATT) will be replacing Harry Frew, and Tony Dowling (GMB) will be replacing Alex McLuckie as trade union side members of the SAB.

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APPENDIX VIII

Document Name		Revisions
1.	**Conflicts of Interest Policy**	• There are a number of legislative and TPR requirements relating to the management of potential or actual conflicts of interest for LGPS funds. The policy has been updated to reflect these requirements and now includes a conflict of interests register which will be maintained by the Governance Team.
2.	**Reporting Breaches of Law Policy**	• There are a number of legislative and TPR requirements relating to the management and reporting requirements of breaches of law. The policy has been updated to reflect these requirements and now includes a register of breaches which will be maintained by the Governance Team.

The above revised policies are available to view via the Pension Fund website at www.nespf.org.uk

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ABERDEEN
CITY COUNCIL

TO WHOM IT MAY CONCERN 01 November 2016

Aberdeen City Council Pension Fund
(Known as the North East Scotland Pension Fund)

Please accept this letter as confirmation that Jackie Buchanan (as Service Manager Legal Services) and Graham Buntain (as Investment Manager) are each authorised signatories for and on behalf of the Aberdeen City Council Pension Fund.

Jessica Anderson and Elaine Falconer (who were interim Legal Managers) are to be deleted from the authorised signatory list.

Please see below for a sample of their signatures and accept this as authorisation to make the above additions/deletions to the existing signatory list for Aberdeen City Council Pension Fund.

Jackie Buchanan
Service Manager Legal Services ....

Graham Buntain
Investment Manager ....

Yours Truly

....

Authorised Signatory Authorised Signatory

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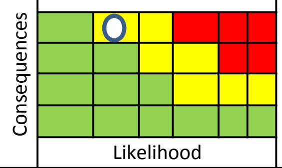
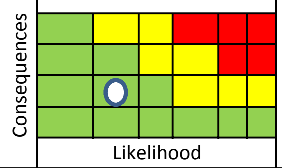
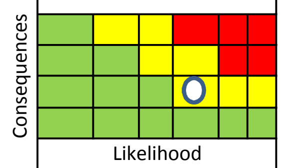
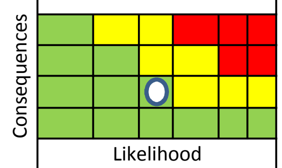
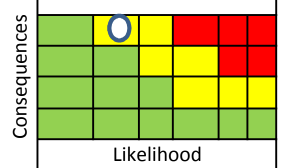
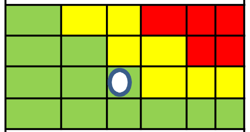
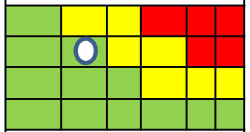
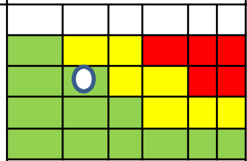
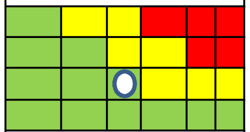
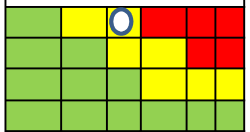
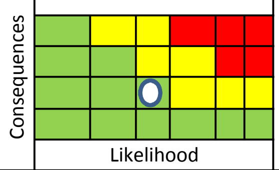
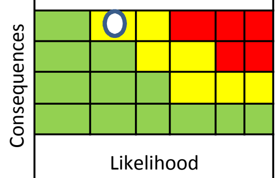
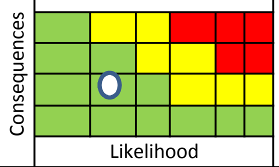
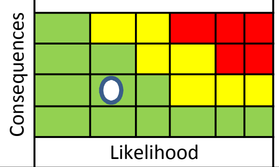
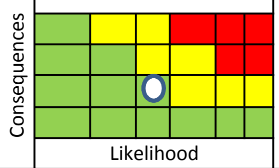
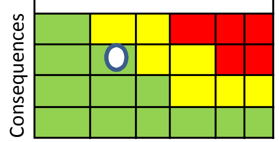
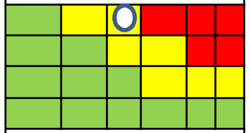
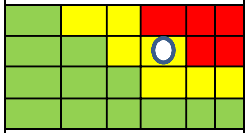
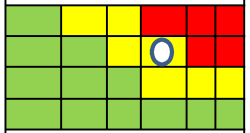
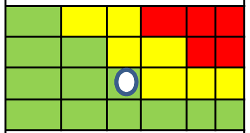
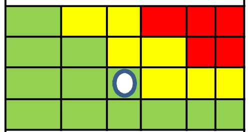
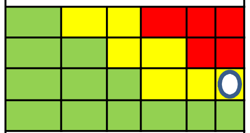
Pension Fund Risk Register **<u>Key Priorities 2016 -2017</u>**

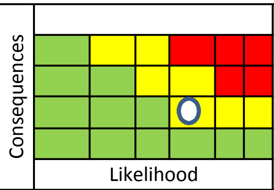
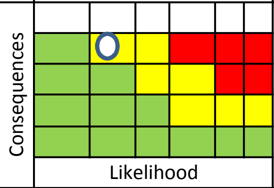
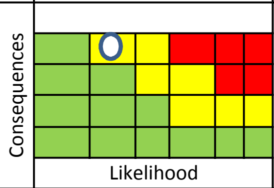
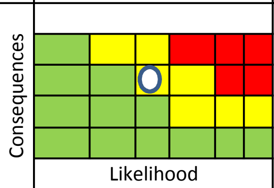
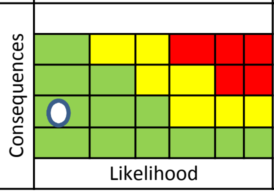
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken
1	Corporate	Lack of effective Risk Management	Failure to identify and respond to risks with the potential to impact on our ability to achieve our objectives	Pension Fund risk register reviewed and updated quarterly		8	Ongoing
2	Corporate	Poor Governance	Failure to ensure the Fund has in place a sound organisational framework, identifies responsibilities, manages its systems and processes and support the Council's culture and values	Fund has in place an annual review of its governance statement and supporting documents ensuring they comply with both regulation and Council objectives		4	New Governance Manager in place with effect from 1 April 2016
3	Corporate	Lack of Performance Measures	Failure to measure how successful we are at delivering the Pension Fund Business Plan priorities and achieving improved outcomes for our scheme members	Fund has in place both statutory and local PI's		8	2016 -2017 To be reviewed and compared against other Funds to assess performance
4	Funding	Actuarial Valuation - impact of market volatility	Increase in employer contributions to meet unfunded position	Interim actuarial valuation to be undertaken		6	Work to be undertaken ahead of formal 2017 valuation to ensure all records are compliant
5	Regulatory and Compliance	Full Implementation of LGPS 2015	Failure to meet statutory deadline, Audit criticism, reputational risk	Complete first year of CARE Scheme, with specific focus on issuing of member benefit statements		8	Ongoing

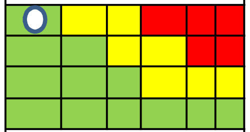
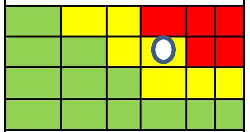
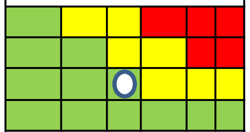
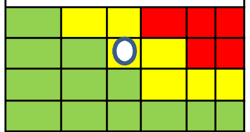
6	Regulatory and Compliance	Requirement to complete GMP Equalisation	Failure to ensure that future member benefits are calculated correctly. Audit critism and financial loss to the Fund	Staff appointed to carry out calculations	Consequences  Likelihood	6	Ongoing
7	Governance	Lack of change in management to new Pension Fund structure	Failure to ensure that all staff receive appropriate training. Financial loss through incorrect benefit calcs. Audit cristism. Failure to ensure right first time, every time	Training plans drawn up for all staff to be overseen by Governance Manager	Consequences  Likelihood	6	To be implemented in line with new Pension Fund staff structure 2016
8	Governance	First Year review of workings of Pension Board and Pension Committee	Failure to ensure effective joint working of the Pension Board and Pension Committee, not compliant with Scheme Regs and Pension Regulatore requirements	Review of Penion Committee and Board Agenda and meeting structure	Consequences  Likelihood	6	Report to Committee by end Dec 2016
9	Investment	Implementation of 2015/16 investment stratetgy review	Failure to effectively manage assets of the Fund. Potential increase in employer contributions. Audit criticism	New Investment Manager post created within Pension Section with responsibility for all Investment Matters	Consequences  Likelihood	6	Post to be advertised summer 2016
10	Investment	New Global Custody Services	Failure to manage transition between old and new custodial arrangements. Financial loss through delay in service or errors in data	Project Plan and risk register drafted. Regulator reporting to Pension Committee	Consequences  Likelihood	8	Plan to be managed from 1 April 2016 to 31 March 2017

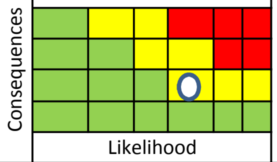
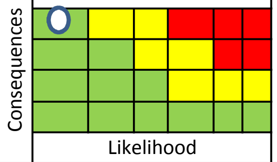
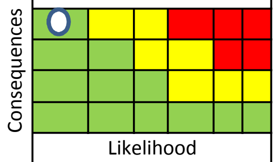
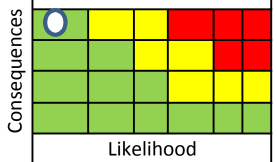
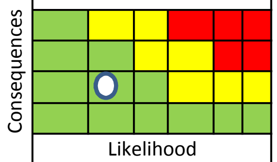
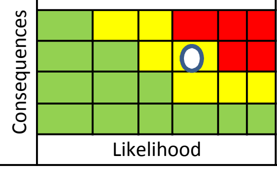
Pension Fund ongoing risk assessment in accordance with Pension Regulator Requirements

No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken
1	**Operational**	Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location		6	Annual confirmation to Pension Manager from Technical Manager of external service
2	**Operational**	Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within CG overall policy		8	Review to be carried out. New Pension Fund Management team to be made fully aware of disaster recovery plan
3	**Operational**	Overpayment of pension benefits	Audit criticism, legal challenge, reputational risk	All pension payments signed off by a senior pensions officer – segregation of duties for staff processing lump sums		4	Ongoing
4	**Operational**	Failure to maintain member records and comply with regulations	Incorrect pension payments, incorrect assessment of actuarial liabilities	All employers required to submit monthly data, which is checked		4	Monitoring of quality of data to be reported quarterly to the Pensions Manager
5	**Operational**	Failure to carry out effective member tracing	Incorrect pension payments, incorrect assessment of actuarial liabilities	Tracing service in place		6	Review of tracing service to be undertaken
6	**Operational**	Fraud/Negligence	Overpayment, unauthorised payments, system corruption, audit criticism, reputational damage	All pension payments signed off by a senior pensions officer – segregation of duties for staff processing lump sums		6	Spot checks of work undertaken to be completed by Member of Managerment Team

					Likelihood		quarterly
7	**Operational**	Failure to recruit and develop staff	Reduction in service delivery, poor operation of risk management controls	On-going review of staffing requirements and training. Benefit officers required to complete specific pensions exams	Consequences  Likelihood	12	Posts advertised summer 2016
8	**Funding**	Fund's investments fail to deliver returns in line with anticipated returns required to meet the valuation of the long term liabilities	Increase in employer contributions	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to pensions committee. Triennial investment strategy review.	Consequences  Likelihood	12	New reporting to be introduced by the Governance Manager for Pensions Manager and Head of Finance
0	**Funding**	Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by the Scheme actuary reported to Pensions Committee	Consequences  Likelihood	12	Compliance reporting on bonds to be introduced as part of new custody package
10	**Funding**-	Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Quarterly funding updates reported to Pensions Committee	Consequences  Likelihood	6	Information to be provided under new custody package
11	**Funding**	Longevity issues	Increase in employer contributions	Actuarial assessment every three years undertake scheme specific analysis	Consequences  Likelihood	6	Strategy review to consider matching liabilities
12	**Funding**	Employers leaving scheme/closing to new members due to cost	Residual liabilities could fall to other scheme employers	Monitor scheme employer – seek guarantors for smaller employers	Consequences  Likelihood	12	Ongoing

13	**Funding**	Failure to recover unfunded payments from employers, cross subsidy by other employers	Residual liabilities could fall to other scheme employers	Accounting officers will escalate failed employer payments to Employer Relationship Team		8	Ongoing
14	**Funding**	Delay in funding investment managers	Loss of investment return and impact on employer contribution rates	Control of payment timetable of payments made to investment managers as detailed in cash manual. Reported quarterly to Pensions Committee		8	New Investment Manager appointment with effect from summer 2016
15	**Financial**	Failure of world stock markets	Increase in employer contribution rates	Diversification of scheme assets, investment strategy review following outcome of triennial valuation		8	Implementation of 2016 strategy review
16	**Financial**	Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers of Funding issues. Documentation in place		9	Ongoing
17	**Financial**	Negligence, fraud, default by investment managers	Loss of value of the Fund, reputational damage	Fund management monitoring, SAS 70 reports and appropriate clauses in all scheme documentation		2	New Investment Manager appointment with effect from summer 2016

18	**Financial**	Failure of Global Custodian	Loss of investments or control of investment	Regular meetings with global custodian, receipt of SAS 70 reports and monitoring, through Global Custodian magazines. To be included in annual report to Pensions Committee on service providers	Consequences	 Likelihood	4	New Investment Manager appointment with effect from summer 2016
20	**Financial**	Failure to monitor investment managers and assets	Audit criticism, legal challenge, reputational risk	Quarterly assessment of investment performance of fund, triennial actuarial valuation and quarterly funding updates reported to Pensions Committee. New meeting reporting requirements to be drawn up for officer manager meetings	Consequences	 Likelihood	12	New Investment Manager appointment with effect from summer 2016
21	**Financial**	Failure of internal control of fund suppliers	Audit criticism, legal challenge, reputational risk	Sign off by a senior officer for all purchases of goods, monitoring of supplier costs. Introduction of reporting to Pensions Committee	Consequences	 Likelihood	6	New Governance Manager to review fund suppliers
22	**Regulatory and Compliance**	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding regulations	Audit criticism, legal challenge, reputational risk, financial loss/financial penalties	Six monthly review of compliance with regulations and report to Pensions Committee	Consequences	 Likelihood	9	New Governance Manager to ensure compliance reporting

23	**Governance**	Potential risks and conflicts of interest between ACC and NESPF	Audit criticism, legal challenge, reputational risk	Regular discussions between Head of Finance and Pensions Managers, areas of risk and conflict reported to Pensions Committee		8	Ongoing
24	**Governance**	Breach of Data Protection –theft or loss of data	Audit criticism, legal challenge, reputational risk	Internal control and procedures for management of data. To be reviewed and reported to Pensions Committee on annual basis.		4	Ongoing
25	**Governance**	Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all FOI requests and meeting deadline for information requests		4	New governance manager to oversee FOI
26	**Governance**	Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all internal and external audit requirements		4	New governance manager to oversee annual account delivery
27	**Governance**	Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Annual review of AVC arrangement carried out by scheme actuary		4	New Investment Manager appointment with effect from summer 2016
28	**Governance**	Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discussions with scheme employer of funding issues		12	Employer Relationship Manager to put in place review mechanism

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2ND DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	INTERIM VALUATION RESULTS FOR THE NORTH EAST SCOTLAND PENSION FUND
REPORT NUMBER:	PC/DEC16/IAV (1)

1. PURPOSE OF REPORT

This report provides elected members with details of the outcome of the Interim Actuarial Valuation for the main fund that was commissioned by the Fund as at 31 March 2016.

2. RECOMMENDATION(S)

i. To note the report

3. FINANCIAL IMPLICATIONS

As this is an interim valuation the funding levels provided by the scheme actuary are not published by the Fund and has no impact on the employer contribution rates.

4. OTHER IMPLICATIONS

None

5. REPORT

5.1 Background

5.1.1 As a result of the deteriorating funding position since the triennial valuation in 2014 the Fund commissioned the scheme actuary, Mercer, to carry out an interim valuation based on the assets and liabilities held within the Fund as at 31 March 2016. These results will be used to prepare the Fund for the 2017 triennial valuation, allow for early discussions for the development of the 2017 Funding Strategy Statement and form the background for discussions with employers regarding for full implementation of the NESPF covenant assessment policy.

5.1.2 The scheme actuary, Paul Middleman, visited Aberdeen to discuss the initial results with the NESPF in early October.

5.2 Data Quality

5.2.1 Paul and his team remarked on the high quality of the data provided by the Fund. The level of quality resulted in considerably less queries to the pensions department, helped Mercer with their processing and ensured the accuracy of the valuation. The accuracy of the data and the ability to provide the information to Mercer in a timely manner are a direct result of receiving monthly information through i-Connect from our large employers for the year 2015/16.

5.2.2 A full data quality report was provided by Mercer which will allow the Employer Relationship Team to identify any areas that continue to be a problem and resolve those prior to the full valuation in March 2017.

5.3 Level of Prudency

5.3.1 It is important that the level of prudency adopted by the scheme actuary is maintained from valuation to valuation. Traditionally, Mercer, have adopted a more prudent approach to the valuation of scheme liabilities than other actuarial firms. This is a level which the Fund is comfortable with and wishes to maintain whilst being aware of the affordability of the scheme for participating employers.

5.4 Discount Rate

5.4.1 The discount rate applied to both past service liabilities and the future service rate for the triennial valuation as at 31 March 2014 mirrored the value of gilt yields. However, given the low value that has been put on gilt yields in recent years, the actuary feels that to continue this approach would be too prudent.

5.4.2 The recommendation is that the Fund adopt an approach of linking the assumption for the discount rate to real returns. This would ensure that the level of prudency is in line with previous valuations, ensure that employer rates remain stable in accordance with the scheme regulations and better reflects the asset performance of the Fund.

5.5 Whole Fund Results

5.5.1 Based on a discount rate of CPI plus 2.50%p.a. for future service rate the funding level as at 31 March 2016 is 97% for the whole fund. The resulting deficit is £102 million compared to the deficit published in 2014 of £191 million (94% funded.)

5.5.2 Individual employer results will vary considerably from the whole fund position. The funding positions for all participating employers will be available later in 2016. These results will form the basis for discussions with employers on managing risk and maintaining affordability of the scheme.

5.6 Considerations

5.6.1 The Fund and scheme actuary will continue to monitor the funding position carefully between now and March 2017 when the full valuation is required. Market volatility continues to be a concern for the Fund, especially in the light of Brexit and the potential for enacting article 50 over the valuation period.

5.6.5 Given the concerns on the impact of Brexit it may be appropriate for the Fund to adopt a slightly more prudent approach to applying future assumptions for the forthcoming valuation.

5.6.3 Further consideration has to be given to the employer grouping for future valuations. It is likely that the 'other employers group' will be disaggregated during the next valuation but also the Fund needs to consider whether it is appropriate to maintain the Council group given the different strategies that they employ with regards to outsourcing.

5.6.4 The results of the interim valuation as at 31 March 2016 are not part of the required triennial valuation and will not be published in the annual reports for the Fund. Employer rates will not be established as part of these results although they will help to prepare both the Fund and the employers for consultation on the rates for 2018/19 onwards.

6. REPORT AUTHOR DETAILS

Claire Mullen
Employer Relationship Manager
cmullen@nespf.org.uk
01224 264166

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2ND DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	INTERIM VALUATION RESULTS FOR THE ABERDEEN CITY COUNCIL TRANSPORT FUND
REPORT NUMBER:	PC/DEC16/IAV(2)

1. PURPOSE OF REPORT

This report provides elected members with details of the outcome of the Interim Actuarial Valuation for the transport fund that was commissioned by the Fund as at 31 March 2016.

2. RECOMMENDATION(S)

i. To note the report

3. FINANCIAL IMPLICATIONS

As this is an interim valuation the funding level provided by the scheme actuary is not published by the Fund and has no impact on the employer contribution rate for First Bus - Aberdeen.

4. OTHER IMPLICATIONS

None

5. REPORT

5.1 Background

5.1.1 As a result of the deteriorating funding position since the triennial valuation in 2014 and the continued monitoring of the Transport Fund investment flight path, the NESPF commissioned the scheme actuary, Mercer, to carry out an interim valuation based on the assets and liabilities held within the Fund as at 31 March 2016.

5.1.2 The scheme actuary, Paul Middleman, visited Aberdeen to discuss the initial results with the NESPF in early October.

5.2 Data Quality

5.2.1 As the Transport Fund is small, the quality of data retained by the NESPF continues to be high. The accuracy of data held is particularly important to ensure that the correct information is provided to both Mercer and the Investment Manager for the development and continued monitoring of the investment strategy for this maturing Fund.

5.2.2 Any individual discrepancies with the data identified by Mercer in their full data report will be investigated prior to the 2017 valuation.

5.3 Discount Rate

5.3.1 Due to the mature nature of the Aberdeen City Council Transport Fund the scheme actuary remains confident that the discount rate applied to both past service liabilities and the future service rate should continue to be linked to gilt yields, as per previous valuations.

5.3.2 The discount rate assumption applied will continue to be gilts + 0.25% for the purpose of the interim valuation results as at 31 March 2016.

5.4 Transport Fund Results

5.4.1 Based on the discount rate above the funding level as at 31 March 2016 has been calculated as 93% for the Aberdeen City Council Transport Fund. The resulting deficit remains the same as the figure published in 2014 of £6.4 million.

5.4.2 Although the investment performance for the fund has been strong, and pension increases were lower than expected the fall in the value of gilt yields has negated any positive impact that this has had.

5.4.3 The results indicate that due to the fall in the value of gilts yields the future service rate has been increased. If the value of gilts remains low, this will result in the employer contribution rate requirement for First Bus possibly increasing after the 2017 valuation.

5.4.4 The pensions manager and Employer Relationship Team will meet with First Bus to discuss these results and specifically the potential increase in employer contribution requirements.

5.5 Considerations

5.5.1 The new investment strategy for the Aberdeen City Council Transport Fund is now in place. The signing of the advice letter and investment management agreement between Aberdeen City Council and Schroders means that the strategy is implemented from 1 December 2016.

5.5.2 Due to the maturity of the Fund, regular monitoring of the liabilities will continue to be a requirement to ensure that the ‘flight plan’ remains fit for purpose.

5.5.4 The results of the interim valuation as at 31 March 2016 are not part of the required triennial valuation and will not be published in the annual reports for the Aberdeen City Council Transport Fund. The employer contribution rate for First Aberdeen will not be established as part of these results.

6. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2nd DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	RISK – EMPLOYER COVENANT
REPORT NUMBER:	PC/DEC16/COV

1. PURPOSE OF REPORT

To make the Pensions Committee aware of the ongoing work being undertaken by the Employer Relationship Team to reduce the potential risk to the Fund posed by Employers who are unable to meet the financial requirements of participation within the LGPS.

2. RECOMMENDATION(S)

i. To note the report

3. FINANCIAL IMPLICATIONS

Any orphaned liabilities held within the Fund are the responsibility of all of the active participating Employers. High levels of orphaned liabilities pose a risk to the overall funding position and ultimately increase the contribution requirements for Employers.

4. SERVICE & COMMUNITY IMPACT

Admission Bodies within the Fund all provide essential services to the communities of Aberdeen, Aberdeenshire, Moray, and other areas. For those bodies that have a weak covenant or are unable to meet the costs of exiting the scheme there is always the possibility of these organisations having to cease trading as a result of their liabilities within the scheme. This will not only have a negative impact on the community but also reflect badly on the Fund and the Administering Authority.

5. REPORT

5.1 Background

5.1.1 Over recent years The Pensions Regulator (tPR) has put greater emphasis on ensuring that participating Employers are able to meet both the legal and financial obligations of the Local Government Pension Scheme (Employer covenant)

Although it is not possible to fully mitigate the risk posed by Employers not being able to meet either their pension contribution commitments or the unfunded liabilities held within the Fund upon exit, Funds are required to manage this risk through the active monitoring of Employer covenants.

5.1.2 Following the Triennial valuation in 2011 the North East Scotland Pension Fund (NESPF) developed a policy for assessing Employer covenants. The NESPF policy was developed in conjunction with the scheme actuary and was embedded within the NESPF Funding Strategy Statement after consultation with Employers.

5.2 Implementation of the Employer Covenant Assessment Policy

5.2.1 All active Employers within the NESPF have been ranked as either high, medium or low risk based on their membership profile, funding position and the presence of a guarantor or bond.

High risk Employers tend to be the community admission bodies that were granted admission before 2010 and have a decreasing active membership. Traditionally these Employers were taken into the scheme with no guarantor or bond in place.

5.2.2 All high risk Employers were contacted by the Fund in November 2014 and again in late 2015 to prompt discussions regarding their funding positions and the implications of eventual exit from the scheme.

The aim of these discussions was to provide a high level of transparency regarding all aspects of Employer responsibilities and a greater awareness of the implications of participating in a defined benefits scheme in the current financial climate.

As a result of these discussions seven different participating Employers approached Aberdeen City Council with a request to act as guarantor for their admission agreements. Following approval by the Finance, Policy and Resources Committee the NESPF have secured guarantees for each of these previously high risk Employers, considerably reducing the risk to the Fund.

5.2.3 A Bond review has been carried out to ensure that both the cash and indemnity bonds that are already in place are sufficient to meet the unfunded liabilities held within the Fund for those Employers.

5.2.4 In September 2015 the Fund invested in the Funding Service Monitor (FSM Pro) provided by our scheme actuary Mercer. This system allows us to view the funding position for the whole Fund as well as for each individual Employer on a daily basis. In addition it allows us to provide information to our Employers on funding as well as estimates for current liabilities and potential termination costs. This can all be provided at no additional cost to the Fund or the Employers.

5.2.5 All new admitted bodies are required to have a scheme Employer act as guarantor (for a transferee admission body) or an appropriate bond put in place before admission is granted to the scheme.

5.3 Future requirements

5.3.1 Although the Fund has started to implement the Employer Covenant Assessment Policy further work needs to be undertaken to ensure that the Fund is fully meeting The Pension Regulator requirements on this matter.

5.3.2 Due to the deterioration of the funding position since the 2014 triennial valuation the NESPF have requested the scheme actuary, Mercer, to carry out an interim valuation as at 31 March 2016.

The results of the interim valuation, which are detailed in a separate report, will form the basis for the full implementation of the Employer Covenant Assessment Policy prior to the triennial valuation which will take place on 31 March 2017.

The Employer Relationship Team will meet with all Employers individually between receiving the interim results and the completion of the 2017 valuation.

5.3.3 The Fund will continue to investigate the possibility of obtaining guarantors for those admitted bodies who provide services for Aberdeen City Council, Aberdeenshire Council and Moray Council.

5.3.4 The Scheme Advisory Board is currently undertaking a review of the LGPS (Scotland) Regulations in respect of terminations. From this they will develop a good practice guide which may impact on the monitoring of employers in future.

6. BACKGROUND PAPERS

NESPF Funding Strategy Statement (Appendix 4, Employer Engagement – Risk and assessment of employer covenant)

7. REPORT AUTHOR DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	2nd DECEMBER 2016
REPORT BY	HEAD OF FINANCE
TITLE OF REPORT	BUDGET/FORECAST & PROJECTED SPEND 2016/17
REPORT NUMBER	PC/DEC16/BUD

1. **PURPOSE OF REPORT**

1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2016/17 for the North East Scotland Pension Fund (NESPF).

2. **RECOMMENDATIONS**

2.1 It is recommended that the Pensions Committee:

- Note the update on the NESPF Management Expenses Budget/ Forecast and Projected Spend for 2016/17;
- Note the update on Pension Fund Staff Costs resulting from the implementation of the new staffing structure
- Note the update on revised guidance on Accounting for Scheme Management Costs

3. **FINANCIAL IMPLICATIONS**

3.1 All Pension Fund costs are paid for by the Fund.

4. **OTHER IMPLICATIONS**

4.1 None

5. REPORT

5.1 BUDGET/FORECAST AND PROJECTED SPEND 2016/17 (APPENDIX I)

5.1.1 Administrative Expenses – all staff costs of the pension administration team are charged direct to the fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.

5.1.2 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

5.1.3 The staff costs budget for 2016/17 was based upon last year's actual plus 1%, i.e. the old grades for posts and the Fund not operating to a full complement of staff. However, the new staffing structure was implemented from 1 April 2016. Therefore, a projected overspend is anticipated if the Fund transitions during 2016/17 to a full staffing complement on the new posts and grades.

5.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the fund has negotiated performance related fees with a number of its investment managers and the forecast is based upon last year's actuals plus 1%. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer needs to account for the indirect limited partnership fees. The Forecast for Investment Management Expenses was based upon last year's actual spend plus 1%, i.e. this included the indirect expenditure. Hence, there is a projected 'underspend' as the figures for 2016/17 no longer include this expenditure.

Actuarial Fees for 2016/17 are anticipated to be particularly high when compared to 2015/16. The main reason for the increase in expenditure is due to recent market volatility and the Fund's decision to undertake an Interim Valuation.

Transaction costs, general investment expenses (e.g. Investment advice and litigation, etc.) and direct property expenditure are now included within the Investment Management Expenses heading.

General Investment Expenses are anticipated to significantly rise during 2016/17. The main reason for the increase in expenditure is expected to be because of the additional investment advice being sought from Klynveld Peat Marwick Goerdeler (KPMG), such as advice on transition and fund manager selection.

5.2 GOVERNANCE

5.2.1 The Pension Fund projected costs for salaries and direct costs are included in monthly monitoring reports to the Service and Corporate Management Teams. The Head of Finance reports to the Pensions Committee on a quarterly monthly basis.

6. IMPACT

6.1 The Pension Fund Budget or Forecast promotes accountability and gives reassurance to the stakeholders in the Pension Fund. This report ensures transparency in costs from the administrator of the fund.

7. BACKGROUND PAPERS

North East Scotland Pension Fund Annual Report & Accounts (2015/16) and Fund Governance Policy Statement.

8. REPORT AUTHOR DETAILS

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Appendix I – 2016/17 BUDGET/FORECAST AND PROJECTED SPEND

The Budget and Projected Spend for NESPF Administration Expenses are shown below:

	Notes	Full Year Budget 2016/17	Budget to 30/09/16	Actual Spend to 30/09/16	Accrual to 30/09/16	Amended Spend to 30/09/16	Over or (Under) to 30/09/16	Proj Annual Spend 2016/17	Proj Over or (Under) Spend 2016/17
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Administrative Staff Costs	1	975	488	238	236	474	(14)	992	17
Support Services Inc IT	2	550	274	282	50	332	58	596	46
Printing & Publications	3	32	16	16	0	16	0	30	(2)
Administration Expenses Total		**1,557**	**778**	**536**	**286**	**822**	**44**	**1,618**	**61**

Note:

1. Overspend – Implementation of new staffing structure assuming full complement of staff being in post.
2. Overspend – Additional costs arising from Pensions Reform and maintenance of new software systems, i.e. Member Self Service (MSS) system and GMP Reconciliation.
3. Relatively neutral position expected for 2016/17.

Appendix I – 2016/17 BUDGET/FORECAST AND PROJECTED SPEND (continued)

The Budget and Projected Spend for NESPF Oversight & Governance Expenses are shown below:

	Notes	Full Year Budget 2016/17	Budget to 30/09/16	Actual Spend to 30/09/16	Accrual to 30/09/16	Amended Spend to 30/09/16	Over or (Under) to 30/09/16	Proj Annual Spend 2016/17	Proj Over or (Under) Spend 2016/17
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investment Staff Costs	1	102	52	27	28	55	3	131	29
Pension Fund Committee	2	4	2	3	1	4	2	7	3
Pension Board	3	1	0	1	0	1	1	3	2
External Audit Fee	4	45	22	0	23	23	1	45	0
Internal Audit Fee	5	8	4	0	4	4	0	8	0
Actuarial Fees	6	104	52	42	21	63	11	170	66
General Expenses	7	87	44	73	20	93	49	157	70
Oversight & Governance Expenses Total		**351**	**176**	**146**	**97**	**243**	**67**	**521**	**170**

Note:

1. Overspend – Implementation of new staffing structure assuming full complement of staff being in post.
2. Overspend – Arising from London training event.
3. Overspend – Arising from London training event.
4. External Audit Fee last year actual + 1%. Charge made at year end.
5. Internal Audit Fee last year actual + 1%. Charge made at year end.
6. Overspend – As a result of market volatility the Fund has undertaken an interim valuation.
7. Overspend – Mainly arising from additional KPMG investment advice e.g. transition and fund manager selection.

Appendix I – 2016/17 BUDGET/FORECAST AND PROJECTED SPEND (continued)

The Forecast and Projected Spend for NESPF Investment Management Expenses are shown below:

	Notes	Full Year Forecast 2016/17	Forecast to 30/09/16	Actual Spend to 30/09/16	Accrual to 30/09/16	Amended Spend to 30/09/16	Over or (Under) to 30/09/16	Proj Annual Spend 2016/17	Proj Over or (Under) Spend 2016/17
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investment Management	1	11,297	5,649	913	4,207	5,120	(529)	10,214	(1,083)
Performance Fees	2	6,117	3,058	0	2,327	2,327	(731)	4,653	(1,464)
Direct Property Expenses	3	128	64	59	36	95	31	206	78
Transaction Costs	4	1,077	538	535	99	634	96	1,245	168
Custody Fees	5	150	75	20	53	73	(2)	149	(1)
Investment Management Expenses Total		**18,769**	**9,384**	**1,527**	**6,722**	**8,249**	**(1,135)**	**16,467**	**(2,302)**

Note:
1. Underspend – Mainly arising from the revised CIPFA guidance on Accounting for Management Costs.
2. Underspend – Mainly arising from the revised CIPFA guidance on Accounting for Management Costs.
3. The Projection for 2016/17 is based upon the Fund Manager's estimated spend for the year.
4. Transaction Costs reported by BNY Mellon as at reporting date then projected.
5. Custody Fees in arrears. Average monthly cost projected to year end.

The above is a forecast of costs rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

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ABERDEEN CITY COUNCIL

COMMITTEE:	PENSIONS COMMITTEE
DATE:	2nd DECEMBER 2016
REPORT BY:	HEAD OF FINANCE
TITLE OF REPORT:	UPDATE ON ANNUAL BENEFIT STATEMENTS
REPORT NUMBER:	PC/DEC16/ABS

1. PURPOSE OF REPORT

The purpose of this report is to update the Committee on the provision of the Annual Benefit Statements (ABSs) to the Funds active and deferred members. These statements provide members with an estimate of their pension position at retirement age, based on data currently held by the Fund.

2. RECOMMENDATION(S)

i. To note the report

3. FINANCIAL IMPLICATIONS

The failure to issue ABSs by the statutory deadline opens the Fund up to financial penalties imposed the Pensions Regulator (tPR). However there are no costs in this case.

4. OTHER IMPLICATIONS

None

5. BACKGROUND/MAIN ISSUES

Under regulation 87 of the Local Government Pension Scheme (Scotland) Regulations 2014 the Fund must produce ABSs within five months following each Scheme year end (31 August) and in accordance with section 14 of the Public Service Pensions Act 2013. This statutory deadline was imposed for the first time in 2014/2015.

The change to a Career Average Revalued Earnings (CARE) Scheme from 1 April 2015 meant a significant amount of work had to be undertaken by Officers, both before and after implementation, to ensure the Fund was able to meet the statutory deadline in the first year.

Any failure to comply with the statutory deadline to issue the ABSs in accordance with the requirements of the Act must be evaluated as to whether it constitutes a breach of material significance that must be reported to tPR. To comply with this, North East Scotland Pension Fund (NESPF) has developed its own Breaches of Law Policy Statement and Register of Breaches. Those with a duty to report to tPR can refer to the Policy and Register for support when evaluating whether to report.

4. REPORT

In total 14,514 benefit statements were issued to deferred members by 18th July 2016. This represents 99.97% of all deferred members entitled to receive a statement.

As at 31 August 2016 23,308 benefit statements had been issued to active members.

An issue was subsequently encountered which affected 176 of our term time workers. This was very quickly remedied by our Officers and revised statements were issued to those affected on 5th September 2016.

In addition, a further 90 members were identified that were entitled to an ABS but who did not receive one. The majority of these were the result of incomplete data on our administration system Altair. The identified records were manually adjusted and statements issued to the affected members on 2nd November 2016 with an accompanying letter of apology.

In total, 23,398 benefit statements were issued to active members. This represents 99.62% compliance with the statutory requirement.

Although we have fallen slightly short of achieving 100% we have identified the outstanding member records which have prevented us from meeting this target. The issues have been further addressed as part of the post review undertaken by Officers and a revised project plan will be implemented in preparation for the 2016/17 year. This should allow us to improve upon our performance next year with the aim of achieving 100% compliance.

In line with the NESPF Breaches of Law Policy as we did not achieve full 100% compliance in terms of the ABSs this will be recorded as a breach in the Register.

There is a duty to report a breach where it is likely to be of material significance to the Pensions Regulator. In this case, we do not believe this to be the case and therefore will not be reporting the breach to tPR. The cause of the breach has been identified and measures put in place to prevent future reoccurrence.

5. BACKGROUND PAPERS

None

6. REPORT AUTHOR DETAILS

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Meeting Dates for 2017

Aberdeen City Council has agreed its diary of meeting dates for 2017 and has set dates for the Pensions Committee to meet as follows:-

10.30am, Friday 10 March 2017
10.30am, Friday 23 June 2017
10.30am, Friday 15 September 2017
10.30am, Friday 1 December 2017

Members are asked to note the dates. These will be issued as electronic appointments.

A date will also be arranged for some time in May for the Pension Board annual meeting.

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Exempt information as described in paragraph(s) 6 of Schedule 7A
of the Local Government (Scotland) Act 1973.

Agenda Item 13

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