

# Public Document Pack



To: **Pension Committee**:- Councillor Donnelly, Convener; Councillor Reynolds, Vice Convener; and Councillors Allard, Bell, Cooke, Crockett, Delaney, MacGregor; and Malik.

**Pension Board**:- Mr A Walker Chairperson, Ms M Hart, Vice-Chairperson, Councillors Cowe, John, McKelvie; Ms M Lawrence and Mr K Masson.

Town House,  
ABERDEEN, 15 June 2017

## **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, 23 JUNE 2017 at 10.30am.**

FRASER BELL  
HEAD OF LEGAL AND DEMOCRATIC SERVICES

### **BUSINESS**

#### **DETERMINATION OF URGENT BUSINESS**

- 1 There are no items of urgent business at this time

#### **DETERMINATION OF EXEMPT BUSINESS**

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

#### **DECLARATIONS OF INTEREST**

- 3 Members are requested to intimate any declarations of interest

## **MINUTES OF PREVIOUS MEETING**

- 4 Minutes of Previous Meeting of 10 March 2017 (Pages 3 - 10)

## **COMMITTEE BUSINESS STATEMENT AND MOTIONS LIST**

- 5 There are currently no motions to the Pensions Committee

## **NOTICES OF MOTION**

- 6 There are no items under this heading

## **FINANCE, PERFORMANCE, RISK AND SERVICE WIDE ISSUES**

- 7 NESPF Annual Report and Annual Accounts 2016-17 (Pages 11 - 136)
- 8 Internal Audit Plan 2017/18 (Pages 137 - 140)
- 9 Budget Forecast and Actual Spend 2016/2017 / Forecast 2017/2018 (Pages 141 - 148)
- 10 Strategy (Pages 149 - 218)

## **GENERAL BUSINESS**

- 11 Training Report (Pages 219 - 234)

## **EXEMPT BUSINESS - NOT FOR PUBLICATION**

- 12 Asset and Investment Manager Performance Report (Pages 235 - 252)
- 13 Investment Strategy Update (Pages 253 - 256)

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

## PENSION COMMITTEE AND PENSION BOARD

ABERDEEN, 10 March 2017. Minute of Meeting of the PENSION COMMITTEE AND PENSION BOARD. Present:- Councillor Crockett, Convener; Councillor Reynolds, Vice-Convener; and Councillors Donnelly, MacGregor, Malik, Malone and Noble (Pension Committee); and Councillor Cowe, Ms M Hart, Ms M Lawrence and Mr A Walker (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; Gillian Woolman, Assistant Director, Audit Scotland; and Colin Morrison, Senior Auditor, Audit Scotland.

**The agenda and reports associated with this minute can be found at:-**  
<http://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MId=4353&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.**

### ANNOUNCEMENTS

1. The Convener began the meeting by paying tribute to the Vice Chair of the Pension Board, Mr James Mulholland, who had suddenly and sadly passed away since the last meeting. He noted members' sadness at his passing, and wished to put on record the thanks of the Committee and Board to Mr Mulholland for his excellent contributions at previous meetings.

The Convener welcomed Ms Morag Lawrence to the meeting, noting that Ms Lawrence was in attendance in place of Mr Mulholland. He also welcomed Ms Marie Hart from Police Scotland to the meeting, advising that she had replaced Mr David Briggs on the Pension Board.

Finally, members welcomed Gillian Woolman, Assistant Director at Audit Scotland who had been appointed as the new auditor for the North East Scotland Pension Fund.

### DETERMINATION OF EXEMPT BUSINESS

2. 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 11 (Asset and Investment Manager Performance Report) and 12 (Investment Strategy Update).

**The Committee resolved:-**

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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 11 and 12, 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 2 DECEMBER 2016**

3. The Committee had before it the minute of its previous meeting of 2 December 2016.

**The Committee resolved:-**

to approve the minute as a correct record.

**The Board resolved:-**

to note the decision of the Committee.

**MOTIONS LIST**

4. With reference to Article 4 of the minute of the meeting of 24 June 2016 and Article 4 of the minute of the previous meeting, Ms Colliss advised the Committee that the Head of Finance had written to Councillor Kiddie to explain that the revised investment strategy would cover the terms of his motion, and to request that therefore his motion be removed from the motions list. Councillor Kiddie had not replied, however the issue of ethical investments had been reported to Committee previously, and would also be picked up on in the new investment strategy.

Noting this, and that Councillor Kiddie had not been in attendance at the last few meetings, the Committee agreed therefore that the motion should be removed from the motions list.

**The Committee resolved:-**

to remove the motion.

**The Board resolved:-**

to note the decision of the Committee.

**ANNUAL AUDIT PLAN 2016/17**

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5. The Committee heard from Ms Gillian Woolman, Audit Scotland, in respect of the North East Scotland Pension Fund Annual Audit Plan 2016/17.

Ms Woolman took the Committee through the report, highlighting the main risks that had been identified as part of the audit work, based on discussions with staff, attendance at Committee meetings, and the review of supporting information, and the audit work planned around these. The report also set out the reporting arrangements and the proposed audit fee for the 2017/17 audit of the North East Scotland Pension Fund.

**The Committee resolved:-**

to note the report.

**The Board resolved:**

to note the decision of the Committee.

**STRATEGY**

6. With reference to Article 5 of the minute of its meeting of 2 December 2016, 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 information on a consultation exercise in respect of the options for future Guaranteed Minimum Pension equalisation and indexation of public scheme members who reached State Pension Age after 5 December 2018; an update on Pension Fund staff appointments and the Pension Fund staff structure; the annual review of scheme documentation and the resulting revisions to policy; an update on training; the liquidation of an admitted body; and the Pension Administration Strategy 2017.

Ms Colliss, Pensions Manager, explained the requirement for additional posts and advised that the staff structure within the Pension Fund team was under review. This was due to the size of the Fund; the need for succession planning; as the team was now dealing with more employer issues; and the additional work taken on from the Benefits Admin team, and it was likely that further requests would be brought to Committee in respect of additional posts.

Ms Colliss also highlighted the feedback from Members in respect of the September 2016 training and explained the position in relation to investment in property.

The Committee discussed the liquidation of the admitted body and Ms Colliss explained that there had been no notification of the situation prior to the Fund receiving the letter

## PENSION COMMITTEE AND PENSION BOARD

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in respect of the liquidation of the body. She advised that staff worked hard to improve the communication with admitted bodies and that putting the Employer Relation Team in place would further assist with this. She added that the upcoming Actuarial Evaluation would also mean greater engagement with admitted bodies, and explained that staff would be visiting every employer and that they would be required to complete a form which would provide more detailed information in respect of any risks associated with the body.

**The report recommended:-**

that Committee –

- (a) review and approve the policy document changes noted in Appendix 2 to the report;
- (b) review and approve the Pension Administration Strategy 2017, as set out in Appendix 7;
- (c) approve the additional resources for the Pension Fund staff structure as detailed in section 5.5.1 of the report; and
- (d) otherwise note the remainder of the report.

**The Committee resolved:-**

to approve the recommendations.

**The Board resolved:-**

to note the decision of the Committee.

### REQUEST FOR ADMITTED BODY STATUS

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

The report advised that as of 1 April 2017, Aberdeenshire Council would enter into a contract with FES FM Ltd to provide managed print services. Ten members of staff were to be transferred to FES FM Ltd under Transfer of Undertakings (Protection of Employment) Regulations (TUPE). Aberdeenshire Council would act as guarantor for the admission to the Scheme.

**The report recommended:-**

that the Committee agree to allow the employees transferring from Aberdeenshire Council to FES FM Ltd to participate in the Local Government Pension Scheme administered by Aberdeen City Council.

**The Committee resolved:-**

to approve the recommendation.

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**The Board resolved:-**

to note the decision of the Committee.

**REVIEW OF NESPF IMPLEMENTATION OF THE PUBLIC SERVICE PENSIONS ACT 2013 AND COMPLIANCE WITH PENSION REGULATOR REQUIREMENTS**

8. The Committee had before it a report by the Head of Finance which provided a review of the Fund's implementation of the Public Service Pensions Act 2013 (PSPA) and compliance with Pension Regulator requirements relating to the North East Scotland Pension Fund during the financial year 2016/17.

The report advised that the PSPA had introduced a framework for the governance and administration of public service pension schemes. A review of the Fund's governance framework was therefore conducted on an annual basis to assess current practices and procedures; while ensuring that the Fund's governance framework complied with legislation and best practice guidance. The report therefore set out the review of the governance framework and the actions taken to address the findings in respect of how the Fund handled and recorded breaches of law; how the recording and monitoring of conflicts of interest was undertaken; the updating of the administration guide for scheme employers; and the publication of specific information in relation to the Pension Board.

**The report recommended:-**

that the Committee note the report.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**BUDGET/FORECAST AND PROJECTED SPEND 2016/17**

9. With reference to Article 9 of the minute of the previous meeting, the Committee had before it a report by the Head of Finance which provided details of the Management Expenses Budget / Forecast and Projected Spend 2016/17 for the North East Scotland Pension Fund (NESPF).

**The report recommended:-**

that Committee –

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- (a) note the update on the NESPF Management Expenses Budget / Forecast and Projected Spend for 2016/17;
- (b) note the update on Pension Fund staff costs resulting from the implementation of the new staffing structure; and
- (c) note the update on revised guidance on Accounting for Scheme Management Costs.

**The Committee resolved:-**

to approve the recommendations.

**The Board resolved:-**

to note the decision of the Committee.

### STATEMENT OF ACCOUNTS 2016/17 - ACTION PLAN

**10.** The Committee had before it a report by the Head of Finance which provided information and key dates in relation to the 2016/17 Statement of Accounts, including any linkages to the plans and timetables of the Council's External Auditors.

The report advised that the Statement of Accounts 2016/17 would summarise the Pension Fund's transactions for the period 1 April 2016 to 31 March 2017 and its financial position at the year-end 31 March 2017. The report set out key dates for reporting in relation to the Accounts.

**The report recommended:-**

that the Committee note the contents of the report.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**In accordance with the decision recorded under article 2 of this minute, the following items were considered with the press and public excluded.**

### ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT

**11.** 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

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month period ending 31 December 2016. The report noted that as an interim measure, as a result of the move to a new Custodian, the report had been compiled using performance data from the Fund Managers and Market Value data from the new Custodian. Mr Buntain, Investment Manager, advised that the report would return to the usual format for the next quarter.

**The report recommended:-**  
that the Committee note the report.

**The Committee resolved:-**  
to approve the recommendation.

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

### INVESTMENT STRATEGY UPDATE

**12.** With reference to Article 13 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided an update on the Fund's investment strategy and set out recommendations in respect of the NESPF.

**The report recommended:-**  
that Committee

- (a) approve the recommendations contained in sections 5.1, 5.2, 5.3, 5.4, 5.5 and 5.6 of the report; and
- (b) otherwise note the remainder of the report.

**The Committee resolved:-**  
to approve the recommendations.

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

### VALEDICTORY

**13.** The Convener noted that this was the last meeting of the Pension Committee and Board before the local government elections in May and thanked members and officers for their contributions over the last few years, adding that he had enjoyed his role as Convener.

The Vice Convener recorded his thanks to the Convener for his time in the chair.

- **COUNCILLOR BARNEY CROCKETT, Convener.**

**PENSION COMMITTEE AND PENSION BOARD**  
10 March 2017

North East Scotland  
**PENSION FUND**

**UNAUDITED ANNUAL REPORT  
& ACCOUNTS**

**FOR THE PERIOD**

**1 APRIL 2016 TO 31 MARCH 2017**

**ABERDEEN CITY COUNCIL,  
ADMINISTERING AUTHORITY FOR THE  
ABERDEEN CITY COUNCIL PENSION FUND,  
KNOWN AS  
NORTH EAST SCOTLAND PENSION FUNDS**



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# Management Commentary

The Management Commentary as required by The Local Authority Accounts (Scotland) Regulations 2014 includes 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 within a strategic report.

The following report aims to address the above providing strategic and operational commentary on the performance, the management and roles and responsibilities of all those involved with the Pension Fund.

## 1. About the North East Scotland Pension Fund

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within Local Government Pension Scheme (LGPS) regulations.

The Scheme was established under the Superannuation Fund Act 1972 and is open to all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme subject to the admitted bodies' individual admission criteria, which are outwith the control of Aberdeen City Council.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Benefits Membership and Contributions) (Scotland) Regulations 2008 as amended.

The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

The Funds are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments, out of which pensions and other benefits are paid.

Employee contributions are fixed by statute while employer contributions are assessed every three years by an independent Actuary to determine the level of contributions necessary by employing bodies to ensure that the Funds are able to meet all future benefits.

With effect from 1 April 2009, employee contributions are based on tiered rates. Below are the tiered rates for 2016/17:

<b>Band</b>	<b>Range</b>	<b>Contribution Rate</b>
1	On earnings up to and including £20,500	5.50%
2	On earnings above £20,500 and up to £25,000	7.25%
3	On earnings above £25,000 and up to £34,400	8.50%
4	On earnings above £34,400 and up to £45,800	9.50%
5	On earnings above £45,800	12.00%

## 2. Fund Administration 2016/17

<b>Administering Authority</b>	Aberdeen City Council
<b>Committees</b>	Pensions Committee, Pensions Board
<b>Head of Finance</b>	Steven Whyte
<b>Actuary</b>	Mercer
<b>Global Custodian</b>	Bank of New York Mellon (Until December 2016) BNP Paribas (appointed December 2016)
<b>Performance Measurement</b>	Bank of New York Mellon (Until December 2016) BNP Paribas (appointed December 2016)
<b>Bank</b>	Clydesdale Bank
<b>AVC Providers</b>	Prudential, Standard Life Assurance Company
<b>External Auditors</b>	Audit Scotland
<b>Internal Auditors</b>	Aberdeenshire Council
<b>Investment Consultant</b>	KPMG
<b>Employers</b>	For full details see Appendix 2

## **3. Pension Fund Committees**

### **Pensions Committee**

Aberdeen City Council is the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The Council delegates this responsibility to the Pensions Committee.

The Pensions Committee carries out a role similar to that of trustees of a pension scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

The Council and the Pensions Committee recognise that they have fiduciary duties and responsibilities towards pension scheme members, participating employers and local taxpayers.

The Pensions Committee is comprised of 9 elected members of Aberdeen City Council.

### **Membership during 2016/17**

Councillor Barney Crockett (Convener)  
Councillor John Reynolds (Vice Convener)  
Councillor Jim Noble  
Councillor Aileen Malone  
Councillor Alan Donnelly  
Councillor James Kiddie  
Councillor M. Tauqueer Malik  
Councillor Willie Young  
Councillor Neil MacGregor

Following the local government election on 4 May 2017, Councillor Alan Donnelly was appointed as Pensions Committee Convener at the Aberdeen City Council Statutory Meeting of 17 May 2017.

### **Pensions Board**

In line with new scheme regulations, the Fund established a Pensions Board in 2015/16. The Pension Board is responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

Board membership consists of equal numbers of trade union representatives and employer representatives, drawn from Councils and scheduled or admitted bodies.

## Membership during 2016/17:

Mr. J Mulholland, Chairperson	Unison	Left January 2017
Ms. M Lawrence	Unison	Joined February 2017
Mr. D Briggs	Robert Gordon's University	Left September 2016
Ms. M Hart	Police Scotland	Joined January 2017
Mr. K Masson	GMB	
Mr. A Walker	Unite	
Councillor B Stuart	Aberdeenshire Council	
Councillor J Cowe	The Moray Council	
Councillor W Howatson	Aberdeenshire Council	
Councillor L Ironside	Aberdeen City Council	

In line with the training policy, Board members undertook 3 training sessions within 2016/17 with further dates/opportunities identified including Fund Manager Presentations and investment seminars in 2017/18.

The Board sits at the same time as the Pensions Committee and receives the Committee report for each meeting which includes reports on all areas of the Pension Fund; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2016/17 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on the Fund's website at [www.nespf.org.uk](http://www.nespf.org.uk)

## 4. Fund Achievements

The past 12 months have proved challenging but ultimately rewarding as many of the internal and procedural changes that have been made begin to take effect.

The Fund's long term move to digital information exchange for both employers and members has seen data quality and overall administration improve. As the Fund continues to roll out monthly online returns for employers, information and errors can be identified far in advance of the year end process. As a result the Fund:

- further reduced the time taken to complete year end from 220 days to just 63
- successfully issued 99.6% of benefit statements before the 31<sup>st</sup> August deadline
- processed 558,844 system updates automatically
- Completed an interim valuation with praise received regarding the high quality of our data

In June 2016, the Fund also went live with the new online Member Self Service (MSS) facility. This service was redesigned with improved functionality.

Full details on the above can be found in the Pension Fund Administration and Performance Report.

The success of both online technologies has been recognised across the industry as the Fund has held several conference calls, meetings and demonstrations for other fund administrations while being nominated for 7 national awards – winning the LGC Investment Award's Quality of Service Award.

Despite a turbulent market in 2016/17, the Fund continued to grow in value as it maintained its long term investment strategy which includes the diversification of assets and therefore risk. This has helped the Fund maintain and increase its overall value by over £600 million. Furthermore the Fund's move to a new Global Custodian was finalised in December 2016 which should improve financial reporting and monitoring.

Internally the Fund implemented a new staffing structure which introduced 6 distinct teams; investments, accounting, technical, benefit administration, employer relationship and governance. These teams have enabled the Fund to deliver our service in an efficient and accountable manner.

## **5. Investment & Accounting**

The Investment and Accounting Team are responsible for the financial management of the Pension Fund, including the following:

- Delivery of an investment strategy having due regard to risk and return within the objectives and liability requirements;
- To receive monies in respect of contributions, transfer values and investment income;
- To carry out Fund investment business;
- To provide funds to pay out monies in respect of scheme benefits, transfers, costs, charges and expenses; and
- To account for the Funds' assets and all monies received and paid from the Fund.

During 2016/17 the Fund implemented a revised investment strategy which had been amended in the first quarter of 2016. The changes looked to take the strategy forward over the next 5 to 10 years, with a calculated move from Growth assets to Income/Protection Assets.

In December 2016 the Fund successfully moved Global Custodian from BNY Mellon to BNP Paribas, a move which required a significant investment of time and work by both the Accounting and Investment teams. With the move complete the Fund hopes to receive a greater standard of service and improve financial reporting.

The Accounting Team provides support across the Fund, both internally and externally to ensure accurate and timely data. In 2016/17 the Team had high level discussions with the Management Team on cost awareness and will continue to progress with training now the Custodian move has been complete and a new accountant has joined the team.

## 6. Investment Strategy

The Funds' investment strategy is one of diversified investment, which means that investments are spread across different investment asset types and different countries, sectors and companies, in order to reduce the overall risk.

Equity benchmarks are designed to encourage diversification of the equity mix. There are a range of fund managers to again spread risk, each with clear and documented agreements in place detailing their investment mandates. The Funds also employ an independent Global Custodian.

The objective of the investment strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The investment strategy has been monitored on an ongoing basis by the Pensions Committee, focusing on long term policies with consideration given to short tactical strategies.

The suitability of particular investments and types of investments are detailed in the Statement of Investment Principles.

The Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Committee.

### Asset Structure 2016/17

Asset Class	Distribution as at 31 March 2016		Distribution as at 31 March 2017	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
<b>Equities (including Alternative Assets)</b>	78.7	80.0	79.4	70.0
<b>Bonds</b>	12.9	10.0	12.4	15.0
<b>Property</b>	7.3	10.0	7.1	10.0
<b>Cash / Other</b>	1.1	0.0	1.1	5.0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

The current benchmark asset allocation for the North East Scotland Pension Fund as set out in the Statement of Investment Principles is as follows:

Equities	55% (range +/- 5%)
Alternative Assets (including private equity)	15% (range +/- 5%)
Bonds	15% (range +/- 5%)
Property	10% (range +/- 5%)
Cash / Other	5% (range +/- 5%)

The Fund continues to rebalance assets in line with its investment strategy, reducing its exposure to equities and increasing alternatives and bonds in line with the last investment strategy review.

# 7. Investment Performance

## Economic and Market Background – 12 Months to 31 March 2017

Major equity and bond markets delivered positive returns over the 12 months to 31 March, buoyed by signs of economic growth in areas including the UK and US. Equities in particular performed well, most notably for sterling investors who benefited from a weaker pound. This was despite periods of uncertainty, as the spotlight fell on political change in the West.

### **UK:**

The main event in the UK was the vote to leave the EU. The result led to increased volatility in the immediate aftermath, but equity markets have subsequently performed well. The most notable impact has been on sterling which fell sharply following the result, reaching a 31-year low against the dollar, and has failed to show any significant recovery since. In August, the Bank of England announced measures to stimulate growth in the UK economy, including a cut in interest rates from 0.5% to a new record low of 0.25%. In March 2017, the government triggered Article 50, initiating the UK's formal withdrawal from the EU. This process is due to be completed in 2019.

### **US:**

Throughout the period, the focus in the US was on the Presidential election campaign, culminating in Donald Trump's inauguration in January. The surprise election result saw equities, bond yields and the dollar all rise. In December, the US Federal Reserve announced that they would be raising rates for only the second time in a decade, from 0.5% to 0.75%. This was quickly followed by a second rise in March, reflecting the continued pick up in the US economy.

### **Japan:**

In Japan, Prime Minister Shinzo Abe's government claimed an election victory in July before announcing a 4.6 trillion yen stimulus package, including funding for welfare and infrastructure. Towards the end of the period, the Bank of Japan surprised markets by announcing its plan to purchase an unlimited amount of two and five year bonds to control yields.

### **Europe:**

Having initiated an increase in the bond purchases made as part of their quantitative easing (QE) programme to 80 billion euros per month in March 2016, the European Central Bank subsequently scaled this back to 60 billion euros as the year ended.

### **Emerging Markets:**

Fortunes were mixed for the Emerging Market economies. Slowing growth, collapsing commodity prices and currency sell-offs had all affected sentiment prior to the period, as did a range of political factors in Brazil and South Africa. A recovery in the price of oil and other commodities, however, helped drive returns as markets rallied to end the period substantially higher.

**Equities:**

The UK equity market ended the period 22% higher. North America posted an 18% rise in local currency terms, but dollar strength meant that this converted to a 35% gain for sterling investors. Europe ended 18% higher, a 28% gain after conversion to sterling. Meanwhile, Emerging Markets rose 17% and Developed Asia (ex Japan) rose 19% in local currencies, representing rises of 36% and 37% for sterling investors.

**Bonds:**

Fixed interest markets delivered strong performance, with UK corporate bonds up 9% and UK gilts up 7%, while those issued by governments overseas gained 11% in sterling terms. UK government bond yields fell to record lows during the first half of the period, in response to increased monetary stimulus by the Bank of England following the UK's vote to leave the EU. Subsequently, yields began to rise with higher inflation expectations and increased confidence in the global economy. Stronger growth has been supportive of corporate bonds, leading them to outperform government bonds over the past 12 months.

**Property:**

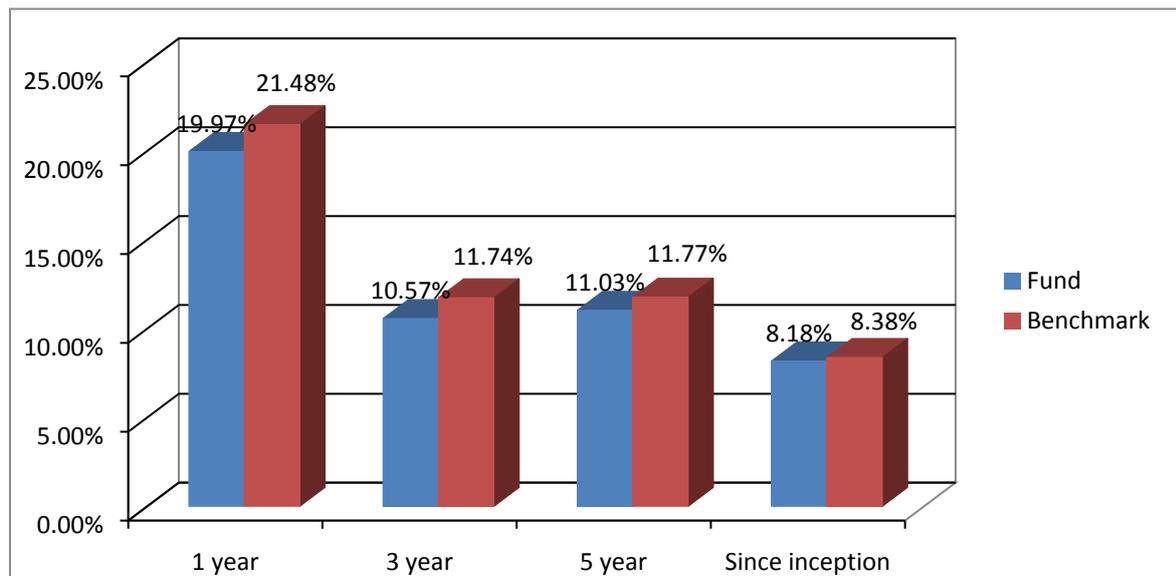
UK property posted positive returns over the reporting period, despite signs of a weaker market and difficult conditions during the summer. Property investors became increasingly cautious in the months leading up to the vote on European membership on 23 June, with many investors holding off committing to deals until after the referendum. It was no surprise then that global markets reacted badly to the result and property was no exception. Property values fell over the summer months as some investors pulled out of deals and others sold assets. The autumn months brought a degree of stability and confidence back to the market, and capital values rose once again. While concerns about Brexit continued to worry investors, a need for income-generating investments and low supplies of quality stock ensured that property returned to favour fairly quickly. Occupiers remain cautious about the outlook for the next few years and demand from tenants has been more subdued. Rental growth has moderated across almost all subsectors of the market as a result.

<b>Market Returns</b>	<b>1 Year (%)</b>	<b>3 Years (% p.a.)</b>	<b>5 Years (% p.a.)</b>
<b>Equities:-</b>			
FTSE All Share Index	22.0	7.7	9.7
FTSE All World Index	33.1	16.4	14.6
FTSE All World ex UK	33.8	17.1	15.0
FTSE North American Index	35.0	20.5	18.2
FTSE Europe (ex UK) Index	27.9	9.6	12.8
FTSE Japan Index	32.8	17.8	13.0
FTSE Developed Asia (ex Japan) Index	37.4	12.9	10.0
FTSE Emerging Markets Index	35.6	12.9	6.6
<b>Bonds:-</b>			
FTA Government Securities All Stocks	6.6	7.8	5.2
ML UK Corporate Bonds	9.3	7.5	7.2
FTA Index Linked All Stocks	19.9	13.1	8.9
Above are total returns in Sterling Source: Thomson Reuters and relevant underlying index provider			

### North East Scotland Pension Fund

In 2005 a long term investment strategy for the NESPF was agreed with a customised benchmark that aimed to deliver a return of 1% above the benchmark over a rolling three year period.

The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark.



2016/17 was a great year for investment returns with equities in particular posting strong positive performance, which is reflected within the Fund's benchmark and performance.

Over the longer term the Fund continues to deliver close to benchmark returns while outperforming the longer term comparators of CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

## **Aberdeen City Council Transport Fund**

### **De-Risking**

With effect from 1 April 2015 the Administering Authority and the scheme employer agreed a revised investment strategy for the Transport Fund – 'a de-risking or "flightpath" strategy'. That is to say, the performance of the Fund will no longer be measured against a benchmark of global equities and bonds but rather against its funding target of 100%.

The aim of the strategy is to reach the funding requirement of 100% funding in a manner that reduces both interest and inflation risk exposure. The strategy consists of a portfolio of growth assets to achieve the 100% funding target and portfolio of matching assets to meet current liabilities.

The aim of the flightpath is to "lock in" improvements in funding by switching from growth to defensive or matching assets. The de-risking plan is to be reviewed triennially in line with the triennial actuarial valuation and is structured to keep contributions as stable as possible.

As of the 1<sup>st</sup> December 2016 the De Risking mandate for the Transport Fund was transitioned to Schroder, providing a low risk De Risking solution. The Flight Path funding level as at the 31<sup>st</sup> March 2017 was 91%, providing a positive increase from 85.3% as at March 2016.

### **Long Term Fund Performance**

Whilst employee contribution rates and benefits payable are set by statute, the long-term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the Funds' performance against these benchmarks that affect the long-term employer contribution rate, which is variable. **Over the longer term, performance of the Fund remains ahead of both Average Earnings and CPI.**

<b>Year Ending</b>	<b>2014/15 %</b>	<b>2015/16 %</b>	<b>2016/17 %</b>	<b>Since inception Annualised %</b>
<b>CPI</b>	<b>1.2</b>	<b>0.5</b>	<b>2.3</b>	<b>2.0</b>
<b>Average Earning</b>	<b>1.5</b>	<b>1.9</b>	<b>2.4</b>	<b>2.9</b>
<b>NESPF Return</b>	<b>11.6</b>	<b>0.7</b>	<b>20.0</b>	<b>8.2</b>

## Investment Management Structure

<b>Manager</b>	<b>31-Mar 2016 £M</b>	<b>31-Mar 2016 %</b>	<b>31-Mar 2017 £M</b>	<b>31-Mar 2017 %</b>
<b>SSGA</b>	1,049	33	1,328	34.9
<b>Baillie Gifford</b>	750	23.6	991	26.0
<b>BlackRock</b>	376	11.8	455	11.9
<b>BlackRock DGF</b>	0	0	103	2.7
<b>Barings</b>	273	8.6	280	7.4
<b>AAM Global*</b>	262	8.2	0	0
<b>AAM Frontier*</b>	36	1.1	0	0
<b>AAM Property</b>	237	7.5	265	7.0
<b>AAM Property Residential</b>	0	0	7	0.2
<b>Harbour Vest</b>	94	3	113	3.0
<b>SL Capital Partners</b>	45	1.4	50	1.3
<b>Partners Group</b>	35	1.1	45	1.2
<b>Maven Capital</b>	4	0.1	3	0.1
<b>Capital Dynamics</b>	1	0	7	0.2
<b>RCP Advisors</b>	0	0	2	0.1
<b>Unigestion</b>	4	0.1	15	0.4
<b>Invesco DGF</b>	0	0	104	2.7
<b>NESPF (Merged)*</b>	0	0	0	0

During 2016-17 the following Fund Managers were merged into one 'In House' Account:

AAM Global Excluding UK, Aberdeen Frontier, Capital, In House, RREEF and Rogge

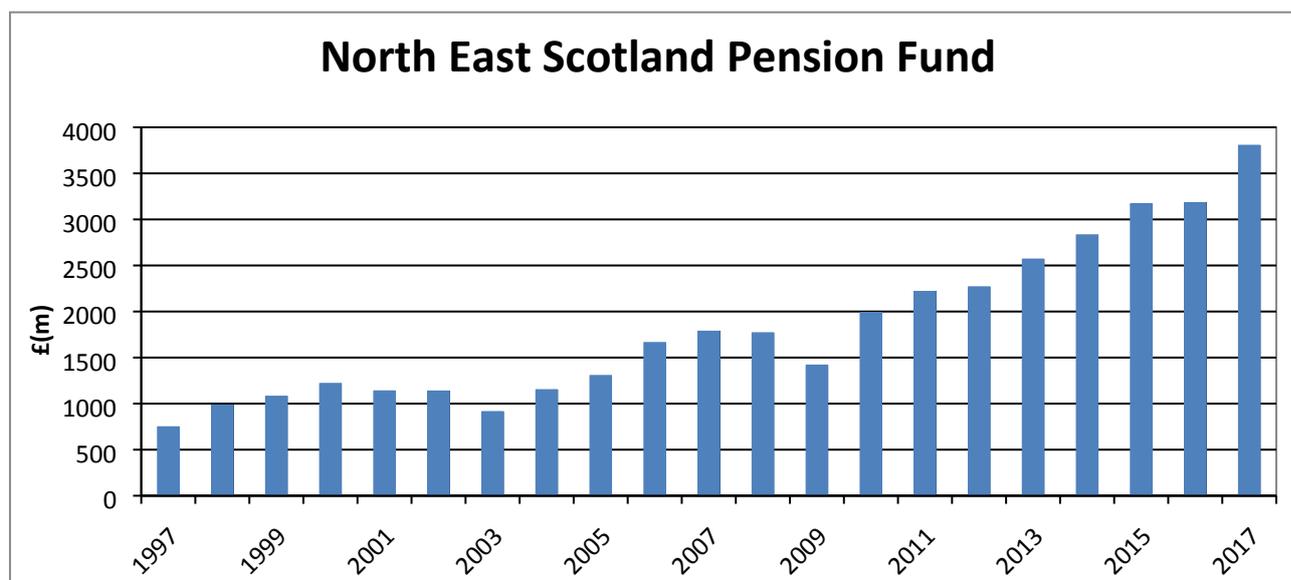
## 8. Financial Performance

### North East Scotland Pension Fund Financial Summary

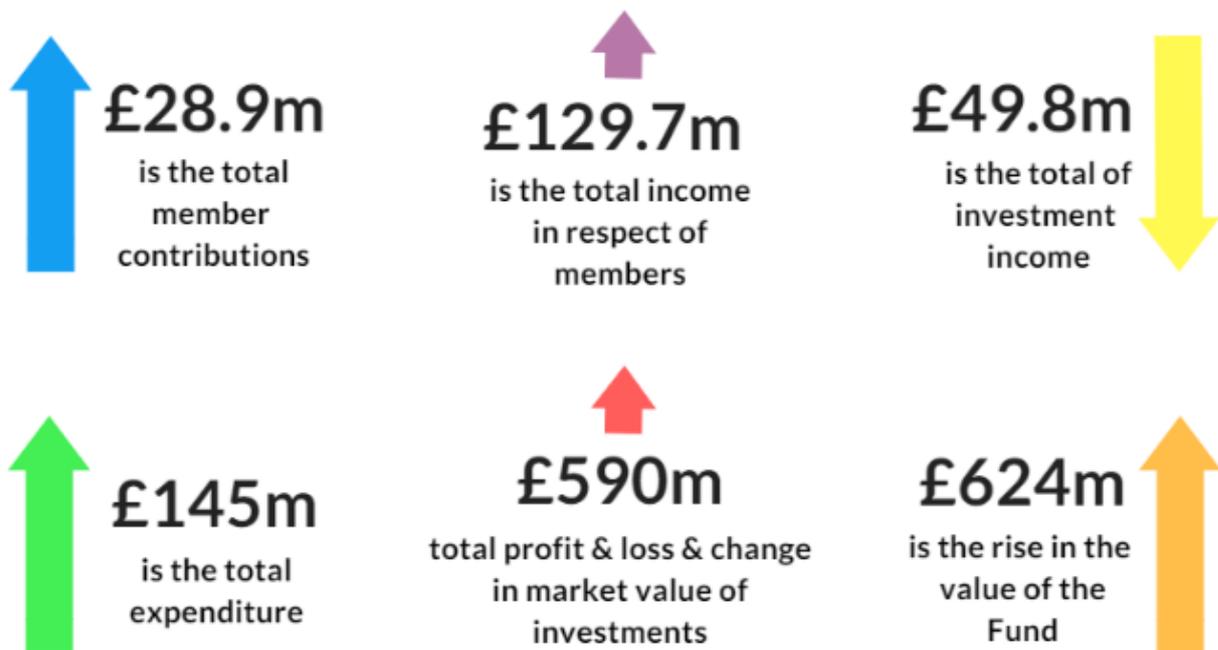
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions Less benefits and expenses paid <b>Net additions/ (deductions)</b>	<b>361</b>	<b>(14,958)</b>	<b>(12,357)</b>	<b>(13,485)</b>	<b>(15,456)</b>
Net investment income Change in Market Value <b>Net return on Investment</b>	<b>300,543</b>	<b>278,513</b>	<b>350,131</b>	<b>23,929</b>	<b>639,333</b>
<b>Net increase in Fund</b>	<b>300,904</b>	<b>263,555</b>	<b>337,774</b>	<b>10,444</b>	<b>623,877</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>2,570,020</b>	<b>2,833,575</b>	<b>3,171,349</b>	<b>3,181,793</b>	<b>3,805,670</b>

Net Additions/(deductions)\* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position.

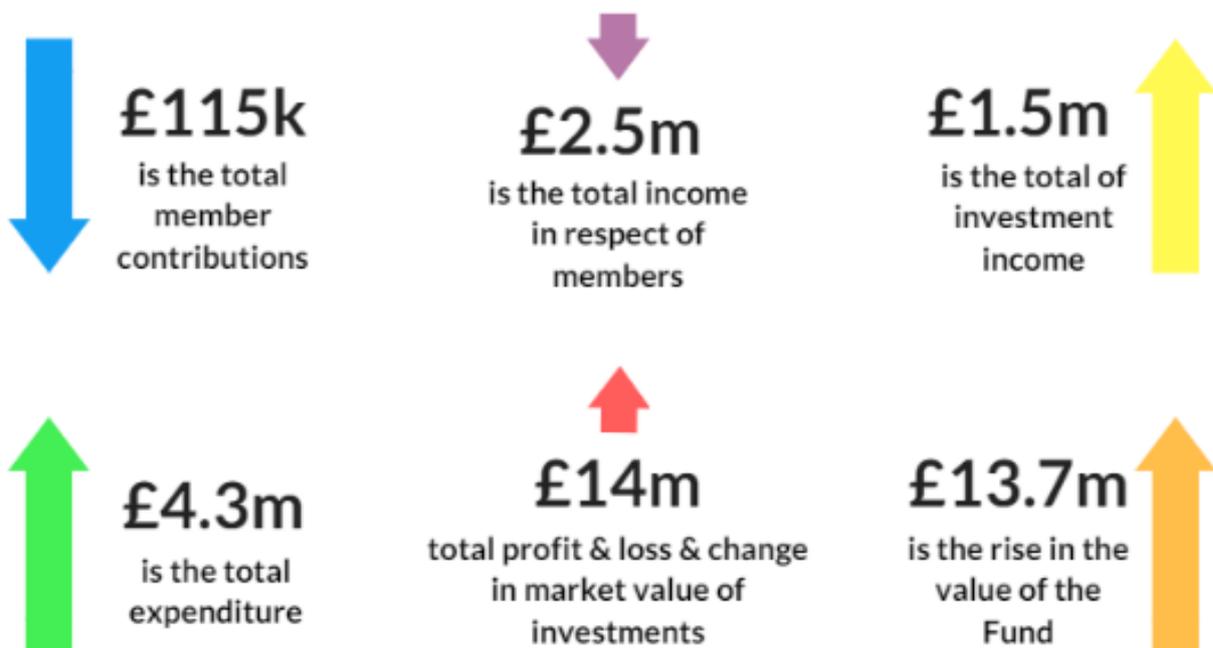
### Fund balance as at 31 March 2017 (£m)



North East Scotland Pension Fund's achievements in 2016/17:



The Aberdeen City Council Transport Fund achievements in 2016/17:



**Pension Fund  
(2016/17)**

**Transport Fund  
(2016/17)**

**£129.7m**



**Contributions  
Receivable**

**£2.5m**



**£126.7m**



**Benefits  
Payable**

**£4m**



**£18.5m**



**Management  
Expenses**

**£245k**



**£639.3m**



**Net Return on  
Investments**

**£15.5m**



**£3,805.7m**



**Net Assets of  
the Fund at  
end of Year**

**£100m**



The monies belonging to North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are managed entirely by appointed investment fund managers

and are held separate from any of the employing bodies which participate in the North East Scotland Pension Funds. The only exception to this is a small investment in Aberdeen City Council's Loan Fund, which varies year on year, and represents surplus cash from contributions not yet transferred to the fund managers.

After meeting the cost of current benefits, all surplus cash is invested and the increasing value of investment is then available to meet future liabilities to employees within the Funds. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2017 with the gain/loss on revaluation being attributed to the Funds.

Due to the mature and closed nature of the Aberdeen City Council Transport a De-Risking strategy, as outlined in the Aberdeen City Council Transport Fund De-Risking section, was implemented as of March 2015. The monitoring of this Fund has moved away from traditional benchmarking with performance now monitored by funding level. This will be evident throughout this annual report.

### **Membership Statistics**

<b>NESPF</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Active	20,869	22,880	24,089	24,546	25,329
Pensioners	16,472	17,106	17,726	18,328	19,111
Deferred	16,876	17,267	17,759	18,455	19,120

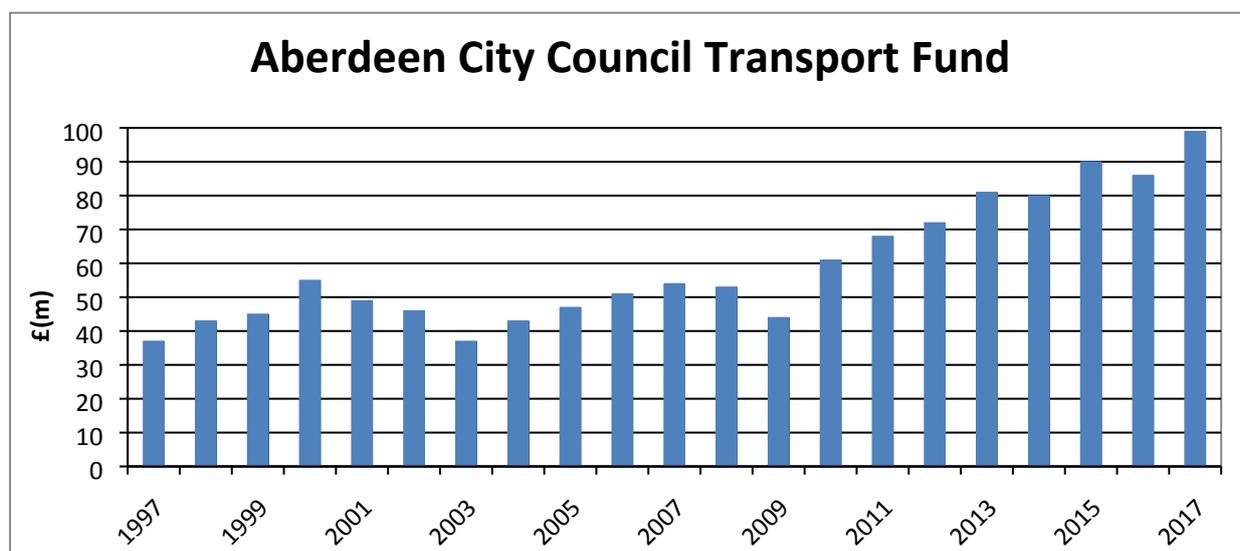
Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several potential factors such as an accelerated trend in longevity seen in recent years.

## Aberdeen City Council Transport Fund Financial Summary

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions Less benefits and expenses paid <b>Net additions/ (deductions)*</b>	<b>(1,190)</b>	<b>(1,033)</b>	<b>(762)</b>	<b>(1,347)</b>	<b>(1,731)</b>
Net investment income Change in Market Value <b>Net return on Investment</b>	<b>9,583</b>	<b>137</b>	<b>10,564</b>	<b>(2,050)</b>	<b>15,454</b>
<b>Net increase in Fund</b>	<b>8,393</b>	<b>(896)</b>	<b>9,802</b>	<b>(3,397)</b>	<b>13,723</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>80,734</b>	<b>79,838</b>	<b>89,640</b>	<b>86,243</b>	<b>99,966</b>

Net Additions/(deductions)\* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position. In addition, the ACC Transport Fund is a closed fund which means a reducing balance of active members contributing toward the Scheme.

### Fund balance as at 31 March 2017 (£m)



## Membership Statistics

<b>Transport Fund</b>	<b>2012/13</b>	<b>2013/14</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Active	92	85	78	71	61
Pensioners	393	405	403	411	423
Deferred	166	155	150	142	130

Active and deferred membership numbers for the Transport Fund have reduced over a 5 year period due to the closed nature of the Fund resulting in more members moving to a pensioner status.

## Remuneration Report

There is no need to produce a remuneration report for the Pension Funds as the Funds do not directly employ any staff. All staff are employed by Aberdeen City Council and their costs reimbursed by the Pension Funds. The councillors who are members of the Pensions Committee and the Pensions Board are also remunerated by the Council.

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund annual accounts. Full details of councillor and senior employee remuneration can be found in the Remuneration Report in Aberdeen City Council's financial statements.

## 9. Pension Fund Administration and Performance

This year's administration report focuses on collaborative working, statement compliance, interim valuation, guaranteed minimum pension reconciliation and the pension administration strategy.

### **Collaborative working**

Throughout 2016/17 staff from the North East Scotland Pension Fund (NESPF) attended national groups for pension administration as well as working together with other administering authorities.

- Participated at the Scottish Pension Liaison Group with other Scottish authorities, the Scottish Public Pensions Agency and the Local Government Association
- Participated at meetings and webinars as a member of the Computerised Local Authority Superannuation System (CLASS) Group which consists of all 11 Scottish administering authorities and 80 English and Welsh authorities
- Participated in Testing Working Party organised by CLASS with Peninsula Pensions, Strathclyde, NILGOSC (LGPS for Northern Ireland), Greater Manchester and Oxfordshire for the 2017 pension software release which included development to record final salary and CARE transactional data separately for reporting to the Government Actuaries Department
- Participated in a webinar with Shropshire County Pension Fund for member self-service
- Visit from NILGOSC for member self-service and data provision from employers
- Attended surgery for reconciling GMP's with HMRC and other Scottish authorities.

### **Statement compliance**

In total 14,514 benefit statements were issued to deferred members in July and for those who left during the scheme year a revised statement was made available online as a result of receiving late notification of requirement to apply proportional rather than full revaluation to member benefits.

The biggest administrative challenge for NESPF in 2016/17 was the requirement to issue benefit statements to active members by the 31 August. In total, 23,398 statements were issued to active members prior to the deadline which represented 99.62% compliance. We were able to identify the outstanding members and provide them with a statement in November as well as rectifying their records on the system to prevent future reoccurrence.

As we did not achieve 100% compliance this was recorded in line with the NESPF Breaches of Law Policy but not reported to The Pensions Regulator.

A significant contribution to achieving such a high percentage is the effort made by employers to provide monthly data which has dramatically reduced amount of time taken to prepare member records for benefit statement processing.

<b>Monthly data and benefit statements</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Monthly data provision shown as a percentage of active membership as at 31 March	33.1%	96.7%	98.7%
Days taken from 31 March to prepare member records for benefit statement processing	220	63	62 (estimated)

Pension saving statements were issued prior to 6 October to 55 members who were close to, or exceeded, the £40,000 annual allowance.

### **Interim Valuation**

Due to market volatility over the period from the 2014 valuation, the introduction of the new scheme and increasing cost of providing LGPS benefits, the NESPF commissioned the scheme actuary, Mercer, to carry out an interim valuation as at 31 March 2016 prior to the required triennial valuation which will take place in 2017.

The interim valuation was calculated on full member data provided by the Fund following the year end procedure and the whole fund and individual employer results were delivered by Mercer at the end of 2016. Due to the drop in the value of gilt yields over the last few years the decision was taken between Mercer and the NESPF to change the methodology for the calculation of the liabilities to link the discount rate to real asset returns instead of the yields value. This change in methodology has had a positive effect on the funding level for the calculation date and brings us in line with all other LGPS Funds whilst still maintaining a consistent level of prudence.

The indicative Funding level for the Whole Fund for the interim valuation was determined as 97%, meaning that there was a deficit of £102 Million. The indicative contribution rates for all participating employers were calculated on each employers own membership profile, liabilities and experience over the intervalation period.

Although the Fund is not required to publish the funding level and no contribution rates will be amended at this time, the exercise has been very useful to the Fund to ensure that preparation for setting assumptions for the triennial valuation can take place, pre-emptive discussions can be held with individual employers and the NESPF covenant policy can be implemented in full.

The scheme actuary has a program that analyses data quality and this was used to assess the data provided in respect of the interim valuation. The program analyses all of the Common Data items prescribed by TPR and summarises the quality of data provided for the whole Fund and each individual employer.

The results were positive with the actuary commenting “As anticipated, the quality of the data was very good and this was reflected in the relatively small number of queries we raised upon receipt of the data.”

### **Guaranteed Minimum Pension (GMP) reconciliation**

With contracting out ending on 6 April 2016 HMRC provided a Scheme Reconciliation Service to assist pension funds with reconciling non active members GMP values held on their systems with the values they hold. Although not compulsory this exercise has to be completed prior to December 2018 when HMRC will send individuals information about their contracting out history.

NESPF requested and received a file from HMRC that contained 11,888 exact matches. As at March 2017 NESPF have raised 2,477 queries with 2,020 confirmed by HMRC as being resolved.

A closure scan request for active member reconciliation was made in December with a file recently received from HMRC containing 21,405 members.

### **Pension administration strategy**

In January 2017 our Pensions Administration Strategy (PAS) was revised to incorporate the new LGPS regulations introduced from 1 April 2015. A four week consultation with employers commenced on 3 February and the revised PAS was approved by the Pensions Committee on 10 March with a copy forwarded to Scottish ministers.

The revised PAS takes effect from 1 April 2017 and NESPF benefit processing and employer data provision remain key areas of the strategy.

### ***NESPF processing performance***

<b>Key performance measurements</b>	<b>Target</b>	<b>2015/16</b>	<b>Amount</b>	<b>Achieved</b>	<b>2016/17</b>
Letter notifying death in service to dependent	5 days	78%	45	38	84%
Letter notifying retirement estimate	10 days	93%	926	911	98%
Letter notifying actual retirement benefits	10 days	95%	1372	1337	97%
Letter notifying deferred benefits	10 days	95%	1627	1291	79%
Letter notifying amount of refund	10 days	98%	1459	1157	79%
Letter detailing transfer in quotes	10 days	88%	96	87	91%
Letter detailing transfer out quotes	10 days	91%	293	284	97%

Performance in five of the seven measurements increased on the previous year with our best ever percentages recorded for death in service, retirements and transfers out. There was a significant decrease with deferred and refund processing and this was down to procedures being used not being able to cope with an increased volume of

almost 700 cases. Following a review on how to improve the situation it was decided the Employer Relationship Team would assume responsibility for leaver processing from March 2017.

**Employer data provision**

During 2016/17 employers provided 559,235 system updates using Employer Services and I-Connect portals.

Employer Services is a secure web portal, accessed through the Pension Fund website, for small employers to provide electronic data by completing online forms that generate interface files for automated processing of starters, amendments and leavers on the pension administration system.

<b>Interface processing from Employer Services</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Starters	450	174	207
Amendments	152	49	80
Leavers	297	121	104
	<b>899</b>	<b>344</b>	<b>391</b>

I-Connect is a cloud based data exchange portal for employers to securely provide monthly data that generates events for automated processing on the pension administration system.

<b>Event processing from I-Connect</b>	<b>2014/15</b>	<b>2015/16</b>	<b>2016/17</b>
Starters	1818	4355	4029
Amendments	2245	33464	12430
Leavers	816	3416	3256
Contributions (employee, employer and additional)	85389	260665	184205
Salary	82362	148677	178650
CARE pay	N/A	231866	176274
	<b>172630</b>	<b>682787</b>	<b>558844</b>

Event processing in 2016/17 was less than the previous year as a result of a large employer having issues providing data submissions however this was resolved prior to March 2017.

By March 2018 all employers will be providing monthly data through I-Connect by way of uploading an extract file from their payroll system or completing online returns from within the portal. The online returns facility will provide more data than Employer Services and will include CARE pay provision.

NESPF monitors the quality as well as the quantity of electronic data received throughout the year from employers:

<b>Employer</b>	<b>Portal</b>	<b>Apr</b>	<b>May</b>	<b>Jun</b>	<b>Jul</b>	<b>Aug</b>	<b>Sep</b>	<b>Oct</b>	<b>Nov</b>	<b>Dec</b>	<b>Jan</b>	<b>Feb</b>	<b>Mar</b>
Aberdeen City Council	IC	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeenshire Council	IC										M	M	M
Bon Accord Care	IC	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	IC	H	H	H	H	H	H	H	H	H	H	H	H
Grampian Valuation Joint Board	IC	H	H	H	H	H	H	H	H	H	H	H	H
Northern Community Justice Association	IC										H	H	M
NESTRANS	IC										M	M	H
Police Scotland	IC	H	H	H	H	H	H	H	H	H	H	H	H
The Moray Council	IC	H	H	H	H	H	H	H	H	H	H	H	H
The Robert Gordon University	IC	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	ES	H											
Aberdeen Foyer	ES		H										
Aberlour	ES		H	H					H			H	
First Bus	ES						H	H	H			H	H
Moray College	ES	H	H	H	H	H	H	H	H	H	H	H	H
North East Scotland College	ES	H	H	H	H	H	H		H	H	H	H	
North East Sensory Services	ES								H			H	H
Outdoor Access Trust Scotland	ES			H	H								
Osprey Housing	ES		H					H	H	H			H
Peterhead Port Authority	ES	H											
Robert Gordon College	ES		H										
SCARF	ES						H						
Scottish Fire and Rescue Service	ES				H								
Scottish Water	ES	H	H	H	H	H	H	H	H	H	H	H	H

Data is classed as being of high, medium or low quality depending on amount of events or interface updates successfully processed and validated by the Employer Relationship Team. No low quality data submissions were received in 2016/17.

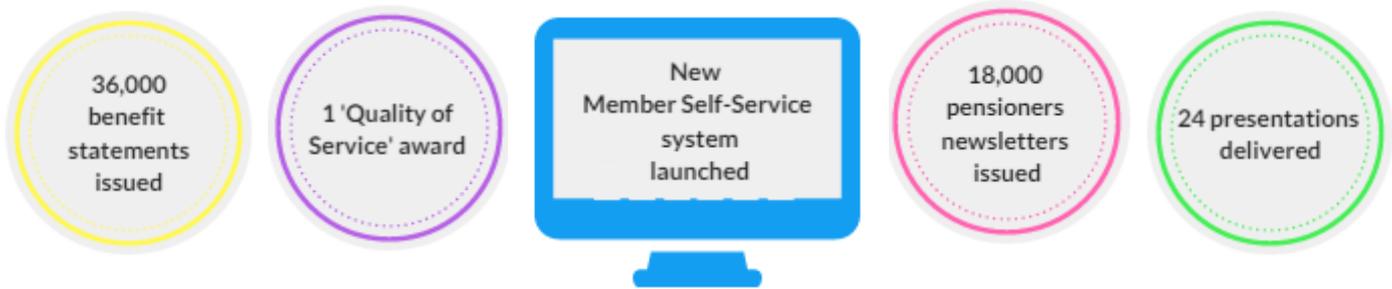
### ***Employer policy on discretions***

Under Regulation 58 of the LGPS (Administration) (Scotland) Regulations 2014 employers must have a policy on discretions.

As at 31 March 2017 a total of 82% of employers have provided NESPF with a policy.

Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust
Aberdeen Foyer	Aberdeen Heat and Power	Aberdeen Performing Arts
Aberdeen Sports Village	Aberdeen Youth International Festival	Aberdeenshire Council
Aberlour	Alcohol Support Ltd	Archway
Bon Accord Care	Bon Accord Support	Fersands and Fountain
First Aberdeen	Forth and Oban	Fraserburgh Harbour Commissioners
Gordon Rural Action	Grampian Valuation Joint Board	Home Start Aberdeen
Inspire	Mental Health Aberdeen	Middlefield Community Project
Moray College	NESTRANS	North East Scotland College
North East Sensory Services	Osprey Housing	Outdoor Access Trust Scotland
Pathways	Peterhead Port Authority	Printfield Community Project
Robert Gordons College	Sanctuary Housing	Scotland's Lighthouse and Museum Trust
Scottish Fire and Rescue	Scottish Police Authority	Scottish Water
Sport Aberdeen	St Machar Parent Support	Tenants First
The Manor Project	The Moray Council	The Robert Gordon University
Visit Scotland		

## Communications



In 2016/17 the Fund focused on innovating and enhancing its approaches to communicating with members to ultimately improve the customer experience.

A main accomplishment for the Fund was the development of the new-look Member Self-Service (MSS) website with improved functionality and a user-friendly design. MSS is an online system which provides access to pension information enabling members to update personal details, change death grant nominations, view pension values, documents and perform pension projections allowing members to actively plan for their retirement. The facility is tailored depending on member status so that members can only see information relevant to their circumstances. The system is available to 99% of members including active, deferred, pensioner and councillor members.

To introduce members to MSS and allow them to easily access the new site, Activation Keys were mailed to deferred and active members. The number of active members registered increased by 112% in the month following this mailing.

MSS garnered positive feedback from members such as “Brilliant site - easy to navigate, quick to respond, very useful information”. Future developments of the website are currently underway with the Fund looking at the potential to expand the system to provide electronic benefit statements and member forms.

Another triumph for the Fund was the successful issuing of 99.62% of statements before 31<sup>st</sup> August deadline for the first year of the new scheme. Benefit statements were mailed to more than 23,000 active members, 13,000 deferred members and 18,000 pensioners.

The Fund also was involved in several events during 2016/17 which included 14 pension presentations with an additional 10 co-delivered with our AVC provider, 2 Financial Forums for the finance representatives of employers and an Administration Forum to assist employers with systems and procedures for data collection.

The NESPF continued to maintain an active online presence through the NESPF website and Twitter, updating members on both Fund specific news and topics relevant to the wider pensions industry.

A particularly notable achievement for the Fund during 2016 was being presented with the Quality of Service Award at the LGC Investment Awards. The Fund was also shortlisted for DB Pension Scheme of the Year and Pension Administration Award at the Pensions Age awards.

# 10. Risk

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to senior officers. To complement the delegation to senior managers, there is an extensive and detailed accountability back to Committee on how these delegations have been exercised. Full details of the structure of delegated powers are contained in the **Pension Fund Governance Statement**.

**Investment risk** is recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). The structure of the investment strategy reflects this and is designed with the support of external expert advice. Details are contained in the **Statement of Investment Principles** and the **Funding Strategy Statement**.

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Committee and Pensions Board.

The Funds' approach to risk is dynamic, and can be revised in response to short term market events.

**Benefits risk** is recognised as falling into distinct areas: operational risk (regulation compliance and staffing) and Information Technology (IT) risks. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of a dedicated pension fund administration system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. IT risk is mitigated through the use of an externally hosted benefit administration system subject to regular update and review.

It is recognised that all Fund services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring.

## **Risk Management Review**

A Risk Management Review was completed during 2015/16, establishing and maintaining a detailed Risk Register and Action List. The review formalised the risk management process and identifies areas for development.

Risk management is an on-going process with quarterly reporting provided to the Pensions Committee. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified.

Identified below are key risks impacting the Pension Fund and the control measures in place to mitigate those risks.

<b>Risk</b>	<b>Scope</b>	<b>Control Measure</b>	<b>Are controls operating Effectively</b>
<b>Operational</b>			
Fraud and Negligence	Overpayments, unauthorised payments, system corruptions, audit criticism, reputational damage	All Pension payments signed off by a Senior Pensions Officer – segregation of duties for staff processing lump sums	Yes
<b>Funding</b>			
Fall in bond yields leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by FSM reported to the Pensions Committee	Yes
<b>Financial</b>			
Failure in world stock markets	Increase in employer contributions	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Yes
<b>Regulatory &amp; Compliance</b>			
Failure to comply with LGPS regulations	Audit criticism, legal challenge, reputation risk	Six monthly review of compliance with regulations and annual report to Pensions Committee	Yes
<b>Governance</b>			
Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputation risk	Annual review of AVC arrangements carried out by the Scheme Actuary	Yes

# 11. Funding Strategy Statement

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS).

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis.

As part of the 2014 actuarial valuation exercise, the Funding Strategy Statement was reviewed, providing a statement that was prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the Funds), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

The detail of the main body of this Statement relates primarily to the North East Scotland Pension Fund ("the Main Fund"). Where there are differences in the application of this Statement to the Aberdeen City Council Transport Fund ("the Transport Fund"), these are set out separately.

A copy of the full statement is available on the Funds' website [www.nespf.org.uk](http://www.nespf.org.uk).

## 12. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund and is effective from 4 June 2012. In its preparation, the Council has obtained appropriate professional advice.

All investment decisions are governed by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The Fund's objective is to meet the benefit liabilities as they fall due at a reasonable cost to the participating employers, given that employee contributions are fixed. Reasonable, in this context, refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding – ratio of the value of assets to liabilities – and the assumptions underlying the actuarial valuation.

The Fund targets a 100% funding level. 'Growth' assets, such as equities, are expected to give a higher long-term return than 'liability-matching' assets, such as bonds. The benefit of higher investment returns is that, over the long-term, a higher level of funding should achieve lower employer contribution rates. However the additional investment returns from growth assets come with a price: greater volatility relative to the liabilities, thus introducing risk. The risk is evidenced by the potential volatility of both the funding level and the employer contribution rate. There is therefore a trade-off between the additional investment return from greater exposure to growth assets and its benefits - higher funding level, lower employer contribution level - and the benefits of greater predictability - of both funding level and employer contribution rate - from having greater exposure to liability matching assets.

The trade-off, and its consequences on both funding level and employer contribution level, was examined by both the Pensions Committee and Joint Investment Advisory Committee and led to the strategic benchmark.

The full statement is available on the Funds' website [www.nespf.org.uk](http://www.nespf.org.uk).

# 13. Corporate, Environmental and Social Governance

The North East Scotland Pension Fund takes its role as a responsible investor very seriously. As a long term investor the Fund has a duty to engage with the companies we invest in on governance, social and environmental issues.

To enable us to accomplish this we are members of the Local Authority Pension Fund Form (LAPFF), are signatories of the Principles of Responsible Investment (PRI) and the UK Stewardship Code.

## What makes corporate governance and engagement necessary?

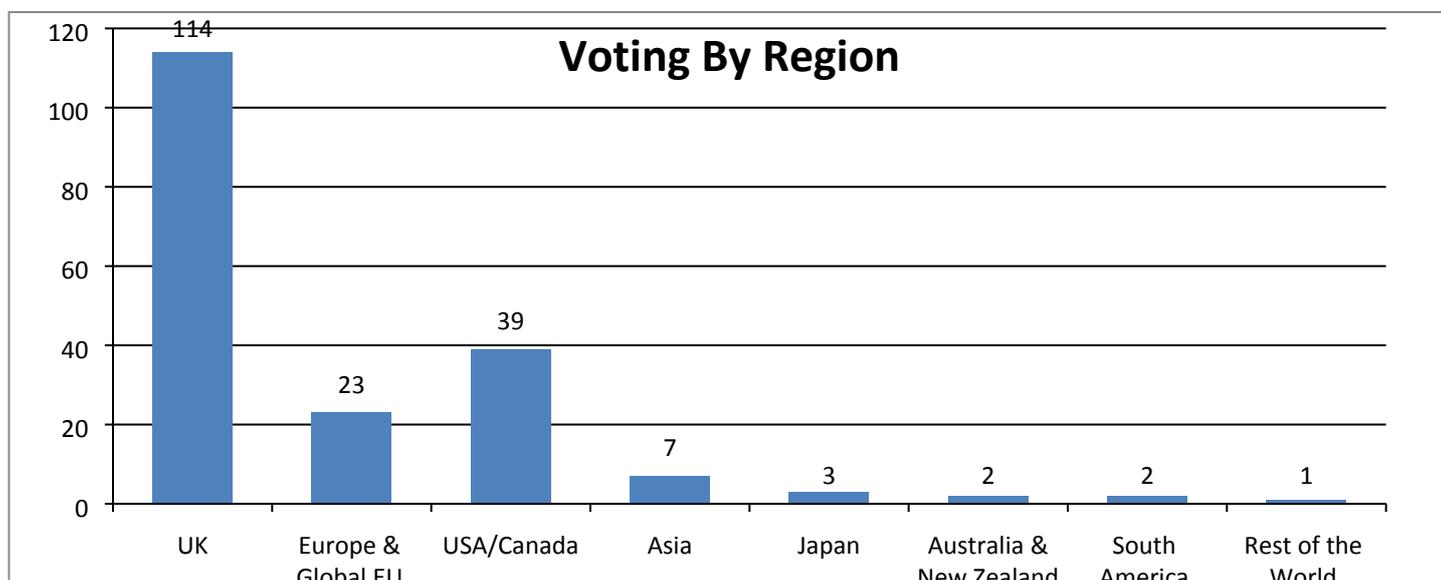
Put simply the interests of those who have control over a firm can differ from the interest of those who supply the firm with external finance i.e. the shareholders, and helps to protect against opportunistic/reckless behaviour by companies.

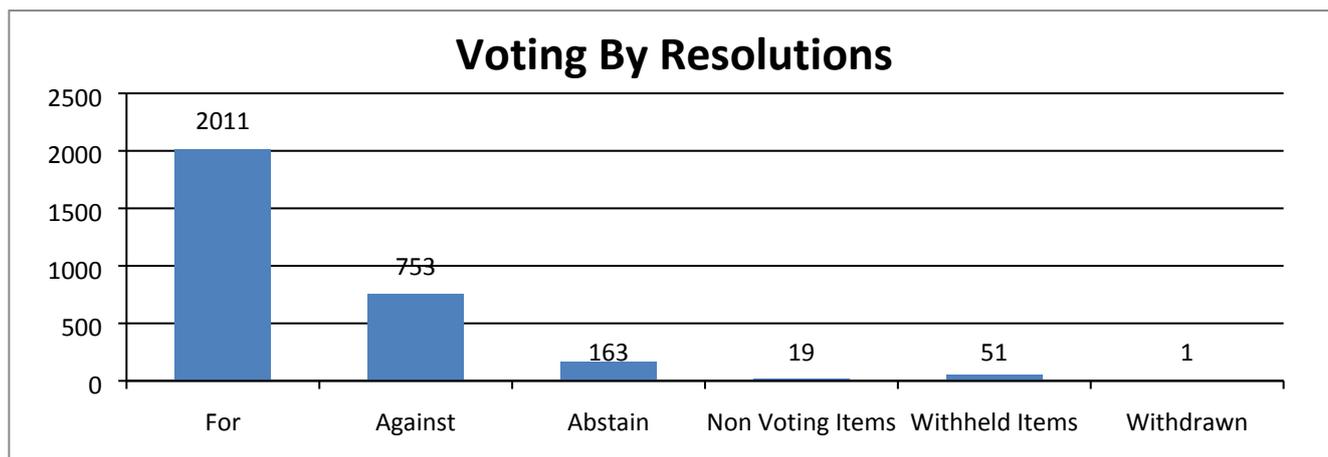
The below gives a snap shot of the activities that the NESPF has undertaken on Governance and Engagement over the past year.

## Voting

Voting is an integral part of good governance; it gives the Fund a direct route to influence the company's management. The Fund votes In-House for all our Active Managers and over the last year has voted at 191 Annual General Meetings/Special meetings on 2998 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum

Further information on the Funds Voting record can be found on our website <http://www.nespf.org.uk/Investment/Voting.asp>





During the last financial year the most contentious areas were

#### **Directors**

- Insufficient Independence at board level
- Independent Directors who have spent over 9 years on the board.

#### **Share Issues/Re-purchase**

- No clear justification for the re-purchase put forward by the Board
- Authority sought exceeding the recommended maximum

#### **Auditors Appointment**

- Not rotating audit firms on a regular basis
- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.

#### **Annual Reports**

- Vote on dividend or dividend policy not put to shareholders which is contrary to best practice.

### **Engagement**

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

Engagement is a fundamental part of good corporate and social governance. To be effective in this area it's vital that Local Authority Pension Funds work together to achieve the best results which is why the Fund is a member of the LAPFF. These engagements enable the Fund to be a responsible long term investor.

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £200 billion. Formed in 1990, LAPFF brings together over 70 local authority pension funds from Scotland, England, Wales & Northern Ireland. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss

shareholder engagement and investment issues. Our previous convener Councillor Crockett was re-elected to the LAPFF executive committee in January 2017.

Some examples of the engagement work undertaken by the Fund through LAPFF are noted below.

- **Environmental and Carbon Risk**

During the course of the year 2016, LAPFF undertook 58 engagements around environmental and carbon risk.

More so than other areas of engagement, this area saw multiple, intensive engagements with companies. Part of this in-depth engagement related to the strategic resilience resolutions, both with companies receiving the resolutions At their AGMs and those approached about the resolution asks without a resolution being filed at their AGMs.

LAPFF has found that an exercise of trust-building has had to take place in order to work with companies on climate change and carbon management, and the extended engagements assist with this relationship building

- **Carbon Management**

In 2016, the focus for shareholder resolutions on climate risk moved to the UK listed integrated mining companies, Rio Tinto, Glencore and Anglo-American. With total assets under management backing the resolutions amounting to £8 trillion, a large number of LAPFF member funds joined investors from the US, Australia and Europe, to co-file resolutions to the companies' 2016 AGMs supported by LAPFF's continuing participation in the strategic resilience resolution initiative.

- **Human Rights**

This engagement included labour rights in the supply chain. As part of this work, LAPFF engaged on the Modern Slavery Act (MSA) with Nestlé and Carillion. Work on the MSA will ramp up as companies become required to report under the Act.

Further information of LAPFF engagements can be found at <http://www.lapfforum.org>

## **Stewardship Code**

In 2016 the Financial Reporting Council (FRC) assessed signatories to the Stewardship Code based on the quality of their Code statements. This work was undertaken to improve the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code. Tiering distinguishes between signatories who report well and display their commitment to stewardship, Tier 1, and those where reporting improvements are necessary, Tier 2. The tiering exercise has improved the quality of reporting against the Code, promoted best practice and resulted in greater transparency in the UK market.

The NESPF's Stewardship Codes statement was assessed by the FRC and allocated to Tier 1.

The definition for Tier 1 members are:- Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

### **Principles for Responsible Investment (PRI)**

The PRI is the world's leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interest of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it's supported by but not part of the United Nations.

#### **Our main focus remains the issue of:-**

Sustainable Stock Exchanges (SSE) – we are members of a group of 50 PRI signatories representing US\$ 7.6 trillion in assets under management which is engaging with stock exchanges globally to ask that they enhance the sustainability performance of their listed companies, with particular emphasis on ESG disclosure.

This engagement led to 23 exchanges committing to put ESG guidance in place by the end of 2016. Now, 50% of (listed-equity) exchanges have or are committed to producing ESG reporting guidance.

Since early 2017 the SSE is targeting the 40 markets with no commitments, particularly NASDAQ US, NYSE, Euronext and JPX. The NESPF is engaging directly with Euronext and the Irish Stock Exchange.

# 14. Future

Following on from 2016/17 which was again a very busy and challenging year within the Local Government Pension Scheme, the Fund now looks to the new financial year and the actuarial valuation of both the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

The Fund's interim valuation in 2016, delivered positive results and the Fund looks to replicate both the successful process and outcome. Following the Actuarial Valuation results the Fund will begin a lengthy engagement and consultation process with all employers and stakeholders.

The revised investment strategy will continue to be implemented over the coming 12 months with the Fund looking to address its asset allocations in line with its strategic benchmark allocations.

The Fund will continue to expand its online data exchange services, with all employers moving to online monthly submissions from 1 April 2017. This will result in several benefits including improved data quality and a reduced year end process for both individual employers and the Fund. In line with the Fund's move to digital data, 2017 will be the final year of paper benefit statements for deferred members. Statements will be provided online via My Pension, with active benefit statements following in subsequent years. This will result in significant time and cost savings for the Fund as well as helping the Fund meet regulatory deadlines for issuing statements.

With constant change through the regulatory environment, financial markets and the global political landscape, the Fund is in constant review of its position, seeking innovative solutions across the service to increase its capabilities and to build on its award winning service delivery.

# 15. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2016/17 Annual Report and Accounts.

**Angela Scott**  
Chief Executive

**Steven Whyte, CPFA**  
Head of Finance

**Councillor Alan Donnelly**  
Pensions Committee Convener

**On behalf of Aberdeen City Council**

**23 June 2017**

# Statement of Responsibilities

The North East Scotland Pension Funds are governed by an Administering Authority, Aberdeen City Council, and are required to:

- Make arrangements for the proper administration of its financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Head of Finance of Aberdeen City Council.
- Manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with the legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003)
- Approve the Annual Accounts for signature

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 23 June 2017.

Signed on behalf of Aberdeen City Council

**Councillor Alan Donnelly**  
**Pensions Committee Convener**

### **The Head of Finance's responsibilities:**

The Head of Finance is responsible for the preparation of the Pension Funds' Annual Accounts in accordance with proper practices as required by legislation and as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Accounting Code).

In preparing the Annual Accounts, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation;
- complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Head of Finance has also:

- kept adequate accounting records which are up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### **Financial Position:**

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2017.

**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 23 June 2017**

# Annual Governance Statement

## Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland, both on its own behalf and in respect of the other 2 local authorities in the area and some 50 other employers.

As the administering authority for the Pension Fund, the Council is responsible for ensuring that its business, including that of the Pension Fund, is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Funds' affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

The Council has approved and adopted a Local Code of Corporate Governance which is consistent with the principles of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Society of Local Authority Chief Executives (SOLACE) Framework: Delivering Good Governance in Local Government.

## Purpose of the Governance Framework for North East Scotland Pension Fund

The governance framework comprises the systems and processes and culture and values by which Aberdeen City Council as the administering authority, and therefore the Pension Fund, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Fund to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of effective services.

The North East Scotland Pension Fund is governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production for a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Fund's objectives together with the main risks facing the Fund and the key controls in place to mitigate those risks.

The system of internal control is a significant part of the governance framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness.

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund for the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts.

## **The Governance Framework**

The Funds' place reliance upon the internal financial controls within the Council's financial systems and the monitoring in place to ensure the effectiveness of those controls. Within the overall control arrangements, the system of internal control is intended to ensure that assets are safeguarded, transactions are authorised and properly recorded, and material errors or irregularities are either prevented or would be detected within a timely period.

To help provide a framework of control, the Council's governance framework includes standing orders, financial regulations, financial monitoring and financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability). In addition, the terms of reference for the Pensions Committee sets out its role and delegated functions.

The systems include:

- Managing receipt of contributions from employees and employers and payment of benefits to retired members of the Fund;
- Review of financial and performance reports against forecasts, benchmarks and targets set;
- The preparation of regular financial reports which include funding updates and actual expenditure against forecasts; and
- Consideration of external and internal audit reports by the Audit, Risk and Scrutiny Committee and by the Pensions Committee.

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required standard of knowledge and understanding of the LGPS;
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan. A written report covering the Pension Fund's Investment Strategy was presented to the Pensions Committee in June 2016, with quarterly updates;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by Pensions Committee, senior officers and stakeholders including benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds;
- A clear statement of risk, combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;
- The Monitoring Officer reports on any non-compliance with laws and regulations of which they are made aware to the Pensions Committee in respect of the Funds;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;

- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- Appropriate investment custody arrangements with a global custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed Fund managers and third party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

The Public Sector Act 2013 introduced new regulatory requirements including the introduction of a Pensions Board. The Board assist the Administering Authority in delivering a regulatory compliant scheme and was implemented from the 1 April 2015. In addition the Scheme now reports to The Pensions Regulator under the new governance arrangements. This provides additional assurances to all stakeholders that the Scheme has the appropriate internal and external governance framework in place.

From the 1 April 2016 the Pension Fund has also implemented a new structure that identified six key areas; Investment, Accounting, Administration, Technical, Employer Relationship and Governance.

Teams are now in place to continue to deliver an efficient and effective service to all stakeholders while providing succession planning and clear and accountable roles.

### **Review of Effectiveness**

The Pension Fund has a responsibility for conducting, at least annually, a review of the effectiveness of its control environment including the system of internal control.

The Pension Fund approaches this with reference to the Council and its approach. This considers different layers of assurance, namely management assurance both internally through the Council and the assurance and recommendations provided by internal audit; and external audit and other external scrutiny reports.

#### *Management Assurance:*

As the administration of the Pension Fund is directly within the remit of the Head of Finance, assurance has been sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2016/17, no significant areas of weakness were highlighted.

In reviewing this, it has been assessed that the Council's financial management arrangements conform to the governance requirements of the CIPFA statement on the Role of the Chief Financial Officer in Local Government (2010). Furthermore in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition the Head of Finance (CFO) and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee, Finance, Policy and Resources Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and also considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Fund.

*Assurance from Internal Audit:*

The internal audit function for the Council and the Pension Fund was under contract to Aberdeenshire Council during the financial year.

The internal audit work programme has been completed and in respect of the Pension Fund, a written report including an agreed action plan on the Pension Fund's Investment Strategy and controls over the performance of fund managers was presented to the Pensions Committee in June 2016. Controls work was also undertaken across the Council's financial systems and was largely found to be satisfactory.

*External Audit and Other External Scrutiny:*

The external auditor, Audit Scotland, reports regularly to the Audit, Risk and Scrutiny Committee and the Pensions Committee and their reports cover the range of year-end financial audits that are required at a local level and with a national perspective.

## **Governance Compliance Statement**

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their governance compliance statement. There are no significant issues to highlight on the Governance Compliance Statement.

## **Certification**

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2016/17 financial year. A written report of the Pension Fund's Investment Strategy was presented to the Pensions Committee in June 2016.

**Angela Scott**  
Chief Executive

**Steven Whyte, CPFA**  
Head of Finance

**Councillor Alan Donnelly**  
Pensions Committee Convener

**On behalf of Aberdeen City Council**

**23 June 2017**

# Governance Compliance Statement

<b>Principle</b>	<b>Compliance</b>
<b>1. Structure</b>	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Partially compliant as per the Scheme Governance Statement
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
<b>2. Committee Membership and Representation</b>	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-  i) employing authorities (including non-scheme employers, e.g. admitted bodies);  ii) scheme members (including deferred and pensioner scheme members),  iii) where appropriate, independent professional observers, and  iv) expert advisors (on an ad-hoc basis).	Partially compliant as per the Scheme Governance Statement
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers, meetings and training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
<b>3. Voting</b>	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Statement

<b>4.) Training/Facility time/Expenses</b>	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant as per the Scheme Governance Statement
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	
<b>5.) Meetings (frequency /quorum)</b>	
a) That an administering authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Statement
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	
c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	
<b>6. Access</b>	
a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant as per the Scheme Governance Statement
<b>7. Scope</b>	
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.	Fully compliant as per the Scheme Governance Statement
<b>8. Publicity</b>	
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant as per the Scheme Governance Statement

# Accounting Policies

The North East Scotland Pension Funds' Accounts have been prepared in accordance with the Code of Practice on local authority accounting in the UK (the Code).

The Annual Accounts summarise the Funds' transactions for the 2016/2017 financial year and its position at year end as at 31 March 2017.

The Annual Accounts do not take account of the obligation to pay pensions and benefits which fall due after the end of the year.

The Funds' Annual Accounts are generally prepared on an accruals basis.

## Contribution Income

Normal contributions, from both members and employers, are accounted for on an accruals basis. Employers' deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the Scheme Actuary or on receipt (if earlier than the due date).

Employers' pension strain contributions are accounted for in the period in which the liability arises. Any amounts due in year but unpaid will be classed as a current financial asset.

## Transfers to and from other Schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the Fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations.

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

## Investment Income

Interest income is recognised in the Fund accounts as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

Property related income consists primarily of rental income. Rental income is demanded in accordance with the terms of the lease, generally being quarterly in advance.

The property portfolio accounts are prepared on an accrual basis.

Changes in the net market value of investments (including investment properties) are recognised as income and comprise all realised and unrealised profits/losses during the year.

## **Fund Account - Expenses**

### **Benefits Payable**

Pensions and lump sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

### **Taxation**

The Fund is a registered public service scheme under section 1 (1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

### **Management Expenses**

The Code does not require any breakdown of Pension Fund management expenses. However in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with CIPFA guidance on Accounting for Local Government Pension Scheme Management Costs.

#### **a.) Administrative Expenses and Oversight and Governance Costs**

All administrative expenses and oversight and governance costs are accounted for on an accruals basis. All staff costs are charged direct to the Fund. Accommodation and other overheads are apportioned to the Fund in accordance with Aberdeen City Council policy.

#### **b.) Investment Management Expenses**

All investment management expenses are accounted for on an accrual basis.

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 reduce as the value of these investments change.

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £4,395,110 in 2016/17 (2015/16 £3,842,823).

Where an investment manager's fee note has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the Fund account.

## **Financial Assets**

Financial assets are included in the net assets statement on a fair value basis at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of the asset are recognised by the Fund.

## **Valuation of Investments**

All investments are valued at their market value at 31 March 2017 and are determined as follows:

All stocks within the FTSE 100 are valued on the basis of the last traded price recorded on SETS (the Stock Exchange Electronic Trading Service), while all other listed securities are valued on the basis of the market conventions where primarily traded, which is either last traded or bid market price.

Investments held in foreign currency have been valued on the above basis and translated into sterling at the rate ruling at the balance sheet date.

Managed funds including unit trusts are stated at the bid price of the latest prices quoted or the latest valuation by the Funds' custodian.

Private equity assets are independently valued by the appointed Fund Manager and General Partners. Fair value is calculated by applying Private Equity and Venture Capital Valuation Guidelines.

Unlisted investments are valued using one of the following methodologies:

- Multiple (based on comparable quoted multiples and significant third party transactions)
- Price of Recent Investment
- Net Assets
- Discounted Cash Flows or Earnings from Underlying Business

When applying an Earning Multiple, the Fund Manager/General Partner will use the best estimate of maintainable earnings. In accordance with guidelines, discounts have been applied for size, quality of earnings, gearing and dependency on one customer where appropriate. A Marketability Discount will also have been applied to reflect liquidity.

Direct property investments are valued by an external valuer (Colliers International), in accordance with the Valuation Standards issued by The Royal Institute of Chartered Surveyors.

The valuer's opinion of Market Value was primarily derived using:

- Comparable recent market transactions on arm's length terms.

A full copy of the valuer's report including all general assumptions and definitions is available on request from the Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

## **Derivatives**

Derivative contract assets are valued at bid price and liabilities are fair valued at offer price. Changes in the fair value of derivative contracts are included in the change in market value.

The value of future contracts is determined using exchange prices at the reporting date. Amounts due from or owed to the broker are the amounts outstanding in respect of the initial margin and variation margin.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year end with an equal and opposite contract.

## **Cash**

Cash comprises cash in hand and demand deposits.

Cash equivalents are short term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

## **Financial Liabilities**

The Fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from the change in the fair value of the liability are recognised.

## **Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary found on Appendix 1.

Orphan liabilities are liabilities in the North East Scotland Pension Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers of the Fund.

Under the termination policy of the Funds, as set out by the Scheme Actuary, a termination assessment will be made on a least risk funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the liabilities. This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund.

### **Additional Voluntary Contributions**

North East Scotland Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVC's are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

### **Critical Judgments in applying Accounting Policies**

#### **Unquoted Private Equity Investments**

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward looking estimates and judgments involving many factors. Unquoted private equities are valued by the investment managers.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of unquoted private equities at 31 March 2017 was £211,570,863 (31 March 2016 £162,199,749).

#### **Actuarial Present Value of Promised Retirement Benefits**

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS 19) assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS 26 and have no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

### **Events after the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### **Changes in Accounting Policies**

Changes in accounting policies are only made when required by proper accounting practices or the changes provide more reliable or relevant information. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

### **Accounting Standards That Have Been Issued but Have Not Yet Been Adopted**

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. There are no new or amended standards within the 2016/17 Code.

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Fund Account for the year ended 31 March 2017

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employers' and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2015/16 £'000	2016/17 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	27,477	28,856
Employers' Contributions	2	92,708	98,538
Transfer Values	3	1,837	2,343
Other Income		3	2
		<b><u>122,025</u></b>	<b><u>129,739</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	4	91,490	94,624
Retirement Allowances	4	18,225	22,552
Death Gratuities	4	4,452	4,230
Contributions Refunded	5	848	678
Transfer Values	5	3,978	4,625
		<b><u>118,993</u></b>	<b><u>126,709</u></b>
<b>Management Expenses</b>	6	<b><u>16,517</u></b>	<b><u>18,486</u></b>
<b>Return on Investment</b>			
Investment Income	7	52,357	49,813
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	(28,428)	589,520
		<b><u>23,929</u></b>	<b><u>639,333</u></b>
<b>Net Return on Investments</b>		<b><u>23,929</u></b>	<b><u>639,333</u></b>
<b>Net Increase/(Decrease) in the Net Assets available for Benefits during the year</b>		<b>10,444</b>	<b>623,877</b>
<b>Opening Net Assets of the Fund</b>		<b>3,171,349</b>	<b>3,181,793</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>3,181,793</u></b>	<b><u>3,805,670</u></b>

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Net Assets Statement as at 31 March 2017

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2015/16	2016/17
<b>Investment Assets</b>		<b>£'000</b>	<b>£'000</b>
Fixed Interest, Public Sector		76,680	108,069
Fixed Interest, Corporate		14,159	11,652
Fixed Interest, Overseas		187,481	163,871
Index Linked		2,901	7,382
UK Equities		607,732	740,007
Overseas Equities		749,792	674,024
Pooled Vehicle		1,094,234	1,554,264
Unit Trust - Property		0	0
Direct Property	13	232,555	259,146
Unit Trust - Other		3,440	3,457
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	0
Private Equity - Other		179,867	231,897
Funds held by Investment Managers		31,489	18,594
ACC Loans Fund Deposit	19	14,640	39,740
<b>Investment Assets</b>		<b><u>3,194,970</u></b>	<b><u>3,812,103</u></b>
<b>Investment Liabilities</b>			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(8,227)	(493)
<b>Net Investment Assets</b>		<b><u>3,186,743</u></b>	<b><u>3,811,610</u></b>
<b>Long Term Asset</b>	18	<b>156</b>	<b>78</b>
Current Assets	18	18,422	17,028
Current Liabilities	18	(23,528)	(23,046)
<b>Net Current Assets/(Liabilities)</b>		<b><u>(5,106)</u></b>	<b><u>(6,018)</u></b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>3,181,793</u></b>	<b><u>3,805,670</u></b>

Steven Whyte, CPFA  
Aberdeen City Council, Head of Finance  
Date: 23 June 2017

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Fund Account for the year ended 31 March 2017

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employer and employees' contributions and investment income, as well as the cost of providing benefits and administration of the Fund.

	Notes	2015/16 £'000	2016/17 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	127	115
Employer's Contributions	2	2,176	2,109
Other Income		322	320
		<b>2,625</b>	<b>2,544</b>
<b>Benefits Payable</b>			
Retirement Pensions	3	2,998	3,083
Retirement Allowances	3	743	802
Death Gratuities	3	3	80
Contributions Refunded	4	0	0
Transfer Values	4	0	65
		<b>3,744</b>	<b>4,030</b>
<b>Management Expenses</b>	5	<b>228</b>	<b>245</b>
<b>Return on Investment</b>			
Investment Income	6	510	1,505
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	(2,560)	13,949
		<b>(2,050)</b>	<b>15,454</b>
<b>Net Increase/ (Decrease) in the Net Assets available for Benefits during the year</b>		<b>(3,397)</b>	<b>13,723</b>
<b>Opening Net Assets of the Fund</b>		<b>89,640</b>	<b>86,243</b>
<b>Net Assets of the Fund at the end of the year</b>		<b>86,243</b>	<b>99,966</b>

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Net Assets Statement as at 31 March 2017

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2015/16 £'000	2016/17 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		2,686	0
Fixed Interest, Overseas		0	0
UK Equities		0	0
Overseas Equities		0	0
Pooled Vehicle		48,304	88,705
Unit Trust - Property		0	0
Index Linked Securities		34,449	7,527
Funds held by Investment Managers		46	3,318
ACC Loans Fund Deposit	16	339	320
<b>Net Investment Assets</b>		<b><u>85,824</u></b>	<b><u>99,870</u></b>
<b>Long Term Asset</b>	15	<b>378</b>	<b>350</b>
Current Assets	15	286	180
Current Liabilities	15	(245)	(434)
<b>Net Current Assets/ (Liabilities)</b>		<b>41</b>	<b>(254)</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>86,243</u></b>	<b><u>99,966</u></b>

Steven Whyte, CPFA  
Aberdeen City Council, Head of Finance  
Date: 23 June 2017

## NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2014.

Information from the 2014 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£2,834,000,000
Liabilities	£3,025,000,000
Deficit	£ 191,000,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 94%

### Correcting the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as **19 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £191million could be eliminated over a period of 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

Post 31 March 2014 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the Actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. The deterioration in the funding position has increased the deficit and therefore the implied recovery period will also have increased.

In practice, each employer's position is assessed separately, details of which can be found in the 2014 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2018.

## **Schedule to the Rates and Adjustments Certificate**

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2018. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### **Assumptions used to Calculate Funding Target**

Pre-retirement	4.90% p.a.
Post-retirement	4.90% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long term	4.10% p.a.
Salary Increases – Short term	1.00% p.a.
Pension Increases in Payment	2.60% p.a.

The Projected Unit method was used for the valuation of the NESPF.

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

### **Actuarial Statement**

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £4,718m (2016 £3,803m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes IAS 26 and has no validity in other circumstances payable to the Fund. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in Appendix 1.

**Note 2: Contributions Receivable**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employees' Normal Contributions</b>	<b>27,477</b>	<b>28,856</b>
Employers' Normal Contributions	89,119	94,772
Employers' Deficit Recovery Contributions	3,589	3,766
Employers' Augmentation Contributions	0	0
<b>Total Employers' Contributions</b>	<b>92,708</b>	<b>98,538</b>
<b>Total</b>	<b>120,185</b>	<b>127,394</b>

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Administering Authority	34,835	36,869
Scheduled Bodies	72,338	75,366
Admitted Bodies	8,916	10,934
Transferee Admission Bodies	4,096	4,225
<b>Total</b>	<b>120,185</b>	<b>127,394</b>

**Note 3: Transfers in from other Pension Funds**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Individual Transfers	1,837	2,343
<b>Total</b>	<b>1,837</b>	<b>2,343</b>

**Note 4: Benefits Payable**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	91,490	94,624
Commutation and Lump Sum Retirement Benefits	18,225	22,552
Lump Sum Death Benefits	4,452	4,230
<b>Total</b>	<b>114,167</b>	<b>121,406</b>

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Administering Authority	29,822	31,453
Scheduled Bodies	74,813	79,549
Admitted Bodies	8,523	9,162
Transferee Admission Bodies	1,009	1,243
<b>Total</b>	<b>114,167</b>	<b>121,407</b>

**Note 5: Payment to and on Account of Leavers**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to Members Leaving Service	678	527
Payments for Members Joining State Scheme	170	151
Group Transfers	40	0
Individual Transfers	3,938	4,625
<b>Total</b>	<b>4,826</b>	<b>5,303</b>

**Note 6: Management Expenses**

	<b>2015/16</b>	<b>2016/17</b>
	<b>Restated*</b>	
	<b>£'000</b>	<b>£'000</b>
Pension Fund Staffing Costs – Administration	965	971
Support Services including IT	545	563
Printing and Publications	32	29
<b>Administration Expenses Total</b>	<b>1,542</b>	<b>1,563</b>
Pension Fund Staffing Costs – Investment	101	131
Pension Fund Committee	4	12
Pension Board	1	2
External Audit Fee	45	32
Internal Audit Fee	8	6
Actuarial Fees	103	112
General Expenses	86	173
<b>Oversight and Governance Expenses Total</b>	<b>348</b>	<b>468</b>
Investment Management	9,442	10,352
Performance Fees	3,843	4,517
Direct Operating Property Expenses	127	347
Transaction Costs	1,066	1,117
Custody Fees	149	122
<b>Investment Management Expenses Total</b>	<b>14,627</b>	<b>16,455</b>
<b>Management Expenses Grand Total</b>	<b>16,517</b>	<b>18,486</b>

**Note 7: Investment Income**

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	7,412	6,225
Equity Dividends	30,411	20,270
Pooled Property Investments	6	7
Property Rental Income	11,905	14,255
Interest on Cash Deposit	271	346
Other (including P/L from Currency and Derivatives)	4,810	8,780
<b>Total</b>	<b>54,815</b>	<b>49,883</b>
<b>Tax</b>		
Withholding Tax - Fixed Interest Securities	0	0
Withholding Tax - Equities	(2,452)	(63)
Withholding Tax - Pooled	(6)	(7)
<b>Total Tax</b>	<b>(2,458)</b>	<b>(70)</b>
<b>Net Total</b>	<b>52,357</b>	<b>49,813</b>

## Note 8: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	<b>Market Value 31 March 2016</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	281,221	355,089	(366,906)	21,570	290,974
UK Equities	607,732	174,716	(173,997)	131,556	740,007
Overseas Equities	749,792	65,885	(319,577)	177,924	674,024
Pooled Investments	1,097,674	342,908	(132,192)	249,331	1,557,721
Property	232,555	37,161	(6,063)	(4,507)	259,146
Private Equity	179,867	50,920	(37,111)	38,221	231,897
	<b>3,148,841</b>	<b>1,026,679</b>	<b>(1,035,846)</b>	<b>614,095</b>	<b>3,753,769</b>
<b>Derivative Contracts</b>					
FX Contracts	(8,227)	909,161	(876,852)	(24,575)	(493)
	<b>3,140,614</b>	<b>1,935,840</b>	<b>(1,912,698)</b>	<b>589,520</b>	<b>3,753,276</b>
<b>Other</b>					
Cash	46,129				58,334
<b>Net Investment Assets</b>	<b>3,186,743</b>				<b>3,811,610</b>

	<b>Market Value 31 March 2015</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	257,523	163,704	(147,846)	7,840	281,221
UK Equities	640,326	177,827	(179,761)	(30,660)	607,732
Overseas Equities	723,697	161,306	(138,758)	3,547	749,792
Pooled Investments	1,097,003	244,431	(222,184)	(21,576)	1,097,674
Property	211,960	26,058	(8,814)	3,351	232,555
Private Equity	155,003	46,650	(40,752)	18,966	179,867
	<b>3,085,512</b>	<b>819,976</b>	<b>(738,115)</b>	<b>(18,532)</b>	<b>3,148,841</b>
<b>Derivative Contracts</b>					
FX Contracts	(1,032)	18,130	(15,429)	(9,896)	(8,227)
	<b>3,084,480</b>	<b>838,106</b>	<b>(753,544)</b>	<b>(28,428)</b>	<b>3,140,614</b>
<b>Other</b>					
Cash	88,017				46,129
<b>Net Investment Assets</b>	<b>3,172,497</b>				<b>3,186,743</b>

## Note 9: Analysis of Investments

	2015/16	2016/17
	£'000	£'000
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	76,680	108,069
Corporate Quoted	14,159	11,652
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	135,283	115,574
Corporate Quoted	52,198	48,297
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>278,320</b>	<b>283,592</b>
<b>Subtotal Index Linked Securities</b>	<b>2,901</b>	<b>7,382</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	607,732	740,007
Unquoted	0	0
<b>Overseas</b>		
Quoted	749,792	674,024
Unquoted	0	0
<b>Subtotal Equities</b>	<b>1,357,524</b>	<b>1,414,031</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	0
Unit Trusts	465,686	783,054
Pooled Property Investment	0	0
<b>Overseas</b>		
Fixed Income	6,896	0
Unit Trusts	501,344	583,947
Pooled Indexed Linked	123,748	190,720
<b>Subtotal Pooled Funds</b>	<b>1,097,674</b>	<b>1,557,721</b>
Private Equity	179,867	231,897
Property, Direct	232,555	259,146
Funds held by Investment Managers	31,489	18,594
ACC Loans Fund Deposit	14,640	39,740
<b>Investment Assets Total</b>	<b>3,194,970</b>	<b>3,812,103</b>
<b>Investment Liabilities</b>		
Forward Ex	(8,156)	(493)
Derivatives	(71)	0
<b>Investment Liabilities Total</b>	<b>(8,227)</b>	<b>(493)</b>
<b>Net Investment Assets</b>	<b>3,186,743</b>	<b>3,811,610</b>

## Note 10: Analysis of Derivatives

### Futures

Outstanding exchange traded future contracts are as follows:

Type	Expires	Economic Exposure	Market Value 31 March 2016	Economic Exposure	Market Value 31 March 2017
		£'000	£'000	£'000	£'000
<b>Assets</b>					
Overseas Fixed Interest	Less than one year	0	0	0	0
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	0		0	0
Euro - Other	Less than one year	0	(43)	0	0
Overseas - Other	Less than one year	0	(28)	0	0
<b>Net Futures</b>			<b>(71)</b>		<b>0</b>

### Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted portfolio is in passive overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has applied, through the passive manager, a dynamic currency hedge on a pooled basis.

As part of the Fund Investment Strategy the bond manager incorporates Foreign Exchange Contracts.

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		£'000		£'000
Up to 3 Months	EUR	5,738	GBP	5,824		86
Up to 3 Months	EUR	1,910	USD	1,901	9	
Up to 3 Months	GBP	72,842	EUR	73,050		208
Up to 3 Months	GBP	31,216	JPY	31,243		27
Up to 3 Months	GBP	2,625	MXN	2,776		151
Up to 3 Months	GBP	82,225	USD	81,870	355	
Up to 3 Months	GBP	592	ZAR	575	17	
Up to 3 Months	MXN	2,776	USD	2,753	23	
Up to 3 Months	NOK	5,490	GBP	5,666		176
Up to 3 Months	SEK	8,610	GBP	8,576	34	
Up to 3 Months	USD	8,626	GBP	8,873		247
Up to 3 Months	USD	1,175	JPY	1,208		33
Up to 3 Months	ZAR	575	USD	587		12
Over 6 Months	CZK	2,764	EUR	2,755	9	
Open forward Currency Contracts as at 31 March 2017					447	(940)
<b>Net Forward Currency Contracts at 31 March 2017</b>						<b>(493)</b>
<b>Prior Year Comparative</b>						
Open Forward Currency Contracts at 31 March 2016					1,536	(9,692)
<b>Net Forward Currency Contacts at 31 March 2016</b>						<b>(8,156)</b>

## Note 11: Investments Analysed by Fund Manager

	31 March 2016	%	31 March 2017	%
	£'000		£'000	
<b>Investment Assets</b>				
State Street Global Advisors	1,049,141	33.0	1,327,587	34.9
Baillie Gifford	750,177	23.6	991,344	26.0
BlackRock Asset Management	375,860	11.8	454,539	11.9
BlackRock DGF	0	0.0	103,389	2.7
Baring Asset Managers	273,442	8.6	279,992	7.4
AAM Global Ex UK*	261,873	8.2	0	0.0
Aberdeen Frontier*	35,510	1.1	0	0.0
AAM Property (API)	237,035	7.5	265,311	7.0
AAM Property Residential	0	0.0	6,890	0.2
HarbourVest	94,356	3.0	113,207	3.0
Standard Life	45,102	1.4	49,864	1.3
ACC Loans Fund Deposit	14,640	0.5	39,740	1.0
Global Custodian	5,980	0.2	3,392	0.1
Partners Group	34,730	1.1	45,339	1.2
NESPF*	199	0.0	49	0.0
RREEF*	0	0.0	0	0.0
Maven Capital	3,512	0.1	2,822	0.1
Capital Dynamics	1,100	0.0	6,702	0.2
RCP Advisors	209	0.0	2,011	0.1
Unigestion	3,877	0.1	15,007	0.4
Invesco DGF	0.00	0.0	104,425	2.7
	<b>3,186,743</b>	<b>100.2</b>	<b>3,811,610</b>	<b>100.2</b>
<b>Net Long and Current Assets</b>				
Bank Account	(36)	0.0	78	0.0
Long Term and Current Debtors Less Creditors	(4,914)	(0.2)	(6,018)	(0.2)
<b>Net Assets</b>	<b>3,181,793</b>	<b>100.0</b>	<b>3,805,670</b>	<b>100.0</b>

\*Note: During 2016-17 the following Fund Managers were merged into one 'In House' Account:

AAM Global Excluding UK, Aberdeen Frontier, Capital, In House, RREEF and Rogge

The following investments represent more than 5% of the Net Investment Assets:

<b>Security</b>	<b>Market Value 31 March 2016</b>	<b>% of Net Investment Assets</b>	<b>Market Value 31 March 2017</b>	<b>% of Net Investment Assets</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
MPF International Equity Index Pooled Fund	472,794	14.8	583,947	15.3
MPF UK Equity Pooled Fund	452,600	14.2	552,920	14.5

The investments listed above are Pooled Investments, i.e. where two or more parties 'pool' or combine their investments. This type of investment allows the Fund to gain from economies of scale, i.e. lower transaction costs, and diversification that can help reduce risk.

#### **Note 12: Stock Lending**

	<b>2015/16</b>	<b>Collateral Percentage</b>	<b>2016/17</b>	<b>Collateral Percentage</b>
	<b>£'000</b>		<b>£'000</b>	
<b>Stock on Loan</b>				
Equities	184,676		0	
Fixed Interest	42,736		0	
<b>Total Exposure</b>	<b>227,412</b>		<b>0</b>	
<b>Total Collateral</b>	<b>253,776</b>	<b>111.59</b>	<b>0</b>	<b>0.00</b>

Stock Lending is the lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Collateral is held at a minimum of 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

### Note 13: Property Holdings

	2015/16	2016/17
	£'000	£'000
Opening Balance	211,960	232,555
Additions	76	0
Purchases	25,824	34,932
Construction	158	2,215
Subsequent Expenditure	0	14
Disposals	(8,814)	(6,063)
Net Increase in Market Value	3,351	(4,507)
Other Changes in Fair Value	0	0
<b>Closing Balance</b>	<b>232,555</b>	<b>259,146</b>

The property holdings note shows those UK properties directly held by the Fund and as such the Fund is responsible for all repairs, maintenance or enhancements. There are no restrictions on the reliability of the property or the remittance of income or proceeds on disposal and the Fund is not under any contractual obligations to purchase, construct or develop any of these properties, as all are addressed within the Fund's Property Investment Strategy.

The future minimum lease payments receivable by the Fund are as follows:

	2015/16	2016/17
	£'000	£'000
Within One Year	12,492	13,984
Between One Year and Five Years	45,840	52,638
Later than Five Years	84,679	96,061
<b>Total</b>	<b>143,011</b>	<b>162,683</b>

### Note 14: Financial and Non-Financial Instruments

Accounting policies describe how different asset classes of financial and non-financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

Non-financial instruments have been added to the table for reconciliation to the Net Assets of the Fund.

31 March 2016				31 March 2017		
Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Loans And Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			<b>Financial Assets</b>			
281,221			Fixed Interest	290,974		
1,357,524			Equities	1,414,031		
1,097,674			Pooled	1,557,721		
0			Pooled Property	0		
179,867			Private Equity	231,897		
0			Derivative Contracts	0		
	46,129		Cash		58,334	
	0		Other		0	
	18,578		Debtors		17,106	
<b>2,916,286</b>	<b>64,707</b>		<b>Subtotal</b>	<b>3,494,623</b>	<b>75,440</b>	
			<b>Financial Liabilities</b>			
(8,227)			Derivative Contracts	(493)		
			Other			
		(23,528)	Creditors			(23,046)
			Borrowings			
<b>(8,227)</b>		<b>(23,528)</b>		<b>(493)</b>		<b>(23,046)</b>
<b>2,908,059</b>	<b>64,707</b>	<b>(23,528)</b>	<b>Financial Instruments Total</b>	<b>3,494,130</b>	<b>75,440</b>	<b>(23,046)</b>
			<b>Non-Financial Instruments</b>			
232,555			Property	259,146		
<b>3,140,614</b>	<b>64,707</b>	<b>(23,528)</b>		<b>3,753,276</b>	<b>75,440</b>	<b>(23,046)</b>
		<b>3,181,793</b>	<b>Net Assets of the Fund</b>			<b>3,805,670</b>

**Note 15: Net Gains and Losses on Financial and Non-Financial Instruments**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£'000</b>	<b>Financial Assets</b>	<b>£'000</b>
(21,900)	Fair Value through Profit and Loss	618,516
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
(9,879)	Fair Value through Profit and Loss	(24,489)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>(31,779)</b>	<b>Net Gains and Losses on Financial Instruments</b>	<b>594,027</b>
	<b>Non-Financial Instruments</b>	
3,351	Fair Value through Profit and Loss	(4,507)
<b>(28,428)</b>	<b>Net Gains and Losses of the Fund</b>	<b>589,520</b>

## **Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair value.

### **Level 1**

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **Level 2**

Financial instruments at level 2 are those where quoted market prices are not available. For example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that are based significantly on observable market data.

### **Level 3**

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which North East Scotland Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair values is observable.

Non-Financial instruments have been added to the table for reconciliation to Net Assets of the Fund.

## Note 16A: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities affecting the Valuations provided</b>
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published.  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 2	Valued at fair value at the year –end using the investment method of valuation by Paul	Existing lease terms and rentals Independent market research	

		Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Pooled Investments – Hedge Funds	Level 3	Closing bid price where bid and offer prices are published.  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	3,283,052	0	211,571	3,494,623
Loans and Receivables	75,440			75,440
<b>Total Financial Assets</b>	<b>3,358,492</b>	<b>0</b>	<b>211,571</b>	<b>3,570,063</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	(493)	0	(493)
Financial Liabilities at Amortised Cost	(23,046)	0	0	(23,046)
<b>Total Financial Liabilities</b>	<b>(23,046)</b>	<b>(493)</b>	<b>0</b>	<b>(23,539)</b>
<b>Total Financial Instruments</b>	<b>3,335,446</b>	<b>(493)</b>	<b>211,571</b>	<b>3,546,524</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss		259,146		259,146
<b>Net Assets of the Fund</b>	<b>3,335,446</b>	<b>258,653</b>	<b>211,571</b>	<b>3,805,670</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,754,086	0	162,200	2,916,286
Loans and Receivables	64,707			64,707
<b>Total Financial Assets</b>	<b>2,818,793</b>	<b>0</b>	<b>162,200</b>	<b>2,980,993</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	(8,227)	0	(8,227)
Financial Liabilities at Amortised Cost	(23,528)	0	0	(23,528)
<b>Total Financial Liabilities</b>	<b>(23,528)</b>	<b>(8,227)</b>	<b>0</b>	<b>(31,755)</b>
<b>Total Financial Instruments</b>	<b>2,795,265</b>	<b>(8,227)</b>	<b>162,200</b>	<b>2,949,238</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss		232,555		232,555
<b>Net Assets of the Fund</b>	<b>2,795,265</b>	<b>224,328</b>	<b>162,200</b>	<b>3,181,793</b>

**Note 16B: Transfers between Levels 1 and 2**

There were no transfers between levels 1 and 2.

### Note 16C: Reconciliation of Fair Value Measurements within Level 3

2016/17	Market Value 1 April 2016	Transfers Into Level 3	Transfers Out of Level 3	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	162,200			50,903	(36,957)	20,459	14,966	211,571
<b>Total</b>	<b>162,200</b>	<b>0</b>	<b>0</b>	<b>50,903</b>	<b>(36,957)</b>	<b>20,459</b>	<b>14,966</b>	<b>211,571</b>

(a) Unrealised and realised gains and losses are recognised in the profit and losses on disposal and changes in the market value of investments line of the fund account.

### Note 16D: Sensitivity of Assets Valued at Level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2017.

	Assessed Valuation Range (+/-)	Value at 31 March 2017	Value on Increase £000	Value on Decrease
		£000	£000	£000
Private Equity	30%	211,571	275,042	148,100
<b>Total</b>		<b>211,571</b>	<b>275,042</b>	<b>148,100</b>

### Note 17: Risk arising from Financial and Non-Financial Instruments

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund manages these investment risks as part of its overall Pension Fund risk management strategy.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### **Market Risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

### **Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
UK Bonds	5.5%
Overseas Bonds	5.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - DGF	12.0%
Private Equity	30.0%
Property	13.0%
Cash	1.1%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Investment Advisor's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown overleaf).

Non-Financial instruments have been added to the table for reconciliation to the Net Investment Assets.

<b>Asset Type</b>	<b>Value as at 31 March 2017</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	57,841	1.1	58,477	57,205
<b>Investment Portfolio Assets</b>				
UK Bonds	317,823	5.5	335,303	300,343
Overseas Bonds	163,871	5.5	172,884	154,858
UK Equities	1,315,671	16.0	1,526,178	1,105,164
Overseas Equities	1,257,546	20.5	1,515,343	999,749
Pooled – Diversified Growth Funds	207,815	12.0	232,753	182,877
Private Equity	231,897	30.0	301,466	162,328
<b>Total Financial Instruments</b>	<b>3,552,464</b>		<b>4,142,404</b>	<b>2,962,524</b>
<b>Non-Financial Instruments</b>				
Property	259,146	13.0	292,835	225,457
<b>Total Assets Available to Pay Benefits</b>	<b>3,811,610</b>		<b>4,435,239</b>	<b>3,187,981</b>

<b>Asset Type</b>	<b>Value as at 31 March 2016</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	37,902	1.0	38,281	37,523
<b>Investment Portfolio Assets</b>				
UK Bonds	217,487	6.0	230,536	204,438
Overseas Bonds	194,378	6.0	206,041	182,715
UK Equities	1,073,418	16.0	1,245,165	901,671
Overseas Equities	1,251,136	20.5	1,507,619	994,653
Pooled – Diversified Growth Funds	0	12.0	0	0
Private Equity	179,867	30.0	233,827	125,907
<b>Total Financial Instruments</b>	<b>2,954,188</b>		<b>3,461,469</b>	<b>2,446,907</b>
<b>Non-Financial Instruments</b>				
Property	232,555	13.0	262,787	202,323
<b>Total Assets Available to Pay Benefits</b>	<b>3,186,743</b>		<b>3,724,256</b>	<b>2,649,230</b>

Note:

The above table for 2015-16 was revised in accordance with new CIPFA asset categories.

## Interest Rate Risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset Type</b>	<b>As at 31 March 2016</b>	<b>As at 31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	46,129	58,334
Cash Balances	(36)	78
Fixed Interest Securities	411,865	481,694
<b>Total</b>	<b>457,958</b>	<b>540,106</b>

## Interest Rate Risk Sensitivity Analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

<b>Asset Type</b>	<b>Carrying Amount as at 31 March 2017</b>	<b>Change in Year in the Net Assets available to Pay Benefits</b>	
		<b>+ 100 BPS</b>	<b>- 100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	58,334	58,917	57,751
Cash Balances	78	79	77
Fixed Interest Securities	481,694	486,511	476,877
<b>Total Change in Assets Available</b>	<b>540,106</b>	<b>545,507</b>	<b>534,705</b>

Asset Type	Carrying Amount as at 31 March 2016	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and Cash Equivalents	46,129	46,590	45,668
Cash Balances	(36)	(36)	(36)
Fixed Interest Securities	411,865	415,984	407,746
<b>Total Change in Assets Available</b>	<b>457,958</b>	<b>462,538</b>	<b>453,378</b>

## Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Asset Value as at 31 March 2017
	£'000	£'000
Overseas Quoted Securities	767,261	694,350
Overseas Unquoted Securities	157,588	195,244
Overseas Unit Trusts	508,240	583,947
Overseas Public Sector Bonds (Quoted)	135,283	115,574
Overseas Corporate Bonds (Quoted)	52,198	48,297
<b>Total Overseas Assets</b>	<b>1,620,570</b>	<b>1,637,412</b>

## Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.7%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2017</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+11.7%</b>	<b>-11.7%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	694,350	775,589	613,111
Overseas Unquoted Securities	195,244	218,088	172,400
Overseas Unit Trust	583,947	652,269	515,625
Overseas Public Sector Bonds (Quoted)	115,574	129,096	102,052
Overseas Corporate Bonds (Quoted)	48,297	53,948	42,646
<b>Total Change in Assets Available</b>	<b>1,637,412</b>	<b>1,828,990</b>	<b>1,445,834</b>

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2016</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	767,261	843,987	690,535
Overseas Unquoted Securities	157,588	173,347	141,829
Overseas Unit Trust	508,240	559,064	457,416
Overseas Public Sector Bonds (Quoted)	135,283	148,811	121,755
Overseas Corporate Bonds (Quoted)	52,198	57,418	46,978
<b>Total Change in Assets Available</b>	<b>1,620,570</b>	<b>1,782,627</b>	<b>1,458,513</b>

## Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2017 was £58,412,000 (31 March 2016 £46,093,000). This was held with the following institutions as shown below:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2016</b>	<b>Balance as at 31 March 2017</b>
		<b>£'000</b>	<b>£'000</b>
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	22,746	0
Deutsche Euro	AAAm	200	0
BNY Mellon LIQ USD	AAAm	3,888	0
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	14,640	39,740
BNY Mellon	AAAm	713	0
BNP Paribas	AAAm	0	18,594
Natwest, (API)	BBB+	3,942	0
<b>Subtotal</b>		<b>46,129</b>	<b>58,334</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	(36)	78
<b>Total</b>		<b>46,093</b>	<b>58,412</b>

## **Liquidity Risk**

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings at all times.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2017 the value of illiquid assets was £470,717,129 which represented 12.4% of the total fund assets (31 March 2016 £394,754,749 which represented 12.4% of the total fund assets).

**Note 18: Breakdown of Long Term and Current Assets and Liabilities**

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>	<b>156</b>	<b>78</b>
<b>Current Assets</b>		
Employees' Contributions due	2,288	2,395
Employers' Contributions due	6,823	7,115
Sundry Debtors	9,347	7,440
	<b>18,458</b>	<b>16,950</b>
Bank	(36)	78
<b>Total Current Assets</b>	<b>18,422</b>	<b>17,028</b>
<b>Total Long Term and Current Assets</b>	<b>18,578</b>	<b>17,106</b>

<b>Analysis of Assets</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>		
Other Entities and Individuals	<b>156</b>	<b>78</b>
Central Government Bodies	0	1,202
Other Local Authorities	8,059	8,686
Other Entities and Individuals	10,399	7,062
<b>Total Current Assets</b>	<b>18,458</b>	<b>16,950</b>
<b>Total Long Term and Current Assets</b>	<b>18,614</b>	<b>17,028</b>

	<b>31 March 2016</b>	<b>31 March 2017</b>
<b>Current Liabilities</b>	<b>£'000</b>	<b>£'000</b>
Sundry Creditors	21,941	16,000
Benefits Payable	1,587	7,046
<b>Total Current Liabilities</b>	<b>23,528</b>	<b>23,046</b>

<b>Analysis of Liabilities</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	1,909	1,040
Other Local Authorities	417	263
Other Entities and Individuals	21,202	21,743
<b>Total Current Liabilities</b>	<b>23,528</b>	<b>23,046</b>

## Note 19: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The costs of these services for the North East Scotland Pension Fund amounted to £1,214,654 (2015 - £1,146,402).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £39,740,000 (2016 - £14,640,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £86,124 (2016 - £82,828) for the North East Scotland Pension Fund.

## Note 20: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the North East Scotland Pension Fund. One employee was identified and his financial relationship with the Fund (expressed as an accrued pension) is set out below:

		<b>Accrued Pension 2015/2016</b>	<b>Accrued Pension 2016/2017</b>
		<b>£'000</b>	<b>£'000</b>
Steven Whyte	Head of Finance	24	26

## Governance

As at 31 March 2017, 8 members of the Pensions Committee and 6 members (this includes 2 substitutes) of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

Each member of the Pension Committee/Board is required to declare any financial and non-financial interest they have in the items of business for consideration at each meeting, identifying the relevant agenda items and the nature of their interest.

In 2016/17, there were no Elected Members' that had interests in scheduled and admitted bodies.

## Note 21: Contractual Commitments as at 31 March 2017

As at 31 March 2017 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	<b>Contractual Commitments</b>	<b>Undrawn Commitments</b>
	<b>£'000</b>	<b>£'000</b>
HarbourVest	171,938	58,119
Standard Life	128,003	30,800
Partners Group	86,391	42,746
NESPF	0	0
Maven (SLF)	10,000	3,886
Capital Dynamics	40,000	35,100
RCP Advisors	35,987	34,228
Unigestion	55,598	47,512
AAM Residential Property	30,000	23,087
<b>Total</b>	<b>557,917</b>	<b>275,478</b>

## Note 22: Additional Voluntary Contributions (AVC)

Additional voluntary contributions are not included in the Pension Fund's Accounts.

The amount of additional voluntary contributions paid by members during the year is shown as income in the tables below. The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation and are not a calculation of the opening value together with the total income and expenditure.

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables. Standard Life and the Prudential do not provide this information by Fund.

### Standard Life – Financial Statement for the period 6th April 2016 to 5 April 2017

	<b>£</b>
<b>Opening Net Asset Value</b>	<b>1,994,288</b>
Total Income	51,227
Total Expenditure	524,165
<b>Closing Net Asset Value</b>	<b>1,720,413</b>

## Prudential – Financial Statement for the period 1 April 2016 to 31 March 2017

	£
<b>Opening Net Asset Value</b>	<b>23,348,007</b>
Total Income	2,202,638
Total Expenditure	3,310,354
<b>Closing Net Asset Value</b>	<b>24,665,926</b>

### Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds four insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these admission bodies should they terminate their participation in the scheme. These bonds are drawn in the favour of the Pension Fund and payment will only be triggered in the event of employer default.

The pension liabilities for all transferee admission bodies are guaranteed by the originating employer as per Regulation 62 of the Local Government Pension Scheme (Scotland) 2014. In addition the NESPF have secured guarantees for 14 Admitted Bodies within the Fund.

### Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy. In 2016/2017 the Fund recognises that there are two employers who have exited from the Fund where payment of the termination fee may not be recovered in full. One termination fee is yet to be quantified and the other amount of £211,900 has been registered with the company liquidator.

### Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's Website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Panel and in light of any change to the investment strategy of the Pension Funds.

## Note 26: Critical Judgements in applying Accounting Policies

### Assumptions made about the future and other major sources of estimation uncertainty.

The items in the net asset statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Annual Accounts are £232 million. There is a risk that this investment may be under or overstated in the accounts.

### Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Head of Finance on 23 June 2017. Events taking place after this date are not reflected in the Annual Accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report, the Fund continues to implement the approved Investment Strategy and has initiated some of the agreed changes post year end.

The Pension Fund has terminated its Bond mandate to facilitate a move to more multi credit opportunities and has also initiated a rebalancing overlay program to bring the Fund's asset allocation back in line with the Fund's Strategic asset allocation.

## Note 28: Agency Arrangements for Administering Compensatory 'Added' Years

The North East Scotland Pension Fund administers compensatory 'added' years payments for those awarded up to 2011. The Fund acts as an agent of employing bodies, in respect of staff that have had their pension augmented under *The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998*.

The cash flows in respect of the relevant employing bodies and associated payroll cost for those compensatory 'added' years' payments are:

	<b>2015/16</b>	<b>2016/17</b>
	<b>£'000</b>	<b>£'000</b>
<b>Cost incurred/recovered on behalf of:</b>		
Aberdeen City Council	2,354	2,331
Aberdeenshire Council	1,379	1,416
Moray Council	717	651
Scottish Water	1,270	1,262
Other	299	298
<b>Total</b>	<b>6,019</b>	<b>5,958</b>
<b>Associated Payroll Cost</b>	<b>5</b>	<b>4</b>

## NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the Transport Fund was provided as at 31 March 2014. Information from the 2014 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£79,800,000
Liabilities	£86,200,000
Deficit	£ 6,400,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 93%

### Addressing the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The deficit recovery period for the Fund has been set as **7 years**.

Adopting the same method and assumptions as used for calculating the funding target, by maintaining the contributions at the 2014/15 levels the deficit of £6.4 million could be eliminated in approximately 6-7 years.

Since 31 March 2014 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. However, the Administering Authority and employer (following consultation with the Actuary) have agreed that contributions will remain at the current level (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate	2015/16	2016/17	2017/18
(as percentage of payroll)	33% plus	33% plus	33% plus
	£1,500,000	£1,500,000	£1,500,000

### Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2018.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation

as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### **Assumptions Used to Calculate Funding Target**

Pre-retirement	3.65% p.a
Post-retirement	3.65% p.a
Assumed Long Term Price Inflation (CPI)	3.1% p.a
Salary Increases – Long term	5.1% p.a
Salary Increases – Short term	3.1% p.a
Pension Increases in Payment	3.1% p.a

The Transport Fund used the Attained Age method for the employing body First Aberdeen, to reflect that this scheme was closed to new entrants from 31 March 1994.

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

### **Actuarial Statement**

The Scheme Actuary has provided a statement describing the funding arrangements of the Fund.

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £85.6m (2016 £75.3m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes of IAS 26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in Appendix 1.

## Note 2: Contributions Receivable

	2015/16	2016/17
	£'000	£'000
<b>Employees' Normal Contributions</b>	<b>127</b>	<b>115</b>
Employer's Normal Contributions	668	609
Employer's Deficit Recovery Contributions	1,508	1,500
Employer's Augmentation Contributions	0	0
<b>Total Employer's Contributions</b>	<b>2,176</b>	<b>2,109</b>
<b>Total</b>	<b>2,303</b>	<b>2,224</b>

	2015/16	2016/17
	£'000	£'000
Scheduled Body	2,303	2,224
<b>Total</b>	<b>2,303</b>	<b>2,224</b>

## Note 3: Benefits Payable

	2015/16	2016/17
	£'000	£'000
Pensions	2,998	3,083
Commutation and Lump Sum Retirement Benefits	743	802
Lump Sum Death Benefits	3	80
<b>Total</b>	<b>3,744</b>	<b>3,965</b>

	2015/16	2016/17
	£'000	£'000
Scheduled Body	3,744	3,965
<b>Total</b>	<b>3,744</b>	<b>3,965</b>

## Note 4: Payment to and on Account of Leavers

	2015/16	2016/17
	£'000	£'000
Contributions Refunded	0	0
Individual Transfers	0	65
<b>Total</b>	<b>0</b>	<b>65</b>

## Note 5: Management Expenses

	2015/16	2016/17
	£'000	£'000
Pension Fund Staffing Costs – Administration	29	29
Support Services including IT	16	20
Printing and Publications	1	1
<b>Administration Expenses Total</b>	<b>46</b>	<b>50</b>
Pension Fund Staffing Costs – Investment	3	4
Pension Fund Committee	1	4
External Audit Fee	1	1
Internal Audit Fee	0	0
Actuarial Fees	9	26
General Expenses	2	3
<b>Oversight and Governance Expenses Total</b>	<b>16</b>	<b>38</b>
Investment Management	157	154
Custody Fees	9	3
Transaction Costs	0	0
<b>Investment Management Expenses Total</b>	<b>166</b>	<b>157</b>
<b>Management Expenses Grand Total</b>	<b>228</b>	<b>245</b>

## Note 6: Investment Income

	2015/16	2016/17
	£'000	£'000
Fixed Interest Securities	192	147
Equity Dividends	(66)	0
Pooled Investments	(1)	0
Interest on Cash Deposit	6	2
Other (including P/L from Currency and Derivatives)	373	1,356
<b>Total</b>	<b>504</b>	<b>1,505</b>
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Equities	5	0
Withholding Tax – Pooled	1	0
<b>Total Tax</b>	<b>6</b>	<b>0</b>
<b>Net Total</b>	<b>510</b>	<b>1,505</b>

## Note 7: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	<b>Market Value 31 March 2016</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	37,135	41,400	(75,237)	4,229	7,527
UK Equities	0	0	(87)	87	0
Overseas Equities	0	0	0	0	0
Pooled Investments	48,304	101,119	(70,351)	9,633	88,705
	<b>85,439</b>	<b>142,519</b>	<b>(145,675)</b>	<b>13,949</b>	<b>96,232</b>
Cash	385				3,638
<b>Net Investment Assets</b>	<b>85,824</b>				<b>99,870</b>

	<b>Market Value 31 March 2015</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2016</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	37,107	3,093	(3,211)	146	37,135
UK Equities	24	49	(78)	5	0
Overseas Equities	0	0	0	0	0
Pooled Investments	52,129	12,343	(13,457)	(2,711)	48,304
	<b>89,260</b>	<b>15,485</b>	<b>(16,746)</b>	<b>(2,560)</b>	<b>85,439</b>
Cash	(189)				385
<b>Net Investment Assets</b>	<b>89,071</b>				<b>85,824</b>

## Note 8: Analysis of Investments

	2015/16	2016/17
	£'000	£'000
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	37,135	7,527
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	0	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>37,135</b>	<b>7,527</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	0	0
Unquoted	0	0
<b>Overseas</b>		
Quoted	0	0
Unquoted	0	0
<b>Subtotal Equities</b>	<b>0</b>	<b>0</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	33,761
Unit Trusts	8,229	23,364
Pooled Property Investments	0	0
<b>Overseas</b>		
Fixed Income	0	0
Unit Trusts	40,075	31,580
<b>Subtotal Pooled Funds</b>	<b>48,304</b>	<b>88,705</b>
Private Equity	0	0
Property	0	0
Cash Deposits	385	3,638
<b>Investment Assets Total</b>	<b>85,824</b>	<b>99,870</b>
<b>Investment Liabilities</b>		
Forward Ex	0	0
Derivatives	0	0
<b>Investment Liabilities Total</b>	<b>0</b>	<b>0</b>
<b>Net Investment Assets</b>	<b>85,824</b>	<b>99,870</b>

## Note 9: Investments Analysed by Fund Manager

<b>Investment Assets</b>	<b>31 March 2016</b>	<b>%</b>	<b>31 March 2017</b>	<b>%</b>
	<b>£'000</b>		<b>£'000</b>	
Aberdeen Asset Managers	85,485	99.6	99,550	99.7
ACC Loans Fund Deposit	339	0.4	320	0.3
<b>Net Investment Assets</b>	<b>85,824</b>	<b>100.0</b>	<b>99,870</b>	<b>100.0</b>

The following investments represent more than 5% of the Net Investment Assets:

<b>Security</b>	<b>Market Value 31 March 2016</b>	<b>% of Net Investment Assets</b>	<b>Market Value 31 March 2017</b>	<b>% of Net Investment Assets</b>
	<b>£'000</b>		<b>£'000</b>	
UK Gilt Inflation Regs 0.125% 22/03/2024	4,953	5.8	0	0
UK Gilt Inflation Regs 0.125% 22/11/2019	6,317	7.4	0	0
UK Gilt Inflation Regs 0.250% 22/03/2052	4,406	5.1	0	0
UK Gilt Inflation Regs 1.125% 22/11/2037	7,303	8.5	0	0
Aberdeen Life UK Growth FD-A	7,289	8.5	0	0
Aberdeen GL-Euro Eq Ex UK-D2	5,203	6.1	0	0
Aberdeen Life Diversify GW-AA	23,170	27.0	0	0
Aberdeen Life World EQ-1G	9,245	10.8	0	0
Blackrock Asset Management UK Aquila Life Currency World Ex UK Equity	0	0	14,350	14.4
SIF Diversified Completion P Accumulation	0	0	10,697	10.7
Schroder Matching Plus Synthetic Index Linked Gilt Fund	0	0	6,383	6.4
SSGA Lux MG GL Treasury Bond Index GBP	0	0	11,518	11.5
Vanguard Investment Series Global Stock Index FD-INST USD SHS	0	0	13,762	13.8
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	0	0	12,667	12.7

## Note 10: Stock Lending

	2015/16	Collateral Percentage	2016/17	Collateral Percentage
	£'000		£'000	
<b>Stock on Loan</b>				
Equities	0		0	
Fixed Interest	0		0	
<b>Total Exposure</b>	<b>0</b>		<b>0</b>	
<b>Total Collateral</b>	<b>0</b>	<b>0.00</b>	<b>0</b>	<b>0.00</b>

Stock Lending is the lending of stock from one investor to another that entitles the lender to continue to receive income generated by the stock plus an additional payment by the borrower.

Collateral is held at a minimum of 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

## Note 11: Financial and Non-Financial Instruments

Accounting policies describe how different asset classes of financial and non-financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value of financial assets and liabilities (excluding cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2016				31 March 2017		
Designated as Fair Value Through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value Through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			<b>Financial Assets</b>			
37,135			Fixed Interest	7,527		
0			Equities	0		
48,304			Pooled	88,705		
0			Pooled Property	0		
	385		Cash		3,638	
	664		Debtors		530	
<b>85,439</b>	<b>1,049</b>	<b>0</b>	<b>Subtotal</b>	<b>96,232</b>	<b>4,168</b>	<b>0</b>
			<b>Financial Liabilities</b>			
			Cash			
		(245)	Creditors			(434)
<b>85,439</b>	<b>1,049</b>	<b>(245)</b>		<b>96,232</b>	<b>4,168</b>	<b>(434)</b>
		<b>86,243</b>	<b>Financial Instruments Total</b>			<b>99,966</b>
			<b>Non-Financial Instruments</b>			
0			Property	0		
<b>85,439</b>	<b>1,049</b>	<b>(245)</b>		<b>96,232</b>	<b>4,168</b>	<b>(434)</b>
		<b>86,243</b>	<b>Net Assets of the Fund</b>			<b>99,966</b>

**Note 12: Net Gains and Losses on Financial and Non-Financial Instruments**

<b>31 March 2016</b>		<b>31 March 2017</b>
<b>£'000</b>	<b>Financial Assets</b>	<b>£'000</b>
(2,560)	Fair Value through Profit and Loss	13,949
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>(2,560)</b>	<b>Net Gains and Losses on Financial Instruments</b>	<b>13,949</b>
	<b>Non-Financial Instruments</b>	
0	Fair Value through Profit and Loss	0
<b>(2,560)</b>	<b>Net Gains and Losses of the Fund</b>	<b>13,949</b>

## **Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair value.

### **Level 1**

Financial instruments at level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets and liabilities. Products classified as level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

### **Level 2**

Financial instruments at level 2 are those where quoted market prices are not available for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use input that is based significantly on observable market data.

### **Level 3**

Financial instruments at level 3 are those where at least one input that could have a significant effect on the instruments valuation is not based on observable market data.

Such instruments would include unquoted equity investments and hedge fund of funds, which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Aberdeen City Council Transport Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the Pension Fund grouped into Levels 1 to 3, based on the level at which the fair values is observable.

Non-Financial have been added to the table for reconciliation to the Net Assets of the Fund.

## Note 13A: Fair Value – Basis of Valuation

The basis of the valuation of each class of investment asset is set out below. There have been no changes in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities affecting the Valuations provided</b>
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published.  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Pooled Investments – Hedge Funds	Level 3	Closing bid price where bid and offer prices are published.  Closing single	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial

		price where single price published		statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year –end using the investment method of valuation by Paul Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	96,232	0	0	96,232
Loans and Receivables	4,168	0	0	4,168
<b>Total Financial Assets</b>	<b>100,400</b>	<b>0</b>	<b>0</b>	<b>100,400</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	0	0	0	0
Financial Liabilities at Amortised Cost	(434)	0	0	(434)
<b>Total Financial Liabilities</b>	<b>(434)</b>	<b>0</b>	<b>0</b>	<b>(434)</b>
<b>Total Financial Instruments</b>	<b>99,966</b>	<b>0</b>	<b>0</b>	<b>99,966</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
<b>Net Assets of the Fund</b>	<b>99,966</b>	<b>0</b>	<b>0</b>	<b>99,966</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	85,439	0	0	85,439
Loans and Receivables	1,049	0	0	1,049
<b>Total Financial Assets</b>	<b>86,488</b>	<b>0</b>	<b>0</b>	<b>86,488</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	0	0	0	0
Financial Liabilities at Amortised Cost	(245)	0	0	(245)
<b>Total Financial Liabilities</b>	<b>(245)</b>	<b>0</b>	<b>0</b>	<b>(245)</b>
<b>Total Financial Instruments</b>	<b>86,243</b>	<b>0</b>	<b>0</b>	<b>86,243</b>
<b>Non-Financial Instruments</b>				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
<b>Net Assets of the Fund</b>	<b>86,243</b>	<b>0</b>	<b>0</b>	<b>86,243</b>

### Note 13B: Transfers between Levels 1 and 2

There were no transfers between level 1 and 2.

### **Note 13C: Reconciliation of Fair Value Measurements within Level 3**

There are no Fair Value Measurements at Level 3 within the ACC Transport Fund. Therefore, no reconciliation is required.

### **Note 13D: Sensitivity of Assets Valued at Level 3**

There are no assets valued at Level 3 within the ACC Transport Fund. Therefore, no sensitivity analysis is required.

### **Note 14: Risk arising from Financial and Non-Financial Instruments**

The Fund's primary long term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole Fund portfolio.

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is sufficient liquidity to meet the Fund's forecast cash flows.

The Fund manages these investment risks as part of its overall Pension Fund Risk Management Strategy.

Responsibility for the Fund's risk management strategy rests with the Pensions Committee. Risk management policies are established to identify and analyse the risks faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

#### **Market Risk**

Market risk is the risk of loss from fluctuations in equity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities.

Specific risk exposure is limited by applying risk weighted maximum exposures to individual investments.

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2016/17 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
Cash	1.1%
UK Bonds	5.5%
Overseas Bonds	5.5%
UK Equities	16.0%
Overseas Equities	20.5%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Scheme Actuary's most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below).

Non-Financial instruments have been added to the table for reconciliation to the Net Investment Assets.

<b>Asset Type</b>	<b>Value as at 31 March 2017</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	3,638	1.1	3,678	3,598
<b>Investment Portfolio Assets</b>				
UK Bonds	41,288	5.5	43,559	39,017
UK Equities	12,667	16.0	14,694	10,640
Overseas Equities	31,580	20.5	38,054	25,106
Pooled – DGF	10,697	12.0	11,981	9,413
<b>Total Financial Instruments</b>	<b>99,870</b>		<b>111,966</b>	<b>87,774</b>
<b>Non-Financial Instruments</b>				
Property	0	N/A	0	0
<b>Total Assets Available to Pay Benefits</b>	<b>99,870</b>		<b>111,966</b>	<b>87,774</b>

<b>Asset Type</b>	<b>Value as at 31 March 2016</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	385	1.0%	389	381
<b>Investment Portfolio Assets</b>				
UK Bonds	37,135	6.0%	39,363	34,907
UK Equities	8,229	16.0%	9,546	6,912
Overseas Equities	40,075	20.5%	48,290	31,860
Pooled – DGF	0	12.0%	0	0
<b>Total Financial Instruments</b>	<b>85,824</b>		<b>97,588</b>	<b>74,060</b>
<b>Non-Financial Instruments</b>				
Property	0	N/A	0	0
<b>Total Assets Available to Pay Benefits</b>	<b>85,824</b>		<b>97,588</b>	<b>74,060</b>

Note:

The above table for 2015-16 was revised in accordance with new CIPFA asset categories.

### **Interest Rate Risk**

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks which represents the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2016 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>As at 31 March 2016</b>	<b>As at 31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	385	3,638
Cash Balances	1	2
Fixed Interest Securities	37,135	41,288
<b>Total</b>	<b>37,521</b>	<b>44,928</b>

### **Interest Rate Risk Sensitivity Analysis**

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100 basis point (BPS) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's has long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

<b>Asset Type</b>	<b>Carrying Amount as at 31 March 2017</b>	<b>Change in Year in the Net Assets Available to Pay Benefits</b>	
		<b>+ 100 BPS</b>	<b>- 100 BPS</b>
		<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	3,638	3,674	3,602
Cash Balances	2	2	2
Fixed Interest Securities	41,288	41,701	40,875
<b>Total Change in Assets Available</b>	<b>44,928</b>	<b>45,377</b>	<b>44,479</b>

Asset Type	Carrying Amount as at 31 March 2016	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	385	389	381
Cash Balances	1	1	1
Fixed Interest Securities	37,135	37,506	36,764
<b>Total Change in Assets Available</b>	<b>37,521</b>	<b>37,896</b>	<b>37,146</b>

### Currency Risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the Fund (£UK). The Fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Asset Value as at 31 March 2017
	£'000	£'000
Overseas Quoted Securities	0	0
Overseas Unit Trusts	40,075	31,580
Overseas Public Sector Bonds (Quoted)	0	0
<b>Total Overseas Assets</b>	<b>40,075</b>	<b>31,580</b>

### Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.7%.

This analysis assumes that all other variables, in particular interest rates, remain constant.

An 11.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2017</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+11.7%</b>	<b>-11.7%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	31,580	35,275	27,885
Overseas Public Sector Bonds (Quoted)	0	0	0
<b>Total Change in Assets Available</b>	<b>31,580</b>	<b>35,275</b>	<b>27,885</b>

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2016</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	40,075	44,083	36,067
Overseas Public Sector Bonds (Quoted)	0	0	0
<b>Total Change in Assets Available</b>	<b>40,075</b>	<b>44,083</b>	<b>36,067</b>

## **Credit Risk**

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market Fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2017 was £3,640,000 and at 31 March 2016 (£386,000). This was held with the following institutions:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2016 £'000</b>	<b>Balance as at 31 March 2017 £'000</b>
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	0	0
Deutsche Euro	AAAm	1	0
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	339	320
BNY Mellon	AAAm	45	0
BNP Paribas	AAAm	0	3,318
<b>Subtotal</b>		<b>385</b>	<b>3,638</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	1	2
<b>Total</b>		<b>386</b>	<b>3,640</b>

### Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings at all times.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2017 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2016 £0 which represented 0% of the total fund assets).

**Note 15: Breakdown of Long Term and Current Assets and Liabilities**

	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>	<b>378</b>	<b>350</b>
Employees' Contributions due	3	3
Employer's Contributions due	16	16
Sundry Debtors	266	159
	<b>285</b>	<b>178</b>
Bank	1	2
<b>Total Current Assets</b>	<b>286</b>	<b>180</b>
<b>Total Long Term and Current Assets</b>	<b>664</b>	<b>530</b>

<b>Analysis of Total Assets</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	378	350
Other Entities and Individuals	0	0
<b>Total Long Term Assets</b>	<b>378</b>	<b>350</b>
Central Government Bodies	43	31
Other Local Authorities	0	0
Other Entities and Individuals	242	147
<b>Total Current Assets</b>	<b>285</b>	<b>178</b>
<b>Total Long Term and Current Assets</b>	<b>663</b>	<b>528</b>

	<b>31 March 2016</b>	<b>31 March 2017</b>
<b>Current Liabilities</b>	<b>£'000</b>	<b>£'000</b>
Sundry Creditors	108	305
Benefits Payable	137	129
<b>Total Current Liabilities</b>	<b>245</b>	<b>434</b>

<b>Analysis of Liabilities</b>	<b>31 March 2016</b>	<b>31 March 2017</b>
	<b>£'000</b>	<b>£'000</b>
Other Local Authorities	0	0
Other Entities and Individuals	245	434
<b>Total Current Liabilities</b>	<b>245</b>	<b>434</b>

### **Note 16: Related Party Transactions**

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The cost of these services for the Aberdeen City Council Transport Fund was £37,567 (2016 - £35,456).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £320,000 (2016 - £339,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,265 (2016 - £1,698) for the Aberdeen City Council Transport Fund.

### **Note 17: Key Management Personnel**

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However they are not members of the Aberdeen City Council Transport Fund.

### **Note 18: Investment Principles**

A summary of the Statement of Investment Principles is available on the Pension Fund's website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and in the light of any change to the investment strategy of the Pension Funds.

## **Note 19: Critical Judgements in applying Accounting Policies**

### **Assumptions made about the future and other major sources of estimation uncertainty.**

The items in the net asset statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumption</b>
Actuarial present value of of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

## **Note 20: Events after the Balance Sheet Date**

The draft Statement of Accounts was authorised for issue by the Head of Finance on 23 June 2017. Events taking place after this date are not reflected in the Annual Accounts or notes. Where events taking place before this date provided information about conditions existing at 31 March 2017, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet event to report, the Fund continues to implement the approved De-Risking Investment Strategy.

# Appendix 1- Statement by the Consulting Actuary

## Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary

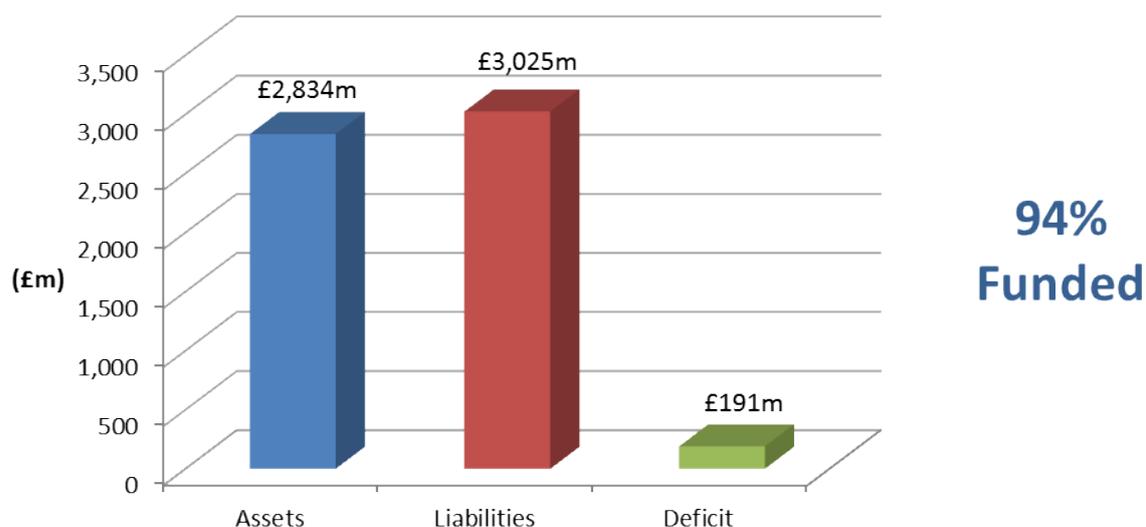
### ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2017 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

#### North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £2,834 million represented 94% of the Fund's past service liabilities of £3,025 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date. It allows for the new LGPS benefit structure effective from 1 April 2015.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

In practice, each individual employer's (or employer group's) position is assessed separately and the contributions required are set out in our report. In addition to the

certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution (of 19.3% of pensionable pay for the Council group which covers the majority of the Fund). This would be expected to remove the 31 March 2014 deficit over a period of 11 years if all the assumptions are borne out in practice.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.9% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

\* allowance was also made for short-term pay restraint over a 3 year period for some employers within the Fund.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2018.

### **Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases	3.5% per annum*	3.8% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the most recently completed actuarial valuation/funding update for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes, including those updated as part of the 2016 funding review. Full details of the 2014 actuarial valuation assumptions are set out in the formal report on the actuarial valuation dated March 2015. The assumptions used for the 2016 funding review have been issued separately to the Council.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to increase the liabilities significantly over the year.

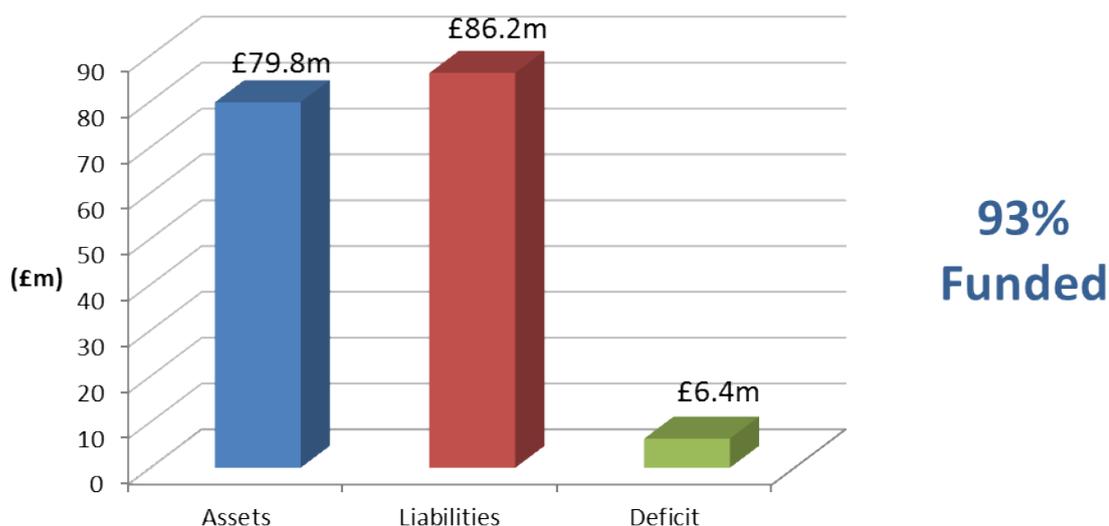
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £3,803 million. Interest over the year increased the liabilities by c£137million, and allowing for net benefits accrued/paid over the period also increased them by c£11 million (including any increase in liabilities arising as a result of early retirements / augmentations). There was then a further increase in liabilities of c£767 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 for IAS26 purposes is therefore £4,718 million.

## Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £79.8 million represented 93% of the Fund's past service liabilities of £86.2 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective is to achieve and then maintain a funding level of 100% of the Fund's past service liabilities. As part of the negotiations with the employer it has been agreed that contributions will be maintained at the 2014 level (33.0% of pensionable pay plus £1,500,000 per annum). If all assumptions are borne out in practice this would be expected to remove the 31 March 2014 deficit over a period of 6-7 years. Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

The valuation was carried out using the projected accrued defined benefit method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	3.65% per annum	3.65% per annum
Rate of pay increases*	5.1% per annum	5.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.1% per annum	3.1% per annum

\* allowance was also made for short-term pay restraint over the 4 years following the valuation at the rate of CPI inflation

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2018.

### Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.5% per annum	2.5% per annum
Rate of pay increases	4.0% per annum*	4.3% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

\* includes a corresponding allowance to that made in the most recently completed actuarial valuation/funding update for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes, including those updated as part of the 2016 funding review. Full details of the 2014 actuarial valuation assumptions are set out in the formal report on the actuarial valuation dated March 2015. The assumptions used for the 2016 funding review have been issued separately to the Council.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.5% p.a.). The expected long-term rate of CPI inflation increased

during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served significantly to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £75.3 million. Interest over the year increased the liabilities by c£2.6 million, and allowing for net benefits accrued/paid over the period reduced them by c£3.0 million (including any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of c£10.7 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 for IAS26 purposes is therefore £85.6 million.

**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**May 2017**

# Appendix 2 – Schedule of Employers

## North East Scotland Pension Fund

1. Aberdeen City Council (Administering Authority)	Scheduled
2. Aberdeenshire Council	Scheduled
3. The Moray Council	Scheduled
4. Scottish Water	Scheduled
5. Grampian Valuation Joint Board	Scheduled
6. Scottish Fire and Rescue Authority	Scheduled
7. Scottish Police Authority	Scheduled
8. North East Scotland College	Scheduled
9. Moray College	Scheduled
10. Visit Scotland	Scheduled
11. NESTRANS	Scheduled
12. Robertson Facilities Management (Shire)	Transferee
13. Bon Accord Care Ltd	Transferee
14. Bon Accord Support Services Ltd	Transferee
15. Aberdeen Heat & Power	Transferee
16. Station House Media Unit	Transferee
17. Aberdeen Sports Village	Transferee
18. Aberdeen Sports Trust	Transferee
19. Robertson Facilities Management (City)	Transferee
20. Forth & Oban	Transferee
21. Drugs Action	Transferee
22. The Landscaping Group	Transferee
23. Visit Aberdeenshire	Transferee
24. Citymoves Dance Agency	Transferee
25. Xerox Ltd	Transferee
26. Northern Community Justice Authority	Admitted
27. Aberdeen Endowments Trust	Admitted
28. North East Sensory Services	Admitted
29. Aberlour Child Care	Admitted
30. Fraserburgh Harbour Commissioners	Admitted
31. Peterhead Port Authority	Admitted
32. Robert Gordons University	Admitted
33. Robert Gordon's College	Admitted
34. Aberdeen Cyrenians	Admitted
35. Mental Health Aberdeen	Admitted
36. Fersands & Fountain Community Project	Admitted
37. SCARF	Admitted
38. Inspire	Admitted
39. Manor Project	Admitted
40. Archway	Admitted
41. Middlefield Community Project	Admitted
42. Gordon Rural Action	Admitted
43. St Machar Parent Support Project	Admitted
44. Printfield Community Project	Admitted
45. HomeStart Aberdeen	Admitted
46. Aberdeen Foyer	Admitted
47. HomeStart (NEA) Fraserburgh	Admitted

48. Aberdeen Greenspace	Admitted
49. Pathways	Admitted
50. Cairngorms Outdoor Access Trust	Admitted
51. Aberdeenshire Housing Partnership	Admitted
52. Aberdeen Performing Arts	Admitted
53. Aberdeen International Youth Festival	Admitted
54. Sanctuary Housing	Admitted
55. Tenants First Housing Co-op	Admitted
56. Scottish Lighthouse Museum	Admitted

**Aberdeen City Council Transport Fund**

1. First Aberdeen	Scheduled
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## ABERDEEN CITY COUNCIL

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COMMITTEE	Pensions Committee
DATE	23 June 2017
TITLE OF REPORT	Internal Audit Plan 2017/18
REPORT NUMBER	IA/17/013
DIRECTOR	N/A
AUTHOR	David Hughes

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### 1. PURPOSE OF REPORT

The purpose of this report is to seek approval of the attached Internal Audit plan for 2017/18.

### 2. RECOMMENDATION

It is recommended that the Committee approve the attached Internal Audit Plan for 2017/18.

### 3. BACKGROUND/MAIN ISSUES

- 3.1 It is one of the functions of the Audit, Risk and Scrutiny Committee to review the activities of the Internal Audit function, including the approval of the Internal Audit Plan for Aberdeen City Council. However, the remit of that Committee does not extend to Internal Audit issues relating to the Pension Fund. This is reserved to the Pensions Committee.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2017/18, along with the methodology for determining the areas to be reviewed, has already been approved by the Audit, Risk and Scrutiny Committee.
- 3.3 The audit included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.4 Internal Audit's work will be undertaken in compliance with Public Sector Internal Audit Standards and Aberdeen City Council's Internal Audit Charter

as approved by the Audit, Risk and Scrutiny Committee on 9 March 2016.

**4. FINANCIAL IMPLICATIONS**

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

**5. LEGAL IMPLICATIONS**

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

**6. IMPACT SECTION**

6.1 An equality impact assessment is not required because the reason for this report is for Committee to approve the Internal Audit Plan and there will be no differential impact, as a result of this report, on people with protected characteristics.

**7. REPORT AUTHOR DETAILS**

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[David.Hughes@aberdeenshire.gov.uk](mailto:David.Hughes@aberdeenshire.gov.uk)  
(01224) 664184

## Appendix A

### INTERNAL AUDIT PLAN 2017/18

#### North East Scotland Pension Fund

SUBJECT	SCOPE	OBJECTIVE
Pensions Systems	Pensions Systems	Consider whether appropriate control is being exercised over the system, including contingency planning and disaster recovery, and its data input, and that interfaces to and from other systems are accurate and properly controlled.

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COMMITTEE	PENSIONS COMMITTEE
DATE	23 JUNE 2017
REPORT TITLE	BUDGET/FORECAST & ACTUAL SPEND 2016/17 BUDGET/FORECAST 2017/18
REPORT NUMBER	PC/JUN17/BUD
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	MICHAEL SCROGGIE

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## **1. PURPOSE OF REPORT:-**

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget or Forecast and Actual Spend 2016/17 for the North East Scotland Pension Fund (NESPF) and a proposed Budget or Forecast for 2017/18.

## **2. RECOMMENDATION(S)**

- 2.1.1 It is recommended that the Committee:

- i. Notes the update on the NESPF Management Expenses Budget/Forecast and Actual Spend for 2016/17;
- ii. Approves the indicative NESPF Management Expenses Budget/Forecast 2017/18.

## **3. BACKGROUND/MAIN ISSUES**

### **3.1 BUDGET / FORECAST AND ACTUAL SPEND 2016/17 BUDGET / FORECAST 2017/18 (APPENDIX I)**

- 3.1.1 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.
- 3.1.2 Oversight and Governance Expenses – all staff costs associated with governance and oversight are charged direct to the fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.3 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. 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.

### **3.2 GOVERNANCE**

- 3.2.1 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.

### **4. FINANCIAL IMPLICATIONS**

- 4.1 All Pension Fund costs are paid for by the Fund.

### **5. LEGAL IMPLICATIONS**

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

### **6. MANAGEMENT OF RISK**

- 6.1 There are no direct risk implications arising from the recommendation of this report.

### **7. IMPACT SECTION**

- 7.1 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.

### **8. BACKGROUND PAPERS**

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

### **9. APPENDICES (if applicable)**

- 9.1 Appendix I, Budget/Forecast and Actual Spend 2016/17, Budget/Forecast 2017/18

### **10. REPORT AUTHOR DETAILS**

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01224 264178

#### **HEAD OF SERVICE DETAILS**

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**Appendix I - BUDGET / FORECAST AND ACTUAL SPEND 2016/17  
BUDGET / FORECAST 2017/18**

The Budget and Actual Spend 2016/17 and Indicative Budget 2017/18 for NESPF Administration Expenses are shown below:

	Notes	Full Year Budget 2016/17 £'000	Actual Spend 2016/17 £'000	Over or (Under) 2016/17 £'000	Budget 2017/18 £'000	Notes
Administrative Staff Costs	1	975	971	(4)	1,144	4
Support Services Inc IT	2	550	564	14	575	5
Printing & Publications	3	32	29	(3)	30	6
<b>Administration Expenses Total</b>		<b>1,557</b>	<b>1,564</b>	<b>5</b>	<b>1,749</b>	

**Notes to the 2016/17 actual spend:**

1. Timing of implementation of new staff structure
2. Additional costs due to maintenance of new software systems, (members self service, GMP and i-connect)
3. Move to digital delivery of publications

**Notes to the 2017/18 budget:**

4. As per the budget report to full council (February 2017)
5. As per the budget report to full council (February 2017) plus a percentage increase for software/systems
6. Move to increased digital delivery, should contain spend

**Appendix A - BUDGET / FORECAST AND ACTUAL SPEND 2016/17  
BUDGET / FORECAST 2017/18 (continued)**

The Budget and Actual Spend 2016/17 and Indicative Budget 2017/18 for NESPF Oversight & Governance Expenses are shown below:

	Notes	Full Year Budget 2016/17 £'000	Actual Spend 2016/17 £'000	Over or (Under) 2016/17 £'000	Budget 2017/18 £'000	Notes
Investment Staff Costs	1	102	131	29	157	8
Pension Fund Committee	2	4	11	7	15	9
Pension Board	3	1	2	1	5	10
External Audit Fee	4	45	32	(13)	35	11
Internal Audit Fee	5	8	7	(1)	10	12
Actuarial Fees	6	104	112	8	100	13
General Expenses	7	87	173	86	150	14
<b>Oversight &amp; Governance Expenses Total</b>		<b>351</b>	<b>468</b>	<b>117</b>	<b>472</b>	

**Notes to the 2016/17 actual spend:**

1. Timing of implementation of the new staffing structure
2. Additional costs arising from training events
3. Additional costs arising from training events
4. Reduction expected in External Audit Fee for 2016/17
5. Slight underspend on Internal Audit Fees
6. Additional costs due to interim valuation
7. Additional costs due to investment consultancy, implementation of agreed changes to investment strategy

**Notes to the 2017/18 budget:**

8. As per budget report to full council (February 2017)
9. Increase due to additional training requirements
10. Increase due to additional training requirements
11. Percentage increase on previous year
12. Percentage increase on previous year
13. Increasing inhouse skills should contain spend
14. Increasing inhouse skills should contain spend

**Appendix A – BUDGET / FORECAST AND ACTUAL SPEND 2016/17  
BUDGET / FORECAST 2015/17 (continued)**

The Forecast and Actual Spend 2016/17 and Indicative Forecast 2017/18 for NESPF Investment Management Expenses are shown below:

	Notes	Full Year Forecast 2016/17 £'000	Actual Spend 2015/16 £'000	Over or (Under) 2015/16 £'000	Forecast 2016/17 £'000	Notes
Investment Management	1	11,297	10,667	(630)	11,200	6
Performance Fees	2	6,117	4,202	(1,915)	4,620	7
Direct Property Expenses	3	128	347	219	400	8
Transaction Costs	4	1,077	1,117	40	1,200	9
Custody Fees	5	150	122	(28)	135	10
<b>Investment Management Expenses Total</b>		<b>18,769</b>	<b>16,455</b>	<b>(2,314)</b>	<b>17,555</b>	

**Notes to the 2016/17 actual spend:**

1. Mainly arising from the revised CIPFA guidance on Accounting for Management Costs
2. Mainly arising from the revised CIPFA guidance on Accounting for Management Costs
3. Forecast based on Fund Manager projected spend, additional costs incurred in the management of the Fund's properties
4. Transactions costs will fluctuate depending on Fund Manager activity
5. Custody fees will fluctuate depending on Fund Manager activity

**Notes to the 2017/18 budget:**

6. Increase based on market value of assets
7. Increase based on market value of assets
8. Increase based on market value of assets and potential asset management
9. Increase based on market value of assets and potential Fund Manager activity
10. Increase based on market value of assets and potential Fund Manager activity

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

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COMMITTEE	PENSIONS COMMITTEE
DATE	23 JUNE 2017
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/JUN17/STRATEGY
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	LAURA COLLISS

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### 1. PURPOSE OF REPORT:-

- 1.1 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)

- 2.1 It is recommended that the Committee:
- i. Note the report
  - ii. Approve the change in staff resources as stated in 3.6.1

### 3. BACKGROUND/MAIN ISSUES

- 3.1 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 service updates 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.

### 3.2 **INVESTMENT**

#### 3.2.1 *Asset & Investment Manager Performance Report Investment Strategy Update Report*

*Separate Reports, provided.*

### 3.3 **ACCOUNTING**

*Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Annual Report & Accounts*

*Budget/Forecast and Actual Spend 2016/17 and Budget/Forecast 2017/18*

*Separate Reports, provided.*

### 3.4 **BENEFIT ADMINISTRATION**

#### 3.4.1 **Late Retirement Factors**

The retirement benefits which members receive from the Local Government Pension Scheme are increased if they retire later than their normal pension age which is now linked to state pension age (or age 65, whichever is later). These 'late retirement' factors are subject to periodic review by the Scottish Ministers.

New factors will come into effect from 24<sup>th</sup> June 2017.

These new factors are significantly different to the previous ones. To give members advance warning of the change, information was put on the NESPF website and on scheme documentation. In addition a letter was issued directly to all members approaching or over age 65 advising them of the change. Members considering retirement were directed to the online Member Self Service facility. Further information is available at <http://www.nespf.org.uk/QuickLinks/LateRetirement.aspx>.

#### 3.4.2 **Parallel Running**

Aquila Heywood (the provider of the Altair system) is in the process of moving from Java to Cobol. This migration will take place in the background and we do not anticipate there being any issues. However it will be necessary to make sure all the Fund's bespoke pensions payroll items are still working accurately. To achieve this the benefit administration team will be carrying out double entry of all payroll items e.g. pensioner retirements, deaths etc, for both the June and July payroll. This will allow adequate checks to be carried out before the changes go live. Every pay run will need to be processed twice and the results compared to ensure accuracy.

#### 3.4.3 **Overseas Payments through Western Union**

The Fund is in the process of streamlining its processes in relation to our overseas pensioner payments which are currently made through Western Union. By taking up access to Global Pay, which is the payment platform used by Western Union to process payments, it will allow us to directly upload monthly payment details, make

changes to member details and input new members. New procedures will be put in place to ensure data input is accurate.

This new process will enable the Fund to have a greater degree of control over its overseas payments.

#### 3.4.4 **Severance Policy**

The Scottish Government has launched a consultation exercise on severance (exit payment) arrangements across the public sector, including capping exit payments which could take in early retirement costs/compensatory added years. The exercise will seek opinion on four different policy options; maintain the status quo, non-legislative change, replicate UK arrangements or a hybrid approach. The consultation closes on 23 June 2017, with the Government's response due to be published during summer 2017.

A copy of the consultation paper can be found at <http://www.gov.scot/Resource/0051/00516169.pdf>

### 3.5 **TECHNICAL**

#### 3.5.1 Appendix I, Pensions Administration Strategy Update

### 3.6 **GOVERNANCE**

#### 3.6.1 **Pension Fund Staff Appointments**

Following internal advertisement of the Pension Officer – Accounting post a candidate was successfully appointed and is settling into the role, during what is a particularly busy time for the Accounting Team preparing the Annual Report & Accounts.

Interviews took place in mid-May for the Trainee Pension Officer – Benefit Administration post and an appointment to the post is underway.

#### **Pension Fund Staff Structure**

Following the implementation of the restructure on 1 April 2016, officers have been monitoring and reviewing the structure that was put in place. In March 2017 approval was given to add two further Pension Officer posts, one within Investments and the other within the Employer Relationship team. These posts are awaiting advertisement.

Further to the above the Fund now seeks approval to remove a Pension Officer Technical post and add a further Trainee Pension Officer Benefits post.

The Structure is constantly under review, reacting to continual change and pressure on resources, the Fund is experiencing an increase in Benefit activity and this post will provide support to the existing team and assist in succession planning.

The above changes have no impact on the current budget due to both posts being of equal pay grades (Appendix II, Staff Structure Chart (May 2017)).

### 3.6.2 Pension Fund Staff Training

Internal training sessions for Pension Fund staff have been taking place over recent months covering a range of topics to provide staff with a better overview of all areas within pensions, including;

- Benefit Administration (IT & record keeping)
- Governance (legislation, Scheme governance, regulatory bodies, communication, risk and customer service)
- Investment (governance, performance & risk management)
- Employer Relationships and Actuarial Services

Further training sessions are planned for later in the year to cover corporate governance and accounting.

Staff training plans have been implemented for Pension Fund staff, with training being monitored going forward and reported to Committee on an annual basis.

### 3.6.3 Breaches of Law

There were 32 separate breaches of law recorded in the Breaches Register during 2016/17. The majority of these were due to Scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions or not providing the Fund with a copy of their discretions policy.

There were no reports made to the Pensions Regulator as these breaches were not deemed to be of material significance i.e. the cause of the breach was identified and steps put in place to rectify or prevent future reoccurrence.

The Pension Fund will continue to engage with employers throughout 2017/18. We will continue to monitor breaches and where patterns are identified through the Register, work with employers to provide additional training or support. Minor issues will be communicated through our quarterly employer email bulletins.

### 3.6.4 Scheme Advisory Board

Scheme Advisory Board website available at <http://lgpsab.scot>

Appendix III, Latest SAB Update

### 3.6.5 Governance Review

In their role as pensions policy advisers to the Scottish Government, the Scottish Public Pensions Agency (SPPA) was charged with the design and delivery of the new governance arrangements introduced under the Public Service Pensions Act 2013, which included undertaking a review within the first two years of operation. KPMG, on behalf of SPPA, recently published their Governance Review report. Overall the findings of the review were very positive, with the consensus being that the new arrangements were working well despite having only being in operation for a short period of time. The SAB will now give further consideration to the relevant recommendations of the report.

### 3.6.6 Pension Board

Appendix IV, Pension Board Annual Report 2016/17

### 3.6.7 Pension Committee & Board Training Plan

*Separate report, provided*

### 3.6.8 Document Updates

The following documents have been updated:

- Compliance with the Myners Principles (available at [www.nespf.org.uk](http://www.nespf.org.uk))
- Cash Management Manual (see Appendix V)

A Complaint Handling Policy has also been put together for internal use by Pension Fund staff, which should ensure all staff are responding in a consistent and professional manner when dealing with customer complaints. A copy of the policy is attached at Appendix VI.

## 3.7 EMPLOYER RELATIONSHIP

### 3.7.1 Employer Update

Following the liquidation of Moray Anchor Project at the end of 2016 and the initial meeting of the creditors in January 2017, there have been no further updates from the appointed liquidator.

Recent months have also seen a number of terminations from the Scheme;

- Northern Community Justice Authority ceased to exist on 31 March 2017. The termination fee will be paid by the Scottish Government and is currently being calculated by the Actuary.
- Manor Project ceased trading on 31 March 2017. Aberdeen City Council acts as guarantor for Manor Project. The termination fee is still to be calculated by the Actuary.
- Visit Aberdeenshire's only member left on 29 April 2017 triggering the termination process. Aberdeenshire Council acts as guarantor for Visit Aberdeenshire. The termination fee is currently being calculated by the Actuary.

## 4. FINANCIAL IMPLICATIONS

- 4.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long term liabilities.

## 5. LEGAL IMPLICATIONS

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

## **6. MANAGEMENT OF RISK**

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

Appendix VII, Copy of Risk Register (updated May'17)

## **7. IMPACT SECTION**

- 7.1 The Pension Committee has a fiduciary duty to monitor the Pension Fund Strategies across all areas and timelines to deliver a timely, accurate and compliant service to all stakeholders.

## **8. BACKGROUND PAPERS**

- 8.1 None

## **9. APPENDICES**

- 9.1 Appendix I, Pension Administration Strategy  
Appendix II, Staff Structure Chart  
Appendix III, SAB Latest Update  
Appendix IV, Pension Board Annual Report 2016/17  
Appendix V, Cash Management Manual  
Appendix VI, Complaints Handling Policy  
Appendix VII, NESPF Risk Register

## **10. REPORT AUTHOR DETAILS**

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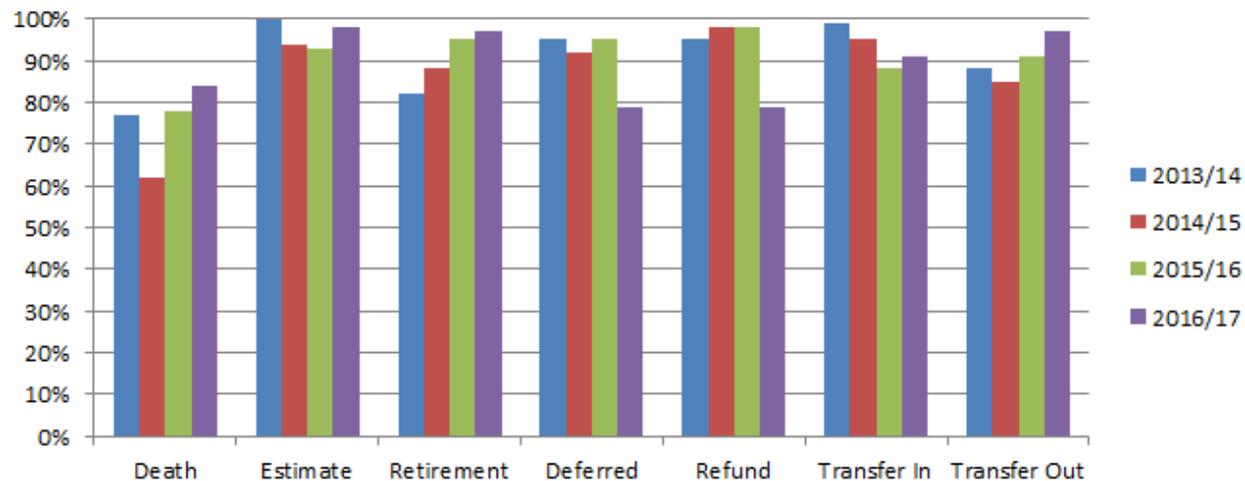
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## Performance Reporting as at 31 March 2017

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 31 March 2017** 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	45	38	84%
Notification of retirement estimate	10 days	926	911	98%
Notification of retirement benefits	10 days	1372	1337	97%
Notification of deferred benefits	10 days	1627	1291	79%
Notification of refund	10 days	1459	1157	79%
Notification of transfer in value	10 days	96	87	91%
Notification of transfer out value	10 days	293	284	97%
Benefit statements issued to active members prior to 31 August 2016	100%	23398	23308	99%



**“Five of the seven measurements exceeded 2015/16 performance and changes introduced in February should see Deferred and Refund processing return to previous year’s level of performance during 2017/18”**

## 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
207	80	104

### I-Connect event processing during 2016/17

Starters	Amendments	Leavers	Contributions	Salaries	CARE Pay
4029	12430	3256	184205	178650	176274

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

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

**559,235**

For more information on electronic data submission please contact Employer Relationship Team at [employer@nespf.org.uk](mailto:employer@nespf.org.uk).

## Electronic Data Quality from Employers

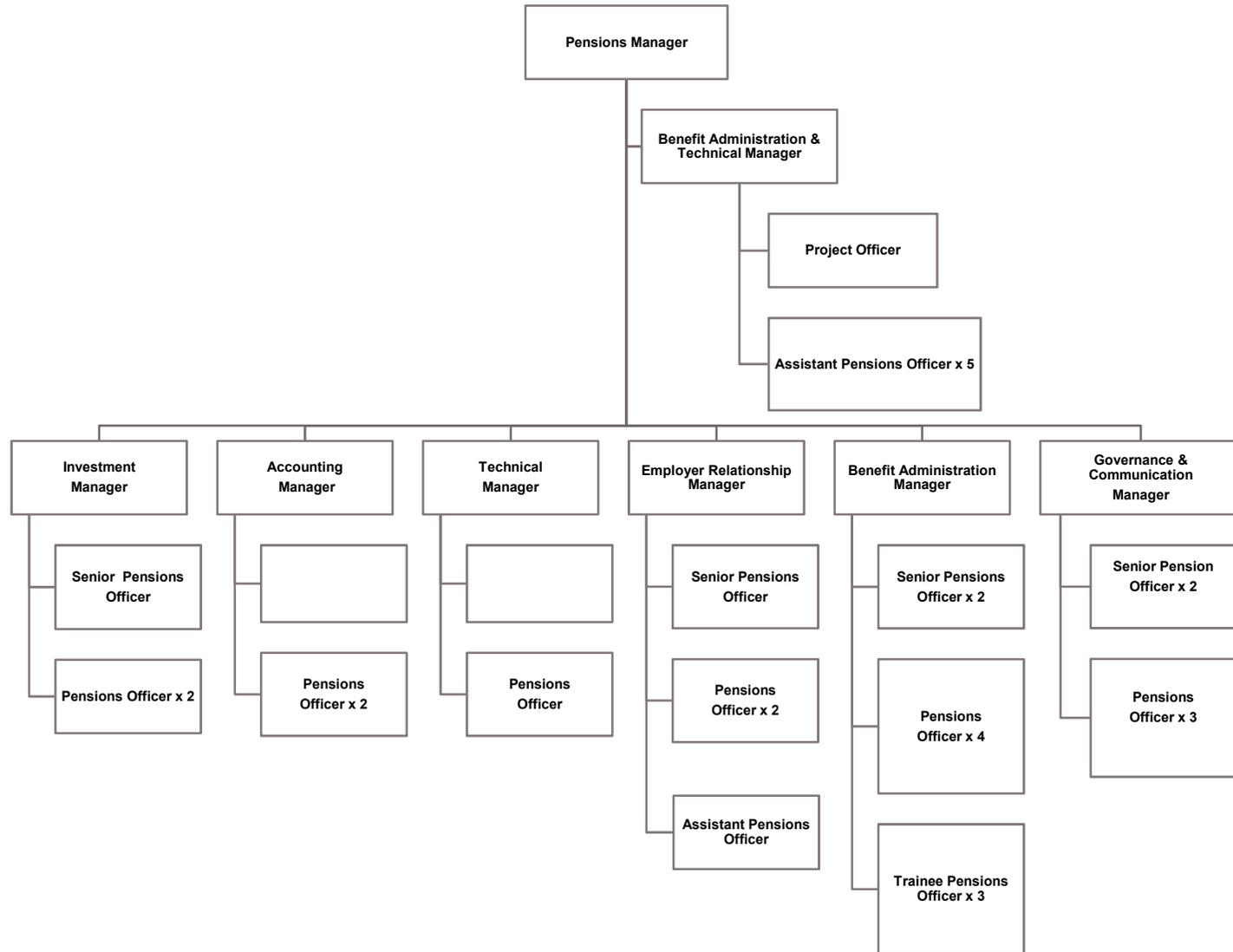
NESPF monitor the quality as well as the quantity of data provided by employers using Employer Services and I-Connect. Data is classed as being of high, medium or low quality depending on amount of events/interface updates successfully processed and validated.

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	H	H	H	H	H	H
Aberdeenshire Council	I-Connect										M	M	M
Bon Accord Care	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
Grampian Valuation Joint Board	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
NESTRANS	I-Connect										M	M	H
Northern Community Justice Association	I-Connect										H	H	M
Police Scotland	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
The Moray Council	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
The Robert Gordon University	I-Connect	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	Emp Services	H											
Aberdeen Foyer	Emp Services		H										
Aberlour	Emp Services		H	H					H			H	
First Bus	Emp Services						H	H	H			H	H
Moray College	Emp Services	H	H	H	H	H	H	H	H	H	H	H	H
North East Scotland College	Emp Services	H	H	H	H	H	H		H	H	H	H	
North East Sensory Services	Emp Services								H			H	H
Osprey Housing	Emp Services		H					H	H	H			H
Outdoor Access Trust Scotland	Emp Services			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	H	H	H	H	H	H

**“Monthly submissions helps NESPF comply with new scheme and The Pensions Regulator requirements”**

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# North East Scotland Pension Fund Structure 2017



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May 2017

## **BULLETIN**

### **GAD s13 Dry Run Report**

The Public Service Pensions Act provides for an independent review of the valuation and employer contribution rates in pension schemes and the Government Actuary's Department (GAD) has been appointed to do this for the SLGPS. GAD reported to the last SAB on their first 'dry run'.

Their report states that all our funds operate in accordance with the SLGPS regulations. They identified differences in the way information is presented and work is ongoing amongst actuarial firms and funds to address inconsistencies. They noted different financial assumptions, which may reflect local circumstances, although the evidence at this stage is limited.

GAD has developed a solvency dashboard that identifies risks, although there are relatively few of these in the SLGPS. They also concluded that employer contributions are set at an appropriate level to ensure the long-term cost efficiency of the scheme.

Overall there were few significant concerns and the first formal report will be undertaken following the 2017 valuations.

### **Structure Review**

The working group on the structural review of pension funds in Scotland presented an options paper to the SAB. It was agreed to present these options with no specific recommendations to the Cabinet Secretary for Finance and discuss with him arrangements for wider stakeholder consultation.

### **Pensionable Pay**

Agreement has been reached on revised wording for the HR guide on the treatment of pay protection as pensionable pay. The revised guide gives examples of what is, and what is not pensionable pay, to assist local negotiations.

### **GMP indexation/equalisation**

HM Treasury is consulting over three options. The SAB's response expressed a preference for the option which would convert the GMP element into the scheme on a 1:1 basis, with indexation applied to the full pension. It also argues that the additional cost burden should be met by the UK Government.

### **Governance Review**

The public sector pension governance review has been published with a series of recommendations to strengthen governance in all schemes. The SAB has responded to the report and will give further consideration to the relevant recommendations.

### **Pension Developments**

The SAB was updated on the recommendations of the Cridland review of the State Pension age which has implications for the Normal Retirement Age in the SLGPS.

The Financial Conduct Authority is consulting over measures to address investment management fee transparency and competition.

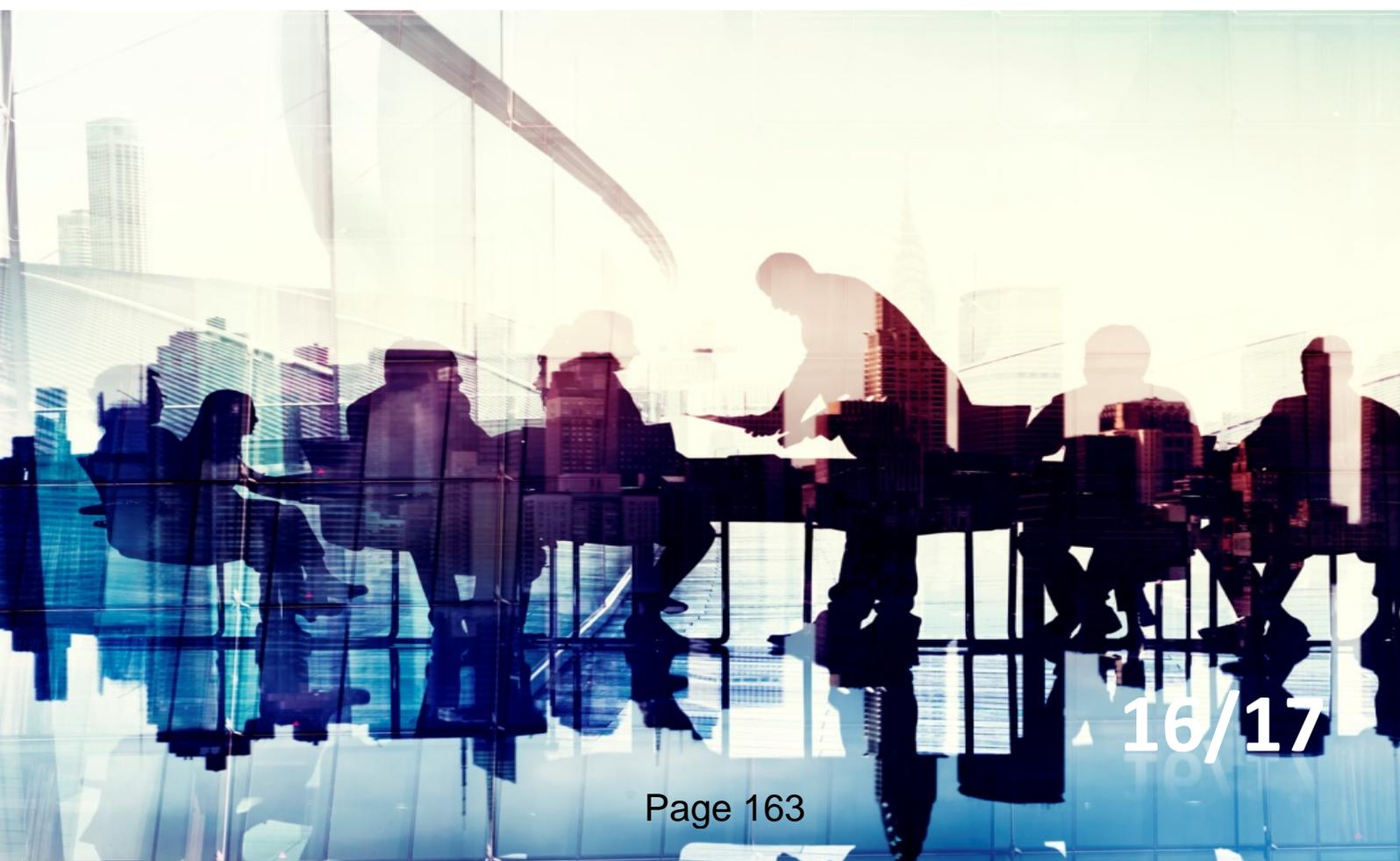
The Scottish Government is consulting over a new severance policy for Scotland. This has implications for the redundancy provisions of the SLGPS.

Further details on our website [www.lgpsab.scot](http://www.lgpsab.scot)

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# NESPF Pension Board Annual Report

For the period 1 April 2016 to 31 March 17



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## Introduction

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This is the 2016/17 annual report of the North East Scotland Pension Board.

The NESPF Pension Board is required by The Public Service Pensions Act 2013 and has responsibility for 'assisting the Scheme manager' in securing compliance with all relevant regulations in respect of the Local Government Pension Scheme (Scotland), as well as with the Pension Regulator's *Code of Practice no.14 Governance and Administration of Public Service Pension Schemes*.

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2016/17.

## Legal Background to the Local Pension Board

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Lord Hutton was asked to conduct a wide ranging review into public service pensions on behalf of the Independent Public Service Pensions Commission (IPSPC) and his final report was published in March 2011. In the report a series of reforms were proposed which Lord Hutton believed would allow public service employees to continue to have access to good quality, sustainable and fairer defined benefit pension schemes for the foreseeable future.

One of the key recommendations was the introduction of a new formal regulatory framework to ensure independent review of the governance of public sector pension schemes. This included a properly constituted and trained Pensions Board at both national and local level for the Local Government Pension Scheme (LGPS), with overall responsibility for governance and administration and formal member representation.

In response to the report recommendations, The Public Service Pension Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 were subsequently introduced.

These two pieces of legislation brought about changes in governance arrangements for the LGPS, including the requirement for each administering authority to establish a local pension board to assist them in running the pension fund from 1 April 2015.

## The Role of the NESPF Pension Board

---

The role of the local pension board is to assist the 'Scheme manager' (i.e. Aberdeen City Council as the administering authority) in:

- Securing compliance with the 2014 LGPS Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension Scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator (tPR);
- Such other matters as the Scheme regulations may specify

The pension board has a monitoring, assisting and reviewing purpose rather than being a decision making body.

## Regulatory Oversight by the Pensions Regulator (tPR)

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The Public Service Pension Act 2013 also gave the Pensions Regulator (tPR) an expanded role to regulate the governance and administration of public service pension schemes from 1 April 2015.

In carrying out their role, tPR are guided by two statutory objectives; to protect the benefits of members of occupational pension schemes, and to promote and to improve the understanding of, the good administration of work based pension schemes.

The aims of tPR in relation to the regulation of public service pension schemes are:

- To understand governance and administration practices within public service schemes and make clear the standards and practices that are expected,
- To improve governance and administration standards and practices across all schemes, and
- To support those responsible for complying with legal requirements so that those requirements are met.

Code of Practice No. 14 sets out the standards of conduct and practice tPR expect of those responsible for public service schemes, as well as practical guidance on how to comply with the legal requirements.

Code of Practice No. 14 is structured as a reference for scheme managers and pension boards to use to inform their actions in four core areas of scheme governance and administration;

Governing the scheme	Knowledge and understanding required by pension board members Conflicts of interest and representation Publishing information about schemes
Managing risks	Internal controls
Administration	Scheme record-keeping Maintaining contributions Providing information to members
Resolving issues	Internal dispute resolution Reporting Breaches of the Law

The Code sets out, under each of the core sections, practical guidance to help scheme managers and pension boards discharge their legal duties.

## The North East Scotland Pension Fund Pension Board

---

The terms of reference for the NESPF pension board can be found in [Appendix I](#).

### Membership during 2016/17

The NESPF pension board is made up of an equal number of trade union and employer representatives;

#### **Unison**

Mr James Mulholland (Vice Chair) *left Jan'17*  
Morag Lawrence *substitute from March'17*

#### **GMB**

Mr Kevin Masson

#### **Unite**

Mr Alan Walker

#### **UCATT**

Vacant

#### **Admitted/Scheduled Bodies**

Mr David Briggs (Robert Gordon's University) *left Sept'16*  
Ms Marie Hart (Police Scotland) *joined Jan'17*

#### **The Moray Council**

Councillor John Cowe

#### **Aberdeenshire Council**

Councillor William Howatson (Chair)

#### **Aberdeen City Council**

Councillor Len Ironside

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015 the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Councillor Howatson as the employer representative Chair for 2016/17, a member representative from the trade union will be required to act as Chair in 2017/18.

No appointment was made during 2016/17 in terms of the vacant trade union position (UCATT).

### Meeting Attendance (for 2016/17)

In compliance with the LGPS (Governance)(Scotland) Regulations 2015, the Pension Board;

- is to meet at the same place and time as the Pension Committee of the Scheme manager to consider the same agenda as the Committee, but
- the Pension Board may meet separately from the Pension Committee with the agreement of the Pension Committee.

Board Member	Meetings & Attendance				
	13/05/2016	24/06/2016	19/09/2016	02/12/2016	10/03/2017
<b>Employer</b>					
Cllr Len Ironside	X	✓	X	X	X
Cllr William Howatson	✓	✓	✓	✓	X
Cllr John Cowe	X	✓	X	✓	✓
David Briggs	X	X			
Marie Hart					✓
<b>Union</b>					
James Mulholland	✓	✓	✓	X	
Morag Lawrence					✓
Alan Walker	✓	✓	X	✓	✓
Kevin Masson	X	✓	✓	✓	X
<b>Overall Attendance Rate</b>	<b>42%</b>	<b>86%</b>	<b>50%</b>	<b>67%</b>	<b>57%</b>

Both active participation during meetings and a willingness to undertake training, indicate the commitment of Board members to the continued effectiveness of the NESPF Pension Board.

### Meeting Content

The Pension Board receive the Pension Committee reporting pack for each meeting which includes reports covering all six main areas of work for the Pension Fund; investment, accounting, governance, employer relationship, administration and technical.

The following reports were included as standard in the reporting packs during 16/17:

Asset & Investment Manager Performance  
 Investment Strategy  
 Budget & Projected Spend  
 Strategy

In addition, the Committee also received reports on:

Training	Statement of Accounts
New Admitted Body	Corporate Governance
Actuarial Valuation	Risk Management
Employer Covenant	Governance Review
Pension Fund staff restructure	Annual Report & Account
Internal Audit	External Audit

### Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money.

During the period 2016/17 the cost of administering the Pension Board was as follows:

Area	Costs
Travel Costs	<b>£1,283.41</b>
Allowances/Other	<b>£275.02</b>
<b>Total</b>	<b>£1,558.43</b>

\*includes loss of earnings to attend meetings/training

### Training Requirements

A member of the pension board must have **knowledge and understanding** of the law relating to pensions and any other matters which are prescribed in the regulations.

The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board. These responsibilities begin from the date the member takes up their role in the pension board.

A member of the pension board of a public service pension scheme must be **conversant** with the rules of the Scheme and any document recording policy about the administration of the Scheme which is for the time being adopted in relation to the Scheme.

The Pensions Regulator *Code of Practice no.14* sets out the legal requirements for the knowledge and understanding requirements of pension board members. The Pension Fund must be able to demonstrate scheme compliance with the Code.

These first two years have seen the Board focus primarily on developing its role, ensuring members receive appropriate training to enable them to fulfil their responsibilities.

The NESPF Pension Board agreed a training plan during its initial meeting on 23 April 2015, which is subject to regular review and an annual training report is presented to the Pension Committee.

A copy of the training policy can be found at [Appendix II](#). There were no changes made to the policy during 2016/17.

Training for Board members is provided in line with the NESPF Training Policy and covers the following areas:

- Scheme Governance
- Investment Strategy
- Support Services
- Scheme Documentation

Board members are expected to carry out a personal training needs analysis on an annual basis to assess their overall level of 'knowledge and understanding'.

### Training Attendance during 2016/17

Board Member	1/2 Sept 2016	5/6 Oct 2016	12 Dec 2016
Cllr Len Ironside	X	X	X
Cllr William Howatson	X	X	✓
Cllr John Cowe	X	✓	X
David Briggs			
Marie Hart			
James Mulholland	✓	✓	X
Alan Walker	✓	✓	X
Kevin Masson	X	X	X
<b>Overall Attendance Rate</b>	<b>33%</b>	<b>50%</b>	<b>16%</b>

The training on the 1<sup>st</sup>/2<sup>nd</sup> September 2016 took place over two whole days at the Barings Offices in London. Training was carried out by the Fund Managers on the following topics:

<b>Blackrock</b>	Diversified Growth Strategy, Asset Allocation & Risk Macro Research Private Equity Co-Investment Infrastructure Opportunities in Renewables Global Renewable Power Funds
<b>Baillie Gifford</b>	Benchmarks How a portfolio is set up Their Approach Portfolio Characteristics Performance
<b>Barings</b>	Gilt Bonds Corporate Bonds Inflation Linked Bonds Building a Bond Portfolio Currency Positions
<b>SSGA</b>	Worldwide Economic Outlook for 2016 Brexit Dynamic Strategic Hedging
<b>Partners Group</b>	Bottom-up Investment Strategy Case study to show what's involved in each potential Private Equity investment. How they chose it, how its run and the interaction with the current owners.
<b>Aberdeen Property Investors</b>	UK Property Market Investment Approach & Process Examples of Approach in Action Residential Private Rented Sector
<b>Invesco Perpetual</b>	Global Targeted Returns Fund. Return, Volatility, Portfolio. 3 Step Process, Research, Fund Management and Implementation

Research – Approving Ideas  
 Implementing – Structured Review Process, Daily, Weekly and  
 Monthly reviews, stress tests and compliance reviews

The training on the 5<sup>th</sup>/6<sup>th</sup> October was carried out by Baillie Gifford and took place in Edinburgh.

During the morning of the first day attendees were able to attend one session from each block:

Introduction to Investment  
 Climate Change  
 Cost and Transparency

Introduction to achieving diversification  
 Volatility – Friend or Foe?  
 Investing to meet long term liabilities

Over the course of the afternoon Baillie Gifford went on to cover the following topics:

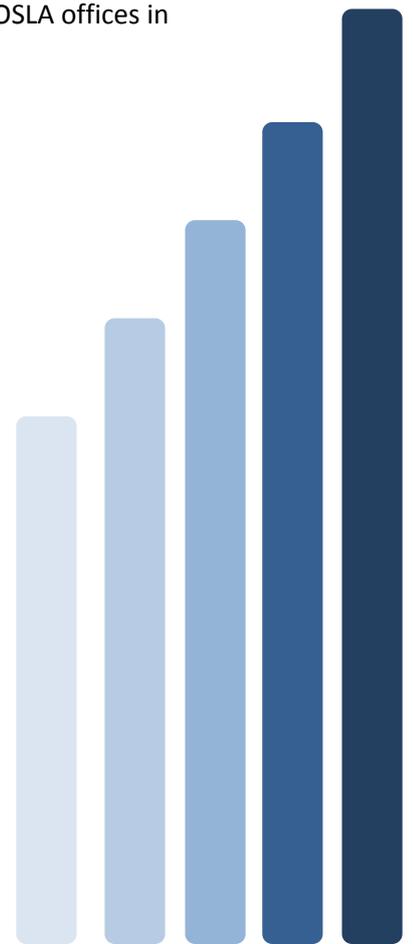
Investment Outlook  
 Governance and Pooling  
 Ideas for the Future

A number of further topics were then covered over the second day;

A History of Investment Mistakes  
 Environmental, Social and Governance (ESG)  
 Strategy Sessions  
 Asset Class Debate  
 Challenges for the LGPS

The LGPS (Scotland) Training Seminar held on the 12<sup>th</sup> December 2016 at the COSLA offices in Edinburgh saw presentations by a number of different speakers. They included:

<b>Northern Trust</b>	Global Custody
<b>Aon Hewitt</b>	Pension Administration
<b>KPMG</b>	Infrastructure and Alternatives
<b>Baillie Gifford</b>	ESG



## Code of Conduct, Conflicts of Interest & compliance with tPR

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### Code of Conduct

Members of the NESPF Pension Board agreed to a Code of Conduct on appointment to the Board in April 2015. It is the responsibility of the individual to ensure that they are familiar with, and that their actions comply with, its provisions. A copy of the national Code of Conduct and guidance notes can be found at <http://www.standardscommissionscotland.org.uk>.

The key principles of the Code of Conduct are:

- Duty
- Selflessness
- Integrity
- Objectivity
- Accountability and stewardship
- Openness
- Honesty
- Leadership
- Respect

### Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. This was updated and approved by the Pension Committee on 2 December 2016. This requires all members to notify NESPF of any potential conflict of interest arising as a result of their position on the Board.

As a standing item at each Pension Committee and Board meeting, members will be given the opportunity to declare their interest in any of the agenda items and any declared interests will be recorded in the formal minutes of the meeting. In addition, conflict of interest declaration forms will be issued by NESPF on appointment to the Board; subject to regular monitoring during the term of appointment.

During 2016/17 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on a 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

There were no formal 'conflicts' declared by Board members during 2016/17.

### Compliance with tPR

The Pension Fund carries out a compliance review every six months, with annual reporting to the Pensions Committee. An assessment is made in terms of compliance with Scheme regulations as well as tPR Code of Practice no. 14.

The most recent review concluded that the Fund was fully compliant with both LGPS Regulations and the Code. However there were some areas identified for improvement, which included;

- **Provision of an administration guide for Employers**
- **Formal recording of Breaches of Law and Conflicts of Interest**
- **Pension Board information on NESPF website**

A Governance Review report was presented to the March Pension Committee meeting detailing the steps taken to further improve our compliance in the above areas.

### Breaches of Law

There are certain people that are required to report breaches of the law to the Pensions Regulator where they have reasonable cause to believe that a legal duty which is relevant to the administration of the Scheme has not been, or is not being, complied with and the failure to comply is likely to be of material significance to the Regulator in the exercise of any of its functions.

Those people with a responsibility to report breaches, including Scheme managers and Pension Board members shall establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations.

In December 2016 an updated Breaches of Law Policy was approved by the Pension Committee. In addition, a Breaches of Law Register was created by the NESPF Governance Team to assist with ongoing monitoring and management.

There were no issues reported to tPR during the year 2016/17.

### Risk Management

The risk register for the Pension Fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to mitigate these risks.

The register is reviewed regularly by the pension management team and reported quarterly to the Pension Committee and Board.

## Work for 2017/18 onwards

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The following areas will be looked at by the Committee & Board in the next 12 months (subject to review):

- Conflicts of Interest declarations
- Annual Training plan update
- Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Tri-ennial Valuation & setting employer contribution rates
- Compliance report
- Internal/Audit plan and updates

### Potential changes to Pension Committee & Board structure

Following the Scottish Local Government elections on 4<sup>th</sup> May 2017, a transition period will likely be needed for both the Pension Committee and Board. A training event will be organised for late July/August to give an overview of the Fund and investments. This will ensure all members of the Pension Committee and Board receive appropriate training to enable them to meet the statutory obligations of their respective roles.

## APPENDIX I

## PENSION BOARD - TERMS OF REFERENCE

**1. Introduction**

- 1.1 Each Local Government Pension Scheme Manager in Scotland is required to establish a Pensions Board separate from the Pensions Committee that acts as the Scheme Manager.
- 1.2 The North East Scotland Pension Fund Pension Board is established under the provisions of sections 5 (1) and (2) of the Public Service Pensions Act 2013 and will be confirmed under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

**2. Objectives**

- 2.1 The Pension Board as detailed in regulations is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator:

*5.—(1) There shall be established for each Scheme manager a Pension Board with responsibility for assisting the Scheme manager in relation to the following matters.*

*(2) Those matters are—*

*(a) securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*

*(b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*

*(c) such other matters as the 2014 Regulations may specify*

- 2.2 The Pension Board will determine the areas they wish to consider including, amongst others:
- Reports produced for the Pensions Committee
  - Seek reports from the Scheme managers on any aspect of the fund
  - Monitor investments and the investment principles/strategy/guidance
  - The Fund annual report
  - External voting and engagement provisions
  - Fund administrative performance

- Actuarial reports and valuations
- Funding policy
- Any other matters that the Pensions Board deem appropriate

The Pension Board is not a decision making body.

The Pension Board is not a scrutiny function.

The Pension Board will be collectively and individually accountable to the Pensions Committee.

### 3. Membership

- 3.1 Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must not also participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.
- 3.2 There will be 4 trade union representatives appointed by the trade unions as follows:
- GMB
  - UCATT
  - UNISON
  - Unite
- 3.3 There will be 4 employer representatives appointed by the respective employer organisations as follows:
- Councils – 3 representatives
  - Scheduled bodies/Admitted bodies – 1 representative
- 3.4 Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.
- 3.5 Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below.
- 3.6 Advisors may attend meetings of the Pension Board in a non-voting capacity
- 3.7 No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will

adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

#### 4. Meetings

- 4.1 The Chair of the Pension Board will be rotated on an annual basis between the trade union and employer sides of the Pension Board
- 4.2 Pensions Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers sides of the Pension Board. All reasonable administration costs shall be met by the Fund.
- 4.3 The Pensions Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.
- 4.4 The Pensions Board may establish sub-committees.
- 4.5 While the statutory roles and function of the Pension Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pension Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

#### 5. Dispute resolution

- 5.1 If the Pension Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pension Committee is still competent.
- 5.2 In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:
  - ☐ That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
  - ☐ That the decision of the Pensions Committee could be considered illegal or contrary to regulations;
  - ☐ That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
  - ☐ That the decision is not in the interest of the continued financial viability of the Scheme or is against the principles of proper and responsible administration of the Scheme

- 5.3 If there is no agreement after the matter has been referred back to the Pension Committee, then the difference in view between the Pension Board and the Pension Committee will be published in the form of a joint secretarial report on the fund website and included in the fund annual report.
- 5.4 The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

## 6. Training

- 6.1 All members (and named substitutes) of the Pensions Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.
- 6.2 The Pensions Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.
- 6.3 The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

## 7. Access to Information

- 7.1 The Scheme Manager and Pensions Board will together ensure that information is published about the activities of the Board including:
- the full terms of reference for the Pension Board, including details of how they will operate
  - the Pension Board appointment process
  - who each individual Pension Board member represents and
  - any specific roles and responsibilities of individual Pension Board members.
- 7.2 The minutes of the Pension Board will be published on the Fund website. The Pensions Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

APPENDIX II

# North East Scotland **PENSION FUND**

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## Training Policy

January 2017

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<b>Document</b>	Training Policy
<b>Draft/Review Date</b>	
<b>Approval Date</b>	
<b>Author &amp; Team</b>	Mairi Suttie and Hayleigh Weldon, Governance
<b>Review Date</b>	01/02/2018

## 1. Introduction

This policy statement details the training agenda for members of the North East Scotland Pension Fund (as administered by Aberdeen City Council) Pension Committee and Board.

The level of knowledge required by members of both the Pension Committee and Pension Board to ensure that they can carry out effective decision making in respect of the Fund is identified at Appendix I.

In addition to the Training Policy for Pension Committee members, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements. Appendix II provides a description of both roles.

In addition to the Training Policy for Pension Board members, Board members will have access to all training provided to the members of the Pension Committee.

## 2. Training Programme

Training is provided to members of the Pensions Committee and Pension Board in respect of the following;

### Scheme Governance

- LGPS - Status and Legal Framework
- LGPS Regulations
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

### Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

### Support Services

- Custody Services
- Service Organisation
- Role of the Head of Finance
- Role of the Pensions Manager and Pensions Section

### 3. Scheme Documentation

On joining the Pensions Committee or Board, a new member will receive the following documentation;

- Copy of the guide to the Local Government Pension Scheme (LGPS)
- Copy of the most recent Annual Report
- Copy of the most recent Actuarial Valuation and Funding Strategy Statement
- Copy of the Governance Statement
- Copy of the LGPS Regulations
- Copy of the Fund's compliance with the Myners Principles
- Copy of the Statement of Investment Principles

**3.1** All remaining documentation will be available to Committee and Board members via the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

#### 4. Training Agenda

Training is ongoing for members, however it would normally consist of the following:

- each Committee/Board member is expected to receive at least 2 days of training each year
- all members are invited to attend training courses suitable for their needs
- members are invited to attend employer and scheme member events hosted by the Pension Fund
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and NAPF conferences, these provide a general appreciation of the pension industry
- on-line training
- members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors
- in addition to the above, Fund officers are available to answer any queries from Committee/Board members.
- use of the member secure area of the Pension Fund website [www.nespf.org.uk](http://www.nespf.org.uk)

**4.1** In line with the CIPFA guidance 'Trustee Knowledge and Skills Framework', Appendix I outlines a framework for the degree of knowledge and skill expected of the member. A copy of the full CIPFA guide can be found on the members secure area of the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

## 5. Review Arrangements

A report will be presented to the Committee on an annual basis detailing;

- training provided in the previous year
- those members who attended the various training sessions
- seminars and conferences held in the previous year
- which seminars and conferences were attended by members

**5.1** Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding'.

**5.2** The Training Policy will be reviewed annually

## 6. Reimbursement of Expenses

All training costs are met directly by the Pension Fund

## 7. Further information

If you have any questions relating to this Policy please contact the Governance Team:

North East Scotland  
**PENSION FUND**

Corporate Governance  
Business Hub 16  
3<sup>rd</sup> Floor-West  
Marischal College  
Broad Street  
Aberdeen  
AB10 1AB

Governance & Communication Manager:  
Mairi Suttie ([msuttie@nespf.org.uk](mailto:msuttie@nespf.org.uk) or tel: 01224 264169)

Pensions Officer – Governance:  
Hayleigh Weldon ([HWeldon@nespf.org.uk](mailto:HWeldon@nespf.org.uk) or tel: 01224 264188)

## Appendix I

**Knowledge and Skills Framework**

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

**Level of knowledge required**

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pension Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> <li>• General and Scheme Pension Legislation</li> <li>• Scheme Governance</li> <li>• Pension regulators and advisors</li> <li>• Legislative framework</li> <li>• Risk</li> </ul>	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> <li>• Audit and accounting regulations and requirement</li> </ul>	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> <li>• Understanding public procurement</li> <li>• Supplier risk management</li> </ul>	2	3
Investment Governance <ul style="list-style-type: none"> <li>• Investment Strategy</li> <li>• Financial Markets</li> </ul>	2	2
Investment performance and risk management <ul style="list-style-type: none"> <li>• Fund performance</li> <li>• Performance of advisors</li> <li>• Performance of the committee</li> <li>• Performance of support services and advisors</li> </ul>	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> <li>• Valuations</li> <li>• Outsourcing</li> </ul>	2	3

## Appendix II

### Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

### PRINCIPAL RESPONSIBILITIES

1. Convener of the Pension Committee to determine, after taking the advice of the Head of Finance and other advisors:
  - a) The investment strategy of the Fund or Funds for which the Pension Committee is responsible
  - b) The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
  - c) The appointment of investment and actuarial advisors and other third party services
  - d) The Governance Framework
  - e) The communication strategy of the Fund or Funds
2. And to monitor:
  - a) The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
  - b) The costs of running the Pension Fund and Scheme
  - c) Comments and feedback from stakeholders
3. And to approve:
  - the annual report and accounts of the Fund(s)
  - Audit reports on the performance of the Pension Fund Service
  - Statements on Investment Principles, Governance, Administration and Communication
  - The Risk Register and an annual risk analysis
  - The medium term business plan and annual updates
  - Training and development plans and updates
  - Discretions given by statute and regulation to the Pension Committee in relation to benefits under the LGPS
4. Work with the Head of Finance and other officers and advisors to plan an effective work programme for the Pension Committee
5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms
6. Receive regular briefings from the Head of Finance and other advisors in order to understand the context and import of forthcoming issues

**PERSONAL SPECIFICATION**

<b>Requirement</b>	<b>Essential</b>	<b>Desirable</b>
1. Educational	<p>Appropriate financial experience and training.</p> <p>Knowledge of pension funds and schemes.</p>	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	<p>Political awareness in numerous political environments.</p> <p>Chairing high level partnership meetings achieving effective outcomes.</p> <p>Operated for 5 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	Diplomacy and tact.

5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

**The vice convener of the Pension Committee will also receive a copy of this guidance**

-

## Compliance with the Job Description

### 1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework Delivering Good Governance in Local Government).

*Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the dedicated 'trustee' area of the Pension Fund website. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the NAPF Local Authority Conference held annual in May which covers all aspects of the LGPS and the Local Authority Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pension Committee will be brought to the attention of members by officers.*

*The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:*

- *Scheme Valuation*
- *Administration Matters which are ongoing*
- *Investment Matters ongoing*
- *Pensions Market issues*
- *Communication with employers and scheme members*

*Where appropriate this report should be accompanied by a meeting with Fund officers.*

### 2. Pensions accounting and auditing standards

2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

*Officers report annually to the Pension Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to*

***the Pension Committee on the scheme accounts.***

### **3. Investment performance and risk management**

3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

***All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pension Committee,***

### **4. Financial markets and product knowledge**

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (The investment activities of LGPS funds for example can be split into two groups - those funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers).

***The time given during the quarterly meetings of the Pension Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Conveners, but all 'trustees' through attendance at least one investment conference per annum. There is a wide selection of national conferences such as the NAPF or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported quarterly to the Pension Committee.***

### **5. Actuarial methods, standards and practices**

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

***The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.***



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## **NESPF Cash Management Statement**

### **Introduction**

Aberdeen City Council as the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (NESPF's) has prepared this policy statement.

### **Background**

The NESPF's maintain a balance of cash arising from the receipt of employer and employee contributions, and externally managed investments exceeding the amount of pension and other payments made on behalf of the Fund.

The Pension Fund defines its cash management activities as:-

- The management of the Pension Fund's cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks
- NESPF regards the successful identification, monitoring and control of risk to be the prime criteria by which the effectiveness of its cash management activities will be measured. Accordingly, the analysis and reporting of cash management activities will focus on their risk implications for the Pension Fund.
- NESPF also acknowledges that effective cash management should provide support towards the achievement of the Pensions Fund funding objectives. It is therefore committed to the principles of achieving best value in cash management, and to employing suitable performance measurement techniques, but always in the context of effective risk management.

### **Compliance**

NESPF adheres to the 'Aberdeen City Council Treasury Management Manual' which states: *'Consideration must at all times be given to the CIPFA Code of Practice for Treasury Management in the Public Services, the CIPFA Prudential Code for Capital Finance in Local Authorities, the Council's Treasury Policy Statement, the Council's Treasury Management Practices and the London Code of Conduct'*

## **Management of Internal Cash Balances**

## **Appendix VII**

The cash managed in-house by the Administering Authority, provides a working balance for the Funds to meet short term commitments and forms part of the Funds' strategic asset allocation to cash.

The Funds' internal cash balances are managed by the Council's Treasury Management team. Internal cash balances are reviewed on a daily basis and withdrawals and deposits arranged in accordance with the pension fund requirements. Pension Funds' cash deposits are held separately from the City Council's cash.

Cash balances will be held predominantly in short-term instruments such as notice accounts, money market funds and short-term fixed deposits. Approved instruments for pension fund cash deposits will be the City Council's list of specified investments for maturities up to 1 year, The City Council's current approved list of specified investments is contained within the 'Treasury Management Manual' and reviewed at least annually.

## **Borrowing**

The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 gives administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cash flow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed. Pension Fund management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these circumstances the power would enable the Pension Funds to avoid becoming forced sellers of fund assets due to cash flow requirements.

## **Management of external Cash Balances**

Arrangements will be made for cash balances which are not required for cash flow purposes, to be transferred to the Pension Funds' Investment Managers accounts held at the Global Custodian, in accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

## **Investment of External Cash Balances**

The Pension Funds cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:-

(a) The security of capital and

(b) The liquidity of investments

(c) Optimum return on investments commensurate with proper levels of security and liquidity Investment of Pension Fund Cash

The cash balances are regularly monitored and reviewed as part of a regular rebalancing exercises undertaken by officers and the external service provider

In general a minimum cash balance of £10 million will be retained following a fund rebalancing exercise, to meet cash flow requirements such private equity investment transactions. This sum will be equitized

- to ensure maximum return at an acceptable level of risk.
- seeks to reduce slippage due to frictional cash, inefficient cash flow management, asset allocation mismatch, unintended structural biases and implementation delay. and
- reduce administrative burden associated with monthly cash flows

The level of cash balances will fluctuate on a daily basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

### **Segregation of Cash Management Duties**

There is adequate segregation of duties. In general terms duties are segregated as follows:

**1. Policy formulation and Cash management advice and authorisation**

Pensions Manager, Investment Manager

**2. Cash Processing**

Senior Pension Officer Investment, Pension Officer Governance,  
Senior Pension Officer Employer Relations

**3. Recording and administration**

Accounting Manager and Pension Officer Accounting

## **Variation from the Aberdeen City Council 'Treasury Management Manual'**

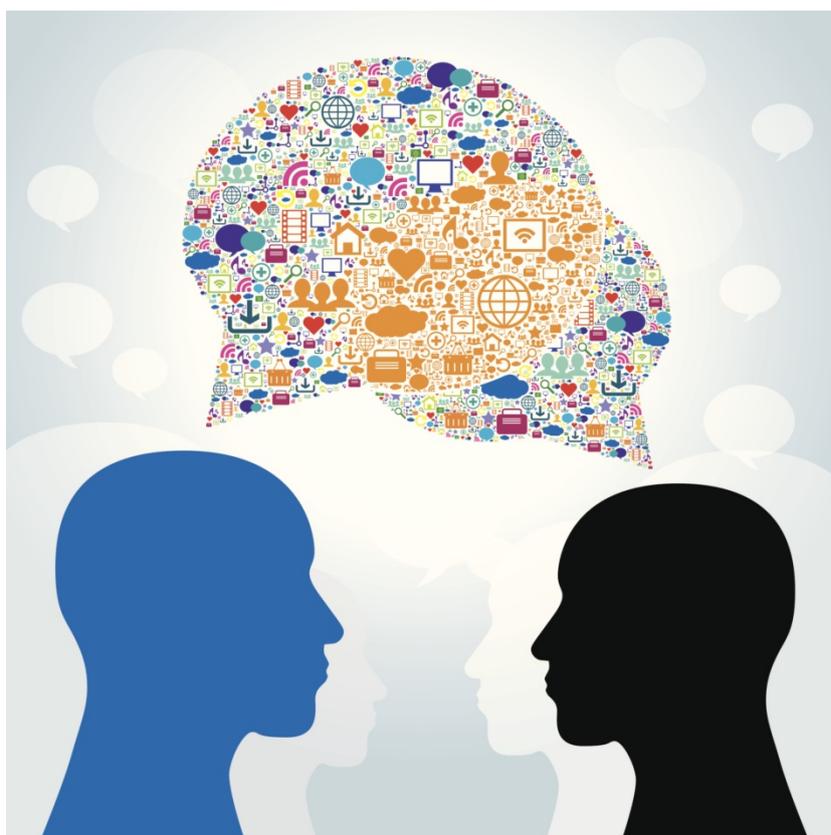
### **1. Pension Lump Sum Payments**

Pension Fund lump sums paid on retirement or in the event of the death grant will be generally in excess of £10,000. Identification requirements by the Pension Fund are as follows:

- Birth certificate
- Spouses/partner birth certificate
- Marriage certificate

### **2. Cash balances held by third parties**

Balances greater than £50m may be held on the balance sheet of Fund's Global Custodian due to the investment activity of underlying asset managers.



**COMPLAINTS HANDLING PROCEDURE FOR PENSION FUND STAFF**

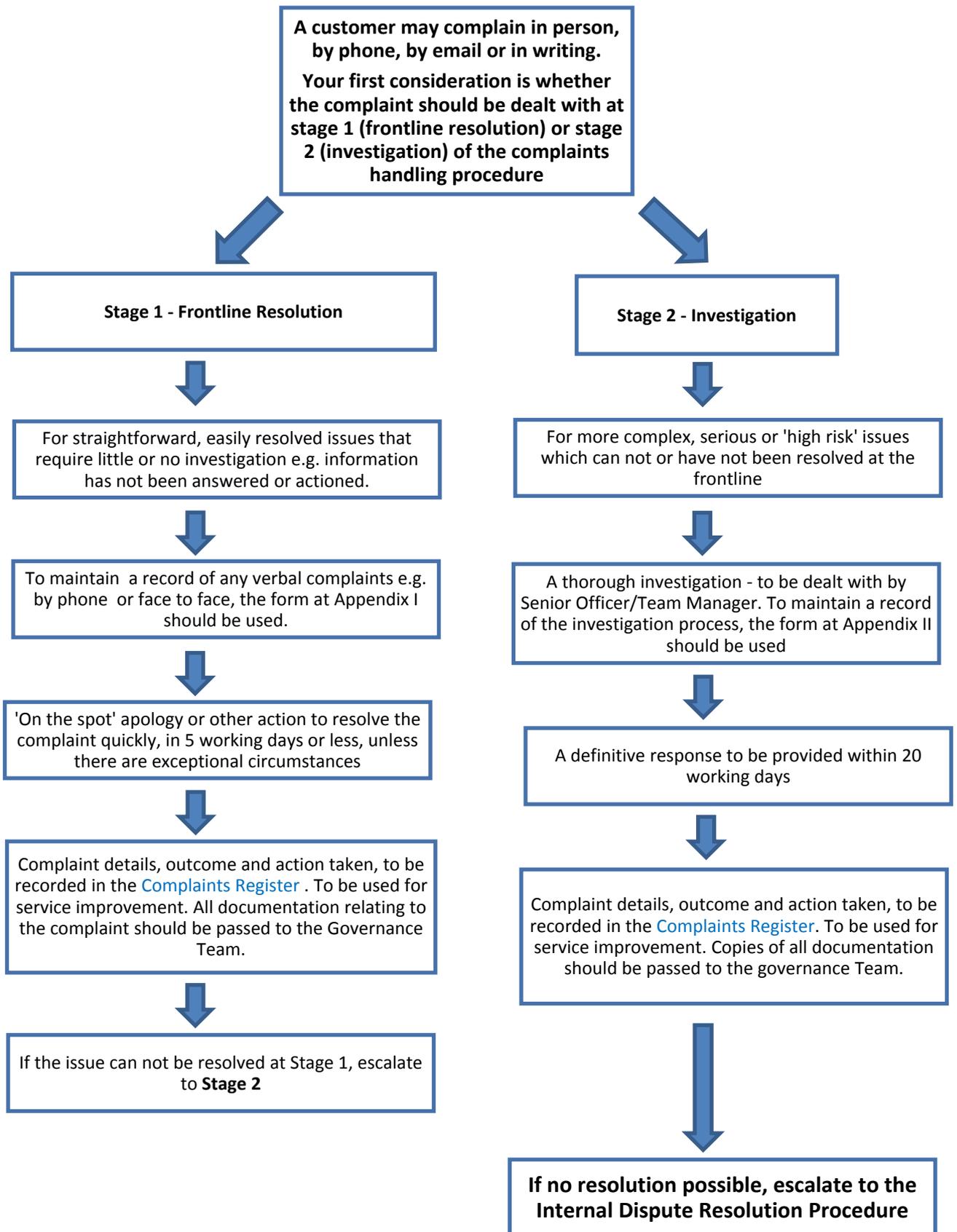
**May 2017**

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Document	Complaint Handling Procedure
Draft/Review Date	23/03/2017
Approval Date	12/05/2017
Author/Team	Mairi Suttie & Hayleigh Weldon
Review Date	12/05/2018



## Introduction

Complaints give us valuable information which we can use to improve our customer service. They provide a first-hand account of the customer's views and experience and can highlight problems we may otherwise miss.

Our complaints handling procedure will enable us to address a customer's dissatisfaction and may also prevent the same problems that led to the complaint from happening again.

## What is a complaint?

**'A complaint is an expression of dissatisfaction by one or more members of the public about NESPF's action or lack of action or the standard of service provided by or on behalf of NESPF'**

A customer can make a complaint in a number of ways; by letter, email, by phone or in person. Any staff member could potentially be the first point of contact for the customer's complaint. You should be prepared to try and resolve a complaint relevant to your area on the spot.

[Appendix I](#) contains a form which should be used to record the details of any complaints we receive verbally, either by telephone or in person. This will mean that we have all the details of the complaint in writing for our records.

## How do we deal with a complaint?

### **Stage 1 - Frontline Resolution (within 5 working days)**

These are normally straightforward complaints which require little or no investigation.

For example:

- A service has not been provided or has been provided to an unsatisfactory standard
- A request for information has not been answered or actioned
- A staff member was rude or unhelpful

Frontline resolution complaints can be addressed by any member of staff or alternatively be referred to the appropriate person such as a Senior Pensions Officer or a Team Manager. They should be resolved quickly with an apology, explanation and/or any other action, **within 5 working days** or sooner if possible.

Frontline complaints along with any lessons learned should be recorded in the [Complaints Register](#). A copy of all documentation relating to the complaint and its resolution should be passed to the Governance Team.

### **Stage 2 - Investigation (acknowledge within 3 working days, full response within 20 working days)**

Where possible, complaints to be considered at the investigation stage should be submitted in writing (to the Pensions Manager) and marked 'dispute'.

A tailored investigation should be carried out to establish the facts behind the complaint. The investigating officer should decide what information is required with due regard to information that may be confidential, sensitive, restricted or covered by Data Protection legislation. For a copy of the complaints investigation form see **Appendix II**.

The conclusion reached following investigation must be based on an objective analysis of the evidence and provide a clear explanation of this analysis.

At the end of the investigation, the decision must be formally communicated to the member either face-to-face or in writing. Responses should be based on the facts established by the investigation and a full explanation should be given on how the conclusion was reached. It may be good practice in some situations to communicate the information by telephone, followed by a letter.

Where an investigation identifies a service failure and we propose to take action, the correspondence should include details of what will be done and when. The final decision letter should provide the member with information on their right to appeal (through the Internal Dispute Resolution Procedure) or where the complaint relates to a decision made by NESPF, directly to the Pensions Ombudsman.

Following resolution at Stage 2, details of the complaint and any lessons learned should be recorded in the [Complaints Register](#). A copy of all documentation relating to the complaint and its resolution should be passed to the Governance Team.

If we handle complaints well, they can give our members a form of redress when things go wrong, and can help us to continuously improve our services.

## The Dos and Don'ts when customers complain:

### Do's

Be aware of your responsibility to try to resolve the complaint or seek help to resolve it

Identify yourself and ask for the member's details

Be sensitive - making a complaint can be stressful, so respond with courtesy, tact and empathy. Treat all information in confidence

Listen & understand-

Listen carefully to what the customer is saying without interrupting. Take notes if necessary, ask open ended questions to get more information to assist with resolving the complaint

Provide an apology and explanation if it is clear we have made a mistake

Inform-

make sure you agree a course of action that is satisfactory to the member and NESPF. If in doubt, discuss the matter with your line manager. You should follow up to make sure this has been done

Explain the next stage e.g. IDRP, if the problem hasn't been resolved to the customer's satisfaction

Record -

Make sure the details of the complaint are recorded

### Don'ts

Refuse to accept there is a problem. If the customer thinks there is a problem, you must help

Be defensive or argue

Jump to conclusions; wait until you have the whole story

Make promises you can't keep

## Why apologise and what is the best way to do this?

- It can be relatively simple and helpful to say sorry that someone had a bad experience
- A meaningful apology can help both sides calm their emotions and move on to put things right
- It is important that, when making an apology, you understand how and why the person making the complaint believes they were wronged and what they want in order to put things right
- For a meaningful apology, the timing needs to be right – you should not leave it too late or distance yourself from the apology. Use clear, plain and direct language. Make sure your apology sounds natural and sincere. Your apology should not question whether the person making the complaint has been harmed e.g. by saying 'I am sorry *if* you were offended'

It is important to remember an apology is not a sign of weakness. It can be a sign of strength and can show you are willing to learn when something has gone wrong. It can also show that you are committed to putting things right. To apologise is good practice and is an important part of effectively managing complaints.

## What if resolution (at either Stage 1 or Stage 2) isn't possible?

- We would hope that most problems can be dealt with informally by the Pensions Team (at Stage 1 or Stage 2), but recognise that sometimes this is not possible.
- NESPF has a formal [Internal Dispute Resolution Procedure](#) (IDRP) which should be reserved for more complex and contentious issues e.g. payment of death benefits. The IDRP should be used where either the employer or the administering authority has tried to resolve the issue informally but the individual is still unhappy with the outcome.
- Members, prospective members or the widow/widower/partner or dependent of a deceased person, all have access to the two stage IDRP procedure. They can use this to dispute procedures or to settle any complaint they may have about the decisions made about them under the scheme rules or about the way their case has been handled.
- If the complaint is about something other than a decision, for example if it relates to poor administration, then the complaint can be made directly to the [Pensions Ombudsman](#). This may occur if there are, for example, unreasonable delays in providing information to a member, failure to notify about scheme changes etc.

## What if the complaint is about an employer decision?

If the complaint cannot be resolved in the first instance by the employer, the member can invoke the two stage IDRP. They should submit the IDRP form, with any complaint being made in writing **within 6 months** of the date the member is notified of the decision which they are appealing against.

- [Stage 1 Appeal](#) – the complaint should be directed to the person nominated by the **member's employer** to consider the appeal. The Appointed Person will either **uphold or dismiss** but must consult NESPF to ensure compliance with Regulations. A response to the complaint must be given **within 2 months** or the member must be informed of any delay

- Stage 2 Appeal - if the member is not satisfied with the decision of the Appointed Person nominated by the employer to consider the appeal, they have a further right of appeal under Stage 2 to the Scottish Ministers which must be made in writing **within 6 months** of Stage 1 determination

#### **What if the complaint is about an administering authority decision?**

If the complaint cannot be resolved in the first instance by frontline staff or the Pensions Manager, the member can invoke the two stage IDRPs. They should submit the IDRPs form, with any complaint being made in writing **within 6 months** of the date the member is notified of the decision which they are appealing against.

- Stage 1 Appeal - complaint should be directed to the person nominated by the **administering authority** as the Appointed Person (ACC have appointed the Head of Legal & Democratic Services) and they must reply to the complaint **within 2 months** or advise of any delay
- Stage 2 Appeal - if the member is not satisfied with the decision of the Appointed Person nominated by the administering authority, there is a further right of appeal to the Scottish Ministers which must be made in writing **within 6 months** of the Stage 1 determination

**PLEASE NOTE** the member must always be advised of the outcome

#### **Were there any lessons learnt from the complaint?**

After the closure of the complaint, the responding officer should identify any '**lessons learnt**' by completing the [Complaint Register](#) and copies of all supporting documentation should be passed to the Governance Team. The information in the Register will be reviewed by the management team – it may be that improvements to our services or procedures are identified as a result of the complaint.

A '**lesson learnt**' is any action to resolve an issue and to prevent future reoccurrence.

For example:

- An amendment to an existing procedure
- Updating information on a webpage to ensure that the information is accurate and consistent
- Increasing the level of content on a letter to ensure full and complete information is provided to the service user
- Briefing the employees on a more frequent basis to ensure that their knowledge is up to date

#### **Is there any training available?**

An online training course is available at: <http://www.spsotraining.org.uk/>.

ACC handling complaints course is available through OIL.

## Unacceptable Actions Policy (ACC)

***'We believe our members have the right to be heard, understood and respected. However occasionally, there are situations where it can be difficult to deal with a member's enquiry or concerns due to their actions'***

There are a range of actions which are considered to be unacceptable.

For example:

- **Aggressive or abusive behaviour**

We understand people can become angry when matters about which they feel strongly are not being dealt with as they wish or at difficult or stressful times such as losing a family member. However, we will not tolerate behaviour where it escalates into aggression or abuse directed towards member(s) of staff. This could include unsuitable language, threats, derogatory remarks, rudeness etc.

- **Unreasonable demands**

A demand becomes unacceptable when it starts to (or when complying with the demand would) impact excessively on the work of our staff. Or when dealing with the matter takes up an excessive amount of staff time at the expense of our service to other member's.

- **Unreasonable levels of contact**

Sometimes the volume or duration of contact made to our staff by an individual causes problems. This can occur over a short period of time, for example, when a large number of calls or emails are received from the same person in one day, which do not assist us in dealing with the original complaint. We consider the level of contact as unacceptable when the amount of time talking or responding to the individual impacts on our ability to deal with the matter, or in providing a service to our other member's.

### **How do we manage aggressive or abusive behaviour?**

Any threat or use of physical violence, verbal abuse or harassment towards a staff member(s) will result in the termination of all direct contact e.g. telephone call, with the member. Such incidents may be reported to the police. When dealing with members in the Customer Service Centre, staff will carry personal alarms & incidents will be recorded.

Staff will end telephone calls if they consider the caller **aggressive, abusive or offensive**. Our Staff has the right to make this decision, to tell the caller that their behaviour is unacceptable and to end the call if the behaviour then persists. These should be logged on the complaints complaint details form shown in **Appendix I**. If we receive written correspondence which is abusive we will inform the member to re-submit their correspondence after removing the offensive or abusive language, otherwise we will not respond.

In extreme situations, we will advise the member in writing that we will not permit any further personal contact from them. Any future contact will be limited to written correspondence or through a 3<sup>rd</sup> party e.g. HR.

Where a member of staff makes an immediate decision in response to abusive or aggressive behaviour, they should inform the member at the time of the incident & their Team Manager must be advised. Where the decision is made by a senior member of staff, the member must be informed in writing and given the opportunity to appeal.

### **How do we deal with other types of unreasonable behaviour?**

There are a number of actions which can be taken depending on the individual circumstances. For example:

- See the person by appointment only
- Restrict contact to written correspondence only
- Restrict contact to a nominated member of staff e.g. Senior or Manager.
- Advise we will not respond to further correspondence

We should always tell the person we are refusing and why we are doing so.

### **Appealing the decision**

Where a member has been informed that contact is to be restricted, they can appeal the decision. This must be done in writing within 10 working days of the notification letter. A response on the outcome will be provided within 10 working days of the letter of appeal. A note should be made on the member's record for future information.

COMPLAINT DETAIL FORM (FOR VERBAL COMPLAINTS)			
Date of Call/Visit		Investigating Officer	
Complainant Name			
Address			
Contact Telephone			
Contact Email			
Date of Incident(s)			
Date of Incident(s) <b>Complaint Details</b>			
	<i>Must be within the last 6 months of the event they want to complain OR finding out they have reason to complain (event must be no longer than 12 months ago)</i>		
Relevant information			
What is the problem? Who was involved?			
What solution / outcome is the complainant looking for?			

COMPLAINT INVESTIGATION FORM (STAGE 2)			
Complaint regarding			
Name		NI Number	
Address			
Date of Complaint		Response due by	
Complainant		If complainant is not the member, what is the relationship?	
Overview of the complaint (append complaint letter, email or complaint detail form)			
Investigation Plan (outline the planned activities to investigate the complaint)			
Findings of investigation			
Proposed response			
Response provided by			
Method		Date	
Approved by			

## NESPF Risk Register

1. In line with best practice and the Pension Regulator's Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood and risk mitigation actions are in place.

2. The risk register is updated regularly, with quarterly reporting to the Committee and Board.

3. Note any changes since last time

4. Summary at May 2017

Key priorities for 2017/18						
Consequences	Impact					
	Almost impossible	Very low	Low	Significant	High	Extremely High
Catastrophic Impact		1, 8				
Critical Impact		6, 7				
Marginal Impact		2, 4	5	3		
Negligible Impact						

Ongoing Assessment with tPR requirements						
Consequences	Impact					
	Almost impossible	Very Low	Low	Significant	High	Extremely High
Catastrophic Impact	17, 21, 22, 23	2, 7, 14				
Critical Impact		6	15, 18, 19	8, 9, 25		
Marginal Impact	16	3, 4, 24	1, 5, 10, 11	13, 20		12
Negligible Impact						

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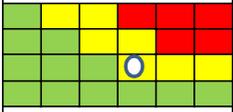
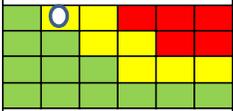
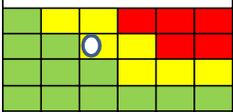
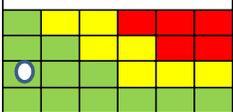
**Pension Fund Risk Register**      **Key Priorities 2017-18**

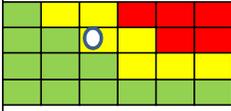
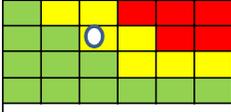
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken	Change since last review
1	Corporate	Lack of effective Risk Management	Failure to identify and respond to risks with the potential to impact on our ability to achieve our objectives	Pension Fund risk register reviewed and updated quarterly	<p>Consequences</p> <p>Likelihood</p>	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	<p>Consequences</p> <p>Likelihood</p>	4	Ongoing - annual review of policy documents	↔
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	<p>Consequences</p> <p>Likelihood</p>	8	Annual CIPFA Benchmarking exercise. Also Investment performance and PAS reporting	↔
4	Funding	Actuarial Valuation - impact of market volatility	Increase in employer contributions to meet unfunded position	Interim actuarial valuation to be undertaken	<p>Consequences</p> <p>Likelihood</p>	4	Interim valuation completed & data quality scored highly by Actuary. 2017 Valuation in progress.	↔

5	Regulatory and Compliance	Requirement to complete GMP Equalisation	Failure to ensure that future member benefits are calculated correctly. Audit criticism and financial loss to the Fund	Staff appointed to carry out calculations	<p>Consequences</p> <p>Likelihood</p>	6	Ongoing	↔
6	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 criticism. Failure to ensure right first time, every time	Training plans drawn up for all staff to be overseen by Governance Manager	<p>Consequences</p> <p>Likelihood</p>	6	Ongoing - training plans implemented March 2017.	↔
7	Governance	Annual 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 Regulator requirements	Review of Pension Committee and Board	<p>Consequences</p> <p>Likelihood</p>	6	Report to Committee in March 2017. SPPA governance review completed Feb'17. Outcomes to be considered further.	↔
8	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. Regular reporting to Pension Committee	<p>Consequences</p> <p>Likelihood</p>	8	Ongoing	↓

<b>Pension Fund ongoing risk assessment in accordance with Pension Regulator Requirements</b>								
No	Category	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Matrix	Risk Score	Status/Work to be undertaken	Change since last review
1	Operational	Pension Administration system failure	Staff downtime, loss of service delivery	System is hosted externally with back-up in separate location	<p>Consequences</p> <p>Likelihood</p>	6	Technical Manager to provide report on hosted system errors and resolutions to Pensions Manager Quarterly	↔
2	Operational	Unable to access workplace	Staff downtime, loss of service delivery	Disaster recovery policy in place which is incorporated within CG overall policy	<p>Consequences</p> <p>Likelihood</p>	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	<p>Consequences</p> <p>Likelihood</p>	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	<p>Consequences</p> <p>Likelihood</p>	4	PAS reporting 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 (ATMOS)	<p>Consequences</p> <p>Likelihood</p>	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	<p>Consequences</p> <p>Likelihood</p>	6	Ongoing	↔

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.	<p>Consequences</p> <p>Likelihood</p>	8	Ongoing	↔
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.	<p>Consequences</p> <p>Likelihood</p>	12	Ongoing	↔
9	Funding	Fall in bond yields, leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by FSM reported to Pensions Committee	<p>Consequences</p> <p>Likelihood</p>	12	Ongoing	↔
10	Funding-	Pay and price inflation valuation assumptions either higher or lower	Increase in employer contributions	Quarterly funding updates reported to Pensions Committee	<p>Consequences</p> <p>Likelihood</p>	6	Information to be provided by FSM	↔
11	Funding	Longevity issues	Increase in employer contributions	Actuarial assessment every three years undertake scheme specific analysis	<p>Consequences</p> <p>Likelihood</p>	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	<p>Consequences</p> <p>Likelihood</p>	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. Breaches to be recorded & monitored by Governance Team.	<p>Consequences</p>  <p>Likelihood</p>	8	Ongoing	↔
14	Financial	Failure of world stock markets	Increase in employer contribution rates	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	<p>Consequences</p>  <p>Likelihood</p>	8	Strategy Review following 2017 Valuation results	↔
15	Financial	Early retirement strategies by scheme employers	Pressure on cash flow	On-going discussions with scheme employers of Funding issues. Documentation in place	<p>Consequences</p>  <p>Likelihood</p>	9	Ongoing	↔
16	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	<p>Consequences</p>  <p>Likelihood</p>	2	Ongoing	↔

17	Financial	Failure of Global Custodian	Loss of investments or control of investment	Regular meetings with global custodian, receipt of SAS 70 reports and monitoring	 Consequences	4	Ongoing	
					Likelihood			
18	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.	 Consequences	12	Ongoing	
					Likelihood			
19	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	9	Ongoing - six monthly review. Last review Dec 2016. Annual report to March Committee meeting.	
					Likelihood			

20	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	 Consequences Likelihood	8	Ongoing	↔
21	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.	 Consequences Likelihood	4	Ongoing	↔
22	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	 Consequences Likelihood	4	Ongoing- Governance Team oversee FOI	↔
23	Governance	Failure to meet annual audit deadlines	Audit criticism, legal challenge, reputational risk	Pensions Manager responsible for all internal and external audit requirements	 Consequences Likelihood	4	2015/16 Annual Accounts signed off by Committee in Sept 2016.	↔
24	Governance	Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputational risk	Annual review of AVC arrangement carried out by scheme actuary	 Consequences Likelihood	4	Annual review by Investments Manager/Governance Manager	↔
25	Governance	Failure to monitor employer covenants	Residual liabilities could fall to other scheme employers	On-going discussions with scheme employer of funding issues	 Consequences Likelihood	12	Ongoing	↔

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## ABERDEEN CITY COUNCIL

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COMMITTEE	PENSIONS COMMITTEE
DATE	23 JUNE 2017
REPORT TITLE	TRAINING
REPORT NUMBER	PC/JUN17/TRA
DIRECTOR	HEAD OF FINANCE
REPORT AUTHOR	LAURA COLLISS

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### **1. PURPOSE OF REPORT:-**

- 1.1 To provide details of the training plan (2017/18) for the Pension Committee and Pension Board of the North East Scotland Pension Fund.

### **2. RECOMMENDATION(S)**

- 2.1 It is recommended that the Committee:

- i. Note the report

### **3. BACKGROUND/MAIN ISSUES**

- 3.1 As stated within the Training Policy there is a requirement under the Pensions Regulator and CIPFA/Myners Guidance that there is a certain level of knowledge and understanding that is required to sit on Local Government Pension Scheme Committees and Boards.

- 3.2 The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the functions of a member of the Pension Committee or Board. The Pensions Regulator toolkit is available at: <http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>

### **3.3 TRAINING DELIVERY & CONTENT**

- 3.3.1 Officers propose to deliver training over two set periods during 2017/18, together with any industry externally delivered training when available.

- 3.3.2 The first training session will take place during August (exact date to be confirmed) covering presentations on the Scheme actuary, Scheme investment consultants, investment strategy, asset classes and governance.

- 3.3.3 A second training session will take place towards the end of the year (November) and will include presentations from the Fund's Fund Managers which currently

include State Street Global Advisors, Baillie Gifford, Blackrock, Invesco and Aberdeen Property Investors. The Pension Fund Manager will provide an overview of the Fund's Alternative investment program.

3.3.4 The manager presentations will discuss their investing process, how they manage money for their clients, looking forward and how they are going to continue to deliver the Pension Fund's Strategy while providing an update on their business and any industry and economic insight.

### 3.4 **EXTERNAL TRAINING OPPORTUNITIES**

3.4.1 Further to the above there are also the following external training opportunities available:

#### **Scottish Funds Investment Governance Group**

Edinburgh, date and agenda TBC

#### **LGC Investment Seminar**

Edinburgh, date and agenda TBC (October)

### 3.4.2 **PENSION COMMITTEE AND TRAINING ATTENDANCE**

#### **Committee Meetings**

<b>2016/17</b>	<b>24<sup>th</sup> June</b>	<b>16<sup>th</sup> September</b>	<b>2<sup>nd</sup> December</b>	<b>10<sup>th</sup> March</b>
Cllr Crockett (Convener)	✓	✓	✓	✓
Cllr Reynolds (Vice Convener)	✓	X	X	✓
Cllr Donnelly	✓	✓	X	✓
Cllr Kiddie	X	X	X	X
Cllr MacGregor	✓	✓	✓	✓
Cllr Malik	✓	✓	✓	✓
Cllr Malone	X	X	✓	✓
Cllr Noble	✓	X	X	✓
Cllr Young	✓	✓	✓	X
<b>Overall Attendance %</b>	<b>78%</b>	<b>56%</b>	<b>56%</b>	<b>78%</b>

#### **Training**

<b>2016/17</b>	<b>1 &amp; 2<sup>nd</sup> September</b>	<b>5 &amp; 6<sup>th</sup> October</b>	<b>12<sup>th</sup> December</b>
Cllr Crockett (Convener)	✓	X	X
Cllr Reynolds (Vice Convener)	✓	X	✓
Cllr Donnelly	✓	X	✓
Cllr Kiddie	X	X	X
Cllr MacGregor	✓	X	✓
Cllr Malik	✓	X	✓

Cllr Malone	✓	X	X
Cllr Noble	✓	X	✓
Cllr Young	X	X	X
<b>Overall Attendance %</b>	<b>78%</b>	<b>0%</b>	<b>56%</b>

3.4.3 Councillor Kiddie was absent from the Committee meetings and training events in 2016/17 due to ongoing ill health. Under s.35 of the Local Government (Scotland) Act 1973 if a member of a local authority fails throughout a period of six consecutive months to attend any meeting of the authority he shall, unless the failure was due to some reason approved by the authority, cease to be a member of the authority. The Council approved Councillor Kiddie's absence from attending meetings due to his ongoing ill health on 6 October 2016.

#### **4. FINANCIAL IMPLICATIONS**

4.1 The financial implications are detailed in the report.

#### **5. LEGAL IMPLICATIONS**

5.1 By not providing sufficient training to the Pension Committee and Board members, the Pension Fund would be in breach of the Pension Regulator guidance on training.

#### **6. MANAGEMENT OF RISK**

6.1 There are no direct risk implications arising from the recommendation of this report.

#### **7. IMPACT SECTION**

7.1 The Pension Committee has a fiduciary duty to monitor the Pension Fund Strategies across all areas and timelines to deliver a timely, accurate and compliant service to all stakeholders.

#### **8. BACKGROUND PAPERS**

8.1 None

#### **9. APPENDICES (if applicable)**

9.1 Appendix I, Training Policy

#### **10. REPORT AUTHOR DETAILS**

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# North East Scotland **PENSION FUND**

The logo for North East Scotland Pension Fund features the text "North East Scotland" in a blue sans-serif font, with "PENSION FUND" in a larger, bold, blue sans-serif font below it. A blue graphic element, resembling a stylized bracket or a curved line, is positioned to the right of the text, starting from the top right of "PENSION FUND" and curving upwards and then downwards.

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## Training Policy

January 2017

## Contents

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<b>Document</b>	Training Policy
<b>Draft/Review Date</b>	01/02/2017
<b>Approval Date</b>	n/a
<b>Author &amp; Team</b>	Mairi Suttie and Hayleigh Weldon, Governance
<b>Review Date</b>	01/02/2018

## **1. Introduction**

This policy statement details the training agenda for members of the North East Scotland Pension Fund (as administered by Aberdeen City Council) Pension Committee and Board.

The level of knowledge required by members of both the Pension Committee and Pension Board to ensure that they can carry out effective decision making in respect of the Fund is identified at Appendix I.

In addition to the Training Policy for Pension Committee members, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements. Appendix II provides a description of both roles.

In addition to the Training Policy for Pension Board members, Board members will have access to all training provided to the members of the Pension Committee.

## **2. Training Programme**

Training is provided to members of the Pensions Committee and Pension Board in respect of the following;

### **Scheme Governance**

- LGPS - Status and Legal Framework
- LGPS Regulations
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

### **Investment Strategy**

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

### **Investment Strategy**

- Asset Classes
- Risk
- Investment Structure

- Investment Management and Performance Monitoring

### **Support Services**

- Custody Services
- Service Organisation
- Role of the Head of Finance
- Role of the Pensions Manager and Pensions Section

### **3. Scheme Documentation**

On joining the Pensions Committee or Board, a new member will receive the following documentation;

- Copy of the guide to the Local Government Pension Scheme (LGPS)
- Copy of the most recent Annual Report
- Copy of the most recent Actuarial Valuation and Funding Strategy Statement
- Copy of the Governance Statement
- Copy of the LGPS Regulations
- Copy of the Fund's compliance with the Myners Principles
- Copy of the Statement of Investment Principles

**3.1** All remaining documentation will be available to Committee and Board members via the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

## 4. Training Agenda

Training is ongoing for members, however it would normally consist of the following:

- each Committee/Board member is expected to receive at least 2 days of training each year
- all members are invited to attend training courses suitable for their needs
- members are invited to attend employer and scheme member events hosted by the Pension Fund
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and NAPF conferences, these provide a general appreciation of the pension industry
- on-line training
- members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors
- in addition to the above, Fund officers are available to answer any queries from Committee/Board members.
- use of the member secure area of the Pension Fund website [www.nespf.org.uk](http://www.nespf.org.uk)

**4.1** In line with the CIPFA guidance 'Trustee Knowledge and Skills Framework', Appendix I outlines a framework for the degree of knowledge and skill expected of the member. A copy of the full CIPFA guide can be found on the members secure area of the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

## 5. Review Arrangements

A report will be presented to the Committee on an annual basis detailing;

- training provided in the previous year
- those members who attended the various training sessions
- seminars and conferences held in the previous year
- which seminars and conferences were attended by members

**5.1** Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding'.

**5.2** The Training Policy will be reviewed annually

## 6. Reimbursement of Expenses

All training costs are met directly by the Pension Fund

### Further information

If you have any questions relating to this Policy please contact the Governance Team:

North East Scotland  
**PENSION FUND**

Corporate Governance  
Business Hub 16  
3<sup>rd</sup> Floor-West  
Marischal College  
Broad Street  
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AB10 1AB

Governance & Communication Manager:  
Mairi Suttie ([msuttie@nespf.org.uk](mailto:msuttie@nespf.org.uk) or tel: 01224 264169)

Pensions Officer – Governance:  
Hayleigh Weldon ([HWeldon@nespf.org.uk](mailto:HWeldon@nespf.org.uk) or tel: 01224 264188)

## Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

### Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pension Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> <li>• General and Scheme Pension Legislation</li> <li>• Scheme Governance</li> <li>• Pension regulators and advisors</li> <li>• Legislative framework</li> <li>• Risk</li> </ul>	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> <li>• Audit and accounting regulations and requirement</li> </ul>	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> <li>• Understanding public procurement</li> <li>• Supplier risk management</li> </ul>	2	3
Investment Governance <ul style="list-style-type: none"> <li>• Investment Strategy</li> <li>• Financial Markets</li> </ul>	2	2
Investment performance and risk management <ul style="list-style-type: none"> <li>• Fund performance</li> <li>• Performance of advisors</li> <li>• Performance of the committee</li> <li>• Performance of support services and advisors</li> </ul>	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> <li>• Valuations</li> <li>• Outsourcing</li> </ul>	2	3

### Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

### PRINCIPAL RESPONSIBILITIES

1. Convener of the Pension Committee to determine, after taking the advice of the Head of Finance and other advisors:

- a) The investment strategy of the Fund or Funds for which the Pension Committee is responsible
- b) The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
- c) The appointment of investment and actuarial advisors and other third party services
- d) The Governance Framework
- e) The communication strategy of the Fund or Funds

2. And to monitor:

- a) The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
- b) The costs of running the Pension Fund and Scheme
- c) Comments and feedback from stakeholders

3. And to approve:

- the annual report and accounts of the Fund(s)
- Audit reports on the performance of the Pension Fund Service
- Statements on Investment Principles, Governance, Administration and Communication
- The Risk Register and an annual risk analysis
- The medium term business plan and annual updates
- Training and development plans and updates
- Discretions given by statute and regulation to the Pension Committee in relation to benefits under the LGPS

4. Work with the Head of Finance and other officers and advisors to plan an effective work programme for the Pension Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Head of Finance and other advisors in order to

understand the context and import of forthcoming issues

## PERSONAL SPECIFICATION

<b>Requirement</b>	<b>Essential</b>	<b>Desirable</b>
1. Educational	<p>Appropriate financial experience and training.</p> <p>Knowledge of pension funds and schemes.</p>	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	<p>Political awareness in numerous political environments.</p> <p>Chairing high level partnership meetings achieving effective outcomes.</p> <p>Operated for 5 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p>	Diplomacy and tact.

	Able to work effectively with colleagues who may have different levels of experience and understanding.	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.	

**The vice convener of the Pension Committee will also receive a copy of this guidance**

## Compliance with the Job Description

### 1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework Delivering Good Governance in Local Government).

***Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the dedicated 'trustee' area of the Pension Fund website. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the NAPF Local Authority Conference held annual in May which covers all aspects of the LGPS and the Local Authority Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pension Committee will be brought to the attention of members by officers.***

***The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:***

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

***Where appropriate this report should be accompanied by a meeting with Fund officers.***

### 2. Pensions accounting and auditing standards

2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both

internally and externally.

***Officers report annually to the Pension Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to the Pension Committee on the scheme accounts.***

### **3. Investment performance and risk management**

3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

***All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pension Committee,***

### **4. Financial markets and product knowledge**

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the fund (The investment activities of LGPS funds for example can be split into two groups - those funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers).

***The time given during the quarterly meetings of the Pension Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Conveners, but all 'trustees' through attendance at least one investment conference per annum. There is a wide selection of national conferences such as the NAPF or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported quarterly meeting to the Pension Committee.***

### **5. Actuarial methods, standards and practices**

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

***The triennial valuation and funding strategy statement are two key documents***

***in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.***

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

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