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To: **Pensions Committee**:- Councillor Malik, Convener; Councillor Reynolds, Vice Convener; Councillor Barney Crockett, the Lord Provost; Councillor Alan Donnelly, the Depute Provost; and Councillors Allard, Bell, Cooke, Delaney, and MacGregor.

Pension Board:- Mr A Walker, Chair; Councillor McKelvie; and Mr I Black, Mr S Clunes, Ms M Lawrence and Mr K Masson and 2 vacancies (Aberdeen City Council and Moray Council).

Town House,
ABERDEEN, 14 June 2018

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 22 JUNE 2018 at 10.30 am.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

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 (Pages 3 - 4)

MINUTES OF PREVIOUS MEETINGS

- 4 Minute of Previous Meeting of 16 March 2018 (Pages 5 - 14)

COMMITTEE BUSINESS PLANNER

- 5 Committee Business Planner (Pages 15 - 18)

FINANCE, PERFORMANCE, RISK AND SERVICE WIDE ISSUES

- 6 Internal Audit Annual Report and Internal Financial Control Statement 2017/18 - IA/18/013 - Report by Internal Audit (Pages 19 - 24)
- 7 Internal Audit Report AC1827 - Pensions System - Report by Internal Audit (Pages 25 - 38)
- 8 NESPF Draft Annual Report and Annual Accounts 2017-18 - PC/JUN18/AR (Pages 39 - 162)

GENERAL BUSINESS

- 9 Strategy - PC/JUN18/STRAT (Pages 163 - 210)
- 10 NESPF Business Plan (Pages 211 - 240)
- 11 Training Plan 2018/19 - PC/JUN18/TRA (Pages 241 - 258)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 12 Asset and Investment Manager Performance Report - PC/JUN18/AIMPR (Pages 259 - 280)

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, tel 01224 522503 or email sdunsmuir@aberdeencity.gov.uk

Agenda Item 3

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons

For example, I know the applicant / I am a member of the Board of X / I am employed by...
and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

I have considered whether I require to declare an interest in item (x) for the following reasons however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

OR

I declare an interest in item (x) for the following reasons however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

- (a) a devolved public body as defined in Schedule 3 to the Act;
- (b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
- (c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
- (d) a body being a company:-
 - i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
 - ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

OR

I declare an interest in item (x) for the following reasons.....and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval
- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority.... and I will therefore withdraw from the meeting room during any discussion and voting on that item.

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 16 March 2018. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Allard, Bell, Cooke, Delaney and MacGregor (Pensions Committee); and Mr A Walker, Chairperson; Councillors Cowe and McKelvie; and Mr S Clunes, Ms M Lawrence and Mr K Masson (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; Claire Mullen, Employee Relationship Team Manager; Mairi Suttie, Governance Manager; David Hughes, Chief Internal Auditor; and 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:-
<https://committees.aberdeencity.gov.uk/ieListDocuments.aspx?CId=506&MId=6142&Ver=4>

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

DETERMINATION OF URGENT BUSINESS

1. The Convener advised that he had accepted the following item onto the agenda as a matter of urgency in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973:-

Procurement of Pension Administration Software

The Committee resolved:-

to agree with the Convener that the matter be considered as a matter of urgency.

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 16 (Asset and Investment Manager Performance Report) and 17 (Investment Strategy Update).

The Committee resolved:-

In terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of items 16 and 17, 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.

PENSIONS COMMITTEE AND PENSION BOARD
16 March 2018

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING

4. The Committee had before it the minute of its previous meeting of 1 December 2017.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT PLAN 2018/19 - IA/18/005

5. The Committee had before it a report by Internal Audit which sought approval of the Internal Audit plan for 2018/19.

The Committee heard from Mr David Hughes, Internal Auditor, in respect of the report.

The report recommended that Committee approve the attached Internal Audit plan 2018/19.

The Committee resolved:-

to approve the report.

The Board resolved:-

to note the decision of the Committee.

NORTH EAST OF SCOTLAND PENSION FUND - ANNUAL AUDIT PLAN 2017/18

6. The Committee had before it a report by External Audit which set out the North East Scotland Pension Fund Annual Audit Plan 2017/18. The Committee heard from Ms Gillian Woolman, External Audit, on the main points from the report.

The report highlighted key audit risks and the planned audit work in respect of these, and set out the 2017/18 reporting arrangements to the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

16 March 2018

The Committee resolved:-

- (i) to thank Ms Woolman for her informative presentation of the report; and
- (ii) to otherwise note the report.

The Board resolved:-

to note the decision of the Committee.

LOCAL GOVERNMENT PENSION FUND OVERVIEW

7. The Committee had before it a paper prepared by External Audit which provided an overview of the Local Government Pension Scheme in Scotland, based on the annual reports and accounts of the 11 pension funds administered by Councils in Scotland and the reports of their appointed auditors.

The Committee heard from Ms Woolman in respect of the paper.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

BUDGET FORECAST AND PROJECTED SPEND 2017-18 - PC/MAR18/BUD

8. With reference to Article 6 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 2017/18 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that Committee –

- (a) note the update on the NESPF Management Expenses Budget / Forecast and Projected Spend for 2017/18;
- (b) note the update on the Pension Fund staff costs and staffing vacancies; and
- (c) note the update on the Actuarial Fees, Direct Property Expenses and Transaction Costs shown in Appendix 1.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

16 March 2018

UPDATE ON THE DRAFT FUNDING STRATEGY STATEMENT - PC/MAR18/FSS

9. The Committee received a presentation from Claire Mullen, Employer Relationship Team Manager, in respect of the following item. Members asked a number of questions of Ms Mullen.

The Committee also had before it a report by the Director of Resources which sought approval for the draft Funding Strategy Statements for both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) to allow the scheme actuary to sign off the 2017 triennial valuation and set the employer contribution rate requirements by the deadline of 31 March 2018.

The report recommended:-

that Committee –

- (a) approve the draft NESPF Funding Strategy Statement, including the proposed assumptions that had been recommended by the scheme actuary;
- (b) approve the draft ACC Transport Fund Funding Strategy Statement including the proposed assumptions that had been recommended by the scheme actuary;
- (c) approve the proposal to disaggregate the 'Councils Group' and the 'Other Employers Group' from 1 April 2018; and
- (d) note the remainder of the report.

The Committee resolved:-

- (i) to thank Ms Mullen for the informative presentation; and
- (ii) to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

STATEMENT OF ACCOUNTS 2017-18 ACTION PLAN - PC/MAR18/ACCOUNTS

10. The Committee had before it a report by the Director of Resources which provided information and key dates in relation to the approval and submission of the 2017/18 Statement of Accounts, including linkages to the plans and timetables of the Council's External Auditors.

The report recommended:-

That Committee note the contents of the report.

The Committee resolved:-

to approve the recommendation.

PENSIONS COMMITTEE AND PENSION BOARD
16 March 2018

The Board resolved:-

to note the decision of the Committee.

INVESTMENT STRATEGY REVIEW 2018 - PC/MAR18/REVIEW

11. The Committee had before it a report by the Director of Resources which detailed the outcome of the investment strategy review prepared by officers following the outcome of the 2017 Actuarial Valuation. The report set out the details of the Fund's current investment strategy and made a number of recommendations on how it was proposed to take the strategy forward over the next five to ten years.

The Committee then heard from Laura Colliss, Pensions Manager, who explained that the proposed strategy was designed to de-risk by reducing the growth asset allocation and increasing the income / protection allocation.

The report recommended:-

That Committee approve the proposed investment strategy as set out in section 3.5 and Appendix 1 to the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS

12. The Committee had before it a report by the Director of Resources which provided a review of the North East Scotland Pension Fund compliance with the Public Service Pensions Act 2013 and the Pension Regulator requirements relating to the Fund during financial year 2017/18. Appended to the report were the KPMG recommendations from the Scottish Public Service Pensions Governance Review.

The report recommended:-

that Committee note the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

16 March 2018

The Convener intimated that he had directed in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973, that the following item be considered as a matter of urgency to enable the Council to consider the matter prior to the end of the current contract arrangements.

**PROCUREMENT OF PENSION ADMINISTRATION SOFTWARE - UPDATE -
PC/MAR18/ADMIN**

13. With reference to article 11 of the minute of the previous meeting, the Committee had before it a report by the Director of Resources which advised on the potential future running costs of a new contract with Aquila Heywood for the provision of pension administration software. The report noted that the Committee had previously approved expenditure to award the new contract to Heywood, however in line with an audit recommendation, officers had now brought a further report to Committee to highlight that under the proposed contract terms, the supplier had the option to increase the initial support and maintenance costs by RPI (Retail Prices Index) plus 5%.

The report noted that the option existed under the current contract terms with Heywood and throughout the term of the existing contract which was entered into, the annual increases applied by Heywood had run slightly below RPI, and they had not exercised the option to increase by the maximum. The report indicated that there was therefore no evidence to suggest that they would choose to do so during the new contract term.

The report recommended:-

that Committee confirm the award of a new contract to Heywood as the supplier of pensions administration software, using the Northumberland County Council Framework, for a 10 year term (or such shorter term as may be deemed appropriate by the Chief Officer - Finance following consultation with the Chief Officer - Commercial and Procurement Services) and approve the potential expenditure as detailed in 3.2 and 3.3.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

16 March 2018

STRATEGY - PC/MAR18/STRATEGY

14. With reference to article 8 of the minute of its previous meeting, 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 and updates on the officer response to the draft Local Government Pension Scheme (Scotland) Regulations 2018; the Government response to its consultation on the indexation and equalisation of Guaranteed Minimum Pensions; the Altair 8.1 Testing Working Party in relation to improvements and changes to the administration system; an update on the draft Funding Strategy Statement; and any adjustments to the Scheme policies and statements. Appended to the report was a revised signatory list to reflect staffing changes in Legal and Democratic Services and Commercial and Procurement Services.

The report recommended:-

that Committee –

- (a) approve the Pension Fund Signatory List as noted in Appendix II, for implementation as at 1 April 2018;
- (b) review and approve the policy document changes as detailed in the report; and
- (c) note the remainder of the report

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

2018/19 MEETING DATES

15. The Committee had before it the meeting dates for April 2018 to April 2019 which had been approved at the meeting of Full Council on 5 March 2018, namely:-

10.30am, Friday 22 June 2018
 10.30am, Friday 14 September 2018
 10.30am, Friday 30 November 2018
 10.30am, Friday 15 March 2019

The Clerk advised that electronic appointments would be sent to Members.

The Committee resolved:-

to note the dates.

PENSIONS COMMITTEE AND PENSION BOARD
16 March 2018

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 -
PC/MAR18/AIMPR**

16. With reference to article 12 of the minute of its previous meeting, the Committee had before it a report by the Head of Finance which provided a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 December 2017.

The Committee heard from Mr Graham Buntain, Investment Manager, in respect of the detail contained in the report and Members then asked questions of Mr Buntain. With reference to the discussion at the previous meeting about the Corporate Social Responsibility Policy and the responsibilities around good social and environmental practice, Mr Buntain advised that officers were looking to bring information before Committee during the next quarter.

The report recommended:-

that Committee note the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

INVESTMENT STRATEGY UPDATE - PC/MAR18/INVSTRAT

17. With reference to Article 13 of the minute of the previous meeting, the Committee had before it a report by the Head of Finance which provided an update on the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The Committee heard from Mr Buntain in respect of the detail outlined in the report. Mr Buntain also gave an update on the Global Custodian move, noting that work was on track for the deadline to be met.

PENSIONS COMMITTEE AND PENSION BOARD
16 March 2018

The report recommended:-

that Committee –

- (a) approve the commitment of £100 million investment in the Hermes Infrastructure Fund II proposal; and
- (b) note the verbal update on the HSBC Global Custody move.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

- **COUNCILLOR M.TAUQEER MALIK, Convener**

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	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER								
	The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3			22 June 2018						
4	Training	To provide details of the training plan (2018/19) for the Pension Committee and Pension Board of the North East Scotland Pension Fund.		Laura Colliss	Finance	Resources	Purpose 3 and 4.2		
5	NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
6	Internal Audit Annual Report and Internal Financial Control Statement 2017/18	To provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2017/18.		David Hughes	Governance	Governance	2.2		
7	Internal Audit Report AC1827 – Pensions System	To present the planned Internal Audit report on the Pensions System.		David Hughes	Governance	Governance	2.2		
8	Budget Forecast & Annual Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3	W	There will be no budget report this cycle due to the annual accounts report on the agenda
9	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
10	NESPF Business Plan	To present the NESPF Business Plan		Laura Colliss	Finance	Resources	Purpose 1		
11	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
12	Corporate Governance	To provide an update on the Corporate Governance activities (including the LAPFF) of the Pension Fund		Laura Colliss	Finance	Resources	4.1	W	Officers are currently investigating how these reports will be presented in future, therefore there is no report available for this cycle
13	Investment Strategy Update	To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF		Graham Buntain	Finance	Resources	1.2	W	Although a standing item on the planner, there is no update to report this cycle
14			14 September 2018						

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
15	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
16	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
17	Budget Forecast & Annual Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
18	Corporate Governance	To provide an update on the Corporate Governance activities (including the LAPFF) of the Pension Fund		Laura Colliss	Finance	Resources	4.1		
19	NESPF Annual Report & Accounts	To present the annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
20	External Audit Annual Audit Plan	To report on the 17/18 External Audit of the NESPF		Laura Colliss	Finance	Resources	2.1		
21	Investment Strategy Update	To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF		Graham Buntain	Finance	Resources	1.2		
22			30 November 2018						
23	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
24	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
25	Investment Strategy Update	To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF		Graham Buntain	Finance	Resources	1.2		
26	Update on Annual Benefit Statements	Update on the provision of the annual benefit statements to the Fund's active and deferred members		Mairi Suttie	Finance	Resources			
27	Corporate Governance	To provide an update on the Corporate Governance activities (including the LAPFF) of the Pension Fund		Laura Colliss	Finance	Resources	4.1		
28	Budget Forecast & Annual Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
29									
30			15 March 2019						
31									
32									
33									
34									
35									
36			AD HOC REPORTS (CYCLE DEPENDENT ON REQUIREMENT TO REPORT)						

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
37	Request for admitted body status	To consider applications for admission to the Local Government pension scheme administered by Aberdeen City Council		Claire Mullen	Finance	Resources	5.2		
38									
39									
40									
41			April 2019 Onwards						
42	Annual Committee Effectiveness Report	To present the annual effectiveness report for the Committee.	May-19		Governance	Governance	GD 7.4		
43									
44									

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 June 2018
REPORT TITLE	Internal Audit Annual Report and Internal Financial Control Statement 2017/18
REPORT NUMBER	IA/18/013
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2017/18.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2017/18;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2017/18; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. BACKGROUND / MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.
- 3.2 The Internal Audit plan for 2017/18 was agreed by the Pensions Committee on 23 June 2017. The plan consisted of one audit although there were a number of audits undertaken in relation to Aberdeen City Council which contributed to Internal Audit's understanding of the NESPF governance, risk management and control arrangements.
- 3.3 It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Financial Control Statement. This is

supplemented by review of other relevant documentation, including Pension Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).

- 3.4 Internal Audit's annual opinion is attached as Appendix A, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's internal control system in the year to 31 March 2018.
- 3.5 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor report to Senior Management and the Board on the outcome of Internal Audit's Quality Assurance and Improvement Plan (QAIP). Following completion of a review by KPMG in this respect, the results were reported to Aberdeen City Council's Audit, Risk and Scrutiny Committee. An action plan was agreed in relation to recommendations made, and progress is being monitored by the Audit, Risk and Scrutiny Committee.
- 3.6 The Standards also require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor.
- 3.7 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2017/18, there have been no such limitations.

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. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to consider Internal Audit's annual report. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Appendix A – Internal Audit Statement relating to the North East Scotland Pension Fund Internal Control System for the year ended 31 March 2018.
- 9.2 Appendix B – Position with agreed recommendations included in NESPF Internal Audit reports.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861

Appendix A

Internal Audit Statement relating to the North East Scotland Pension Fund Internal Control System for the year ended 31 March 2018

As Chief Internal Auditor of the North East Scotland Pension Fund, I am pleased to present my annual statement on the adequacy and effectiveness of the internal control system of the NESPF for the year ended 31 March 2018. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2018.

Whilst issues were identified in audits that have been completed, as reported to the Pensions Committee, areas of good practice, improvement, and procedural compliance were also identified.

Basis of Opinion

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2018;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the NESPF's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.

Respective responsibilities of management and internal auditors in relation to internal control

It is the responsibility of the Pension Fund's senior management to establish an appropriate and sound system of internal control and to monitor the continuing effectiveness of that system. It is the responsibility of the Chief Internal Auditor to provide an annual overall assessment of the robustness of the internal control system.

Sound internal controls

The main objectives of the Pension Fund's / Aberdeen City Council's internal control systems are to:

- ensure adherence to management policies and directives in order to achieve the organisation's objectives;
- safeguard assets;
- ensure the relevance, reliability and integrity of information, so ensuring as far as possible the completeness and accuracy of records; and
- ensure compliance with statutory requirements.

Any system of control can only ever provide reasonable and not absolute assurance that control weaknesses or irregularities do not exist or that there is no risk of material errors, losses, fraud, or breaches of laws or regulations. Accordingly, the Council is continually seeking to improve the effectiveness of its systems of internal control.

The Work of Internal Audit

Internal Audit is an independent appraisal function established by the NESPF / Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

The section undertakes an annual programme of work agreed with management and the Pensions Committee. The audit plan is based on a risk assessment process which is revised on an ongoing basis to reflect evolving risks and changes within the Pension Fund and Aberdeen City Council.

All Internal Audit reports identifying system weaknesses, non-compliance with expected controls, and / or assurance of satisfactory operation are brought to the attention of management and include appropriate recommendations and agreed action plans. It is management's responsibility to ensure that proper consideration is given to Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor is required to ensure that appropriate arrangements are made to determine whether action has been taken on internal audit recommendations or that management has understood and assumed the risk of not taking action.

**David Hughes,
Chief Internal Auditor,
North East Scotland Pension Fund
21 May 2018**

Appendix B

**POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF
INTERNAL AUDIT REPORTS
AS AT 12 JUNE 2018**

Note: This is on an exception basis, where all recommendations in a report have been implemented, the report is not shown.

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Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.05.18	Confirmed Implemented by Service	Not implemented by original due date	
AC1725	Pension Fund Payroll	October 2017	8	5	5	0	0
AC1827	Pensions System	March 2018	7	4	4	0	0

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	22 June 2018
REPORT TITLE	Internal Audit Report AC1827 – Pensions System
REPORT NUMBER	IA/AC1827
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on the Pensions System.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Pensions System.

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. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

- 9.1 Internal Audit report AC1827 – Pensions System.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
David.Hughes@aberdeenshire.gov.uk
(01467) 537861



ABERDEEN CITY COUNCIL

Internal Audit Report Pensions System

Issued to:

Steven Whyte, Director of Resources
Fraser Bell, Head of Legal & Governance
Sandra Buthlay, Interim Head of Finance
Laura Collis, Pensions Manager
Gary Gray, Benefit Administration & Technical Manager
Mairi Suttie, Governance Manager
External Audit

EXECUTIVE SUMMARY

The North East Scotland Pension Fund (NESPF) is administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.

This fund is valued at over £3.8 billion and provides pension arrangements for 57 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has 25,192 active members, 17,352 deferred members (who do not currently pay into the scheme) and pays benefits to 20,240 pensioners and dependents each month.

The objective of this audit was to consider whether appropriate control is being exercised over the system used to administer the Fund, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems are accurate and properly controlled. In general there is adequate control over the system, and comprehensive written procedures.

Password protocols may need to be updated to reflect revised best practice, audit logs should be reviewed more regularly, manual secondary checks are in place but control could be enhanced through system development, and the data protection compliance of the test database needs to be reviewed. The Service has committed to reviewing these aspects and implementing relevant actions by September 2018

Whilst the Service considers the system to be reliable, and remote supplier hosting arrangements reduce the risk of local hardware issues compromising access, there remains a risk of incidents occurring which are beyond the supplier's ability to repair within targeted timescales. The Service will create a local contingency plan to address this.

The Service has recently entered into negotiations for a new 10 year contract with the software provider under a tendered framework agreement which will shortly expire. Alternative options including a new joint tender have been considered and not progressed as the Service considers these do not offer best value. The Pensions Committee approved the cost of the new system at £252,946 per annum, and following advice from Internal Audit and Commercial and Procurement Services the Service has sought further approval for additional costs which may be incurred due to contract price inflation.

1. INTRODUCTION

- 1.1 The North East Scotland Pension Fund (NESPF) is administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.
- 1.2 This fund is valued at over £3.8 billion and provides pension arrangements for 57 employers including Local Authorities, the Scottish Fire and Police Services, Further Education establishments and various charities and other bodies. It has 25,192 active members, 17,352 deferred members (who do not currently pay into the scheme) and pays benefits to 20,240 pensioners and dependents each month.
- 1.3 The system which is used to administer the Fund is Altair and the objective of this audit was to consider whether appropriate control is being exercised over the system, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems are accurate and properly controlled.
- 1.4 This involved an examination of current and potential future running costs of the Pensions system, written procedures for administration and management of the system including training, access to the system, users' data input, interfaces and reconciliations of data transfer, and contingency planning.
- 1.5 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Laura Collis, Pensions Manager, and Gary Gray, Benefit Administration & Technical Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 System Costs & Licences

- 2.1.1 The current pensions system Altair is provided by Heywood for which an annual fee is payable. The original cost of the contract, effective from April 2011, comprised an initial set up fee of £120,551 and ongoing annual costs of £167,784 for a period of 5 years, subsequently extended via Committee approval in 2016 for a further 2 years. The annual costs however were subject to an annual potential increase (at the Supplier's discretion) of the Retail Price Index (RPI) plus 5%. The RPI has averaged 3% during this time.
- 2.1.2 Figures obtained from the Service show the annual cost of the system has increased to £252,946 per annum as of 2017/18, this increase consisting of membership banding increases and an increase in the hosting agreement to allow for 30 users, in addition to annual price increases of an average of 3%. Whilst the cost increase reflects agreed enhancements to the system during this time, including options for additional users and payees the annual increase has still been substantial.
- 2.1.3 A report to the Pensions Committee on 1 December 2017 recommended entering a new contract with the current supplier at an annual cost of £252,946 for a period of 10 years. These arrangements should be compliant with procurement regulations, having been tendered as a sole provider framework in 2014 for four years by Northumberland County Council.
- 2.1.4 Commercial and Procurement Services noted that the proposed contract length may be too long, given the framework from which it is to be called off from will expire shortly, and other Scottish LGPS Funds are in the process of completing a joint tender exercise for a software administration provider.
- 2.1.5 The Service has stated they remain happy with the proposal, for the reasons stated in the Committee report, which include limited alternatives, cost sharing for updates as part of a national group of administering authorities using the same system, and potential data migration costs of transferring to a new system. In addition, the supplier has stated that new and renewed contracts are normally subject to a £500,000 initial set up fee, which will be waived if the Service commits to a contract without further competitive tendering.
- 2.1.6 Review of the framework terms and conditions shows that although the initial fee (referred to as 'the price') is kept constant for the life of the contract (£0) there remains an option for the supplier to increase the support and maintenance fee by RPI plus 5% annually. Over the contract period this could result in the payment increasing to £505,000 per annum – double its current rate based on an 8% per annum increase. Whilst the Service considers this unlikely as historically only the Retail Price Index increase has been applied, the Contract does allow for these levels of increase. However, the Committee was not advised of this risk.
- 2.1.7 From 2011 to 2017, the average historic increase has been 3% per annum peaking at 5% in 2012/13 through to the lowest increase in 2016/17 of 1.5%. Yearly increases have mirrored Retail Price Index figures as of July the previous year. Applying the average 3% annual cost increases means an additional £370,282 will be paid to the supplier, resulting in a total spend of £2,899,742 compared to £2,529,460 which the Committee would have assumed on the basis of the December 2017 report – an additional 15%.
- 2.1.8 The Council's Procurement Regulations, used by the Service, set out that contract costs (which have to be calculated over the entire length of the contract) cannot vary beyond the lesser of 25% or £100,000 without further Committee approval. Such cost increases

are therefore not within Officers' delegated powers to accept, and need to be transparent for the Committee to take a decision.

Recommendation

The Service should ensure the Pensions Committee is provided with the full estimated cost of the proposed contract and alternative options.

Service Response / Action

NESPF have provided evidence to demonstrate the substantial cost referred to in 2.1.2 was attributable to system enhancements and increased membership, not because of annual increases applied by the supplier. In the proposed contract duration there will be no requirement to change payroll system and there are currently no major scheme changes planned, however should that change it is likely that that they will not be as significant as moving from Final Salary to Career Average Revalued Earnings on 1 April 2015. The proposal has future proofed exceeding our membership banding by increasing our limit to 80,000, a figure which will not be exceeded during next 10 years.

The joint tender exercise referred to in 2.1.4 is led by Lothian Pension Fund (LPF) with 7 other Scottish funds named on the tender document albeit under no obligation to go with contract award, the duration of the contract is for 168 months (10+2+2 years). LPF requirements differ significantly from NESPF and that is one of the reasons why, following consultation with Commercial and Procurement Services, we decided to use the Northumberland Framework.

The option for the supplier to increase support and maintenance fee by RPI plus 5% referred to in 2.1.6 has never been used. This option exists in our current contract and was reviewed by Legal in March 2011. Evidence has been provided to show that the average annual increase applied by the supplier has been 3%, which was slightly below inflation. It is also worth noting that the annual increases published by the supplier apply to all authorities that participate in the CLASS Group which consists of all 11 Scottish Funds, Northern Ireland and majority in England and Wales.

There is no evidence to suggest anything like the potential cost increases referred to in 2.1.6.

Further approval will be sought from the Pensions Committee as appropriate. A report has been prepared for the meeting of 16 March 2018.

Implementation Date

Implemented

Responsible Officer

Mairi Suttie, Governance
Manager

Grading

Significant within audited
area

2.1.9 The number of named Employees who can access the system was increased in 2014/15 from 25 to 30. There are currently 29 named users of the system. Employer Service Users and Members can also log in and the system is configured to allow for a maximum of 50 concurrent users at any one time for both Employer Service Users and Members. The Service confirmed that the average number of logins per day was currently 30 meaning that the current allocation is sufficient. The system automatically prevents more than 50 members logging in at any one time meaning there is no risk of additional cost for 'overuse' of the system.

2.2 Written Procedures & Training

2.2.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance of correct and

consistent practices being followed, especially in the event of an experienced employee being absent or leaving.

2.2.2 The Service has comprehensive written procedures covering the main areas of the service, which are available on the network to all users. These are updated on an ongoing basis. The Technical Manager participates in a national working group on Altair and is therefore in a position to be able to advise on changes and additional functionality which may become available.

2.2.3 Training is desk based with a member of the Technical Team training new employees in the basic functionality of the system and colleagues providing further support and explanations for specific role functions thereafter.

2.3 System Access & Passwords

2.3.1 In order to protect confidential information and prevent any fraudulent activity it is important that system access is suitably protected. Following a request from a Line Manager for access for an employee the Technical Team sends an email to the Supplier through their secure web portal to set up a new user on the system.

2.3.2 Where an employee no longer requires access to the system, the Technical Team remove the user's login access meaning they can no longer use the system. The user remains active on the system until such time as their work is reallocated.

2.3.3 In order to further increase security, all users are required to enter a 6 digit password of their choice which then requires to be changed every 3 months. Guidance from the National Cyber Security Centre suggests that enforcing regular password changes may be counterproductive and that passwords should only be changed where an attempt at fraudulent access is suspected.

Recommendation

The Service should ensure that password protocols reflect best practice.

Service Response / Action

Agreed. NESPF will review password protocols and adopt best practise.

Implementation Date

April 2018

Responsible Officer

Neil Middleton, Technical
Manager

Grading

Important within audited
area

2.3.4 It is important that attempts at password entry are limited to lessen the chances of attempted fraudulent access to the system. After 3 incorrect password entry attempts the system locks the user out of the system and passwords thereafter can only be reset by the Technical Team.

2.3.5 While it is recognised that there may be a need for a third party to access the system in order to carry out upgrades or resolve issues for instance, this should be limited and restricted. The Supplier is the only party that has access to the system and this must be requested by the Supplier and authorised by the Service, or the Service will contact the Supplier where an issue arises. When an issue has been resolved the Service is notified by the Supplier through a secure portal.

2.3.6 The Service maintains an audit log of third party access in which any activities carried out by the Supplier are recorded. The Service confirmed that this log is reviewed on an ad-hoc basis. It would provide greater assurance if third party activity were reviewed on a set basis, to identify any unrequested activity.

Recommendation

The Service should review the Audit Log of Third Party access at a set frequency.

Service Response / Action

Agreed. NESPF will review the audit log monthly to check for any unrequested activity and raise any instances identified with the supplier.

Implementation Date

April 2018

Responsible Officer

Neil Middleton, Technical
Manager

Grading

Important within audited
area

2.3.7 The Service confirmed that where an individual’s details are to be viewed, in relation to a system issue, then their details are desensitised first which comprises of randomising key pieces of information such as National Insurance numbers, names and addresses meaning that an individual cannot be identified. By doing this there is assurance that an individual’s details cannot be viewed by third parties where there is no business reason for them to have access to such details.

2.3.8 There is a test database in which the supplier and users can review and test processes following changes to the system, and test recoveries. This is updated periodically with ‘live’ data. Although use of and access to this data is controlled, there are risks to Data Protection compliance in using live data in test systems.

Recommendation

The Service should review the use of live data in its test database to ensure it is compliant with Data Protection requirements.

Service Response / Action

Agreed.

NESPF use live data in the test database to ensure the system delivers accurate benefit calculations in accordance with regulations. It is just not possible to create the volume or the many different membership types that have evolved on the system over many years in a test database. By using live data for testing purposes we significantly reduce the possibility of corrupting the live database which could result in a breach of Data Protection legislation.

We will review the use of live data in the test database and ensure we have appropriate procedures and security in place to comply with Data Protection requirements.

Implementation Date

September 2018

Responsible Officer

Neil Middleton, Technical
Manager

Grading

Important within audited
area

2.4 Data Input

2.4.1 Restrictions are automatically placed on a user’s access rights upon setting them up on the system thereby restricting their access to information and functionality which would be inappropriate to their role. The Service confirmed that additional filters can be placed on any users restricting their access still further if this is deemed appropriate. Examples of these filters include preventing a user from performing calculations or preventing them from accessing individual records. However, this functionality is not regularly used. The Service does not routinely obtain declarations of interest from employees to provide assurance that they are not processing or viewing entries for e.g. relatives and close

friends, therefore there is no way to determine which records an individual should or should not access.

- 2.4.2 It is important that all details which have been viewed, amendments and calculations performed and payment details input by all users are recorded to identify any erroneous entries and also for the purposes of fraud prevention. All inputs to the system and information viewed by users is recorded and these logs are retained by the Service. The Service confirmed that these logs are not routinely examined to identify any anomalies, rather reliance is placed on the fact that users have their access restricted at the point of access. Given the number of transactions which are processed every day, restrictions at the point of set up and the fact that all transactions are recorded and can be examined if inappropriate activity is suspected, this is a reasonable approach.
- 2.4.3 There are 3 'super users' within the system whose access exceeds that of 'normal users' in that they can amend and delete system data and also reports of their activity. Activity by super users is not routinely reviewed by another super user. However, everything they view and / or amend is recorded in the same way as normal users and although they can delete reports of their activity, these can be run again at any point.
- 2.4.4 It is important that fields cannot be bypassed, and that data cannot be input in an incorrect format, to avoid omissions or mis-matches of data. Data validation and input masks are included in data entry fields to ensure that data is valid. In addition, warning flags will be displayed on screen before a calculation is finalised where the system identifies potential errors, exceptions, or where additional data is required. This serves to remind the user to perform secondary checks on the information which they have input.
- 2.4.5 The system is not currently configured to require that calculations which have been performed require a secondary check by another user, although it is Service protocol for junior members of staff to have input and calculations checked by a Senior Officer prior to finalisation and for spot checks to be performed on all users of the system.
- 2.4.6 There therefore exists the possibility that a false calculation could be performed by an Officer to artificially enhance a person's pension. The Service confirmed that while this is possible, spot checks are performed on random records to ensure that the calculations are correct and monthly payroll totals are subject to checks which flag up errors if entries are outwith certain parameters.
- 2.4.7 In mitigation, payment details which are input into the system have to be authorised by a second person meaning that a user would not be able to input their own or false details without a second person being complicit in this. 'Super users' are subject to the same restrictions in this respect.
- 2.4.8 The Service also confirmed that it is considering a system upgrade which would require that a box has to be ticked online by a Senior Officer to indicate that they have checked each calculation before the calculated figures go on to the payroll system, thereby ensuring that all calculations have been secondary checked. This would provide greater assurance over the accuracy and validity of all calculations.

Recommendation

The Service should ensure that secondary calculation checks are a system requirement.

Service Response / Action

Agreed. The upgrade referred to in 2.4.8 is an enhanced administration to payroll interface that ensures adjustments can only be transferred into payroll by a Senior officer. NESPF welcome this recommendation and will contact our Supplier for more

details around implementation and cost before preparing a report for consideration by the Pensions Committee in June 2018.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2018	Marie McLean, Benefit Administration Manager	Significant within audited area

2.5 Interfaces

- 2.5.1 Every month, payroll information is received from employers via the i-connect secure portal. This is then uploaded to Altair and reconciliations are performed between the information which has been sent and that which has uploaded to the system. At this point, any errors or information which has failed to upload is identified and investigated. Obvious errors, such as incorrect dates having been entered, are manually adjusted, and other errors are referred back to the Employer to obtain clarification prior to being manually adjusted.
- 2.5.2 A further reconciliation is then performed between the information received through i-connect and uploaded to the system to the payments which have been received to ensure that all match. The Service retains records of these reconciliations which are performed on a monthly basis.
- 2.5.3 Reconciliations for 5 Employers were examined over a 2 month period. Records showed that in 3 of 5 instances all reconciliations had been performed and all figures matched. In one instance adjustments had been made following queries to the Employer over anomalies in the upload. In the other case there had been no reconciliations since the start of the financial year due to monthly files being received late from an employer and due to additional complexity in reviewing multiple periods' data there being insufficient time to review this data once it had been received. The Service confirmed that at financial year end reconciliations are performed for all Employers to ensure files received match funds received, however in not performing monthly reconciliations errors may not be identified in a timely fashion and it may become more difficult to determine appropriate measures to correct them.

Recommendation

The Service should reinforce to employers the necessity of prompt submission of monthly files, and ensure all reconciliations are performed timeously.

Service Response / Action

It has taken NESPF more than 5 years to get monthly data in our preferred format and this has been achieved by working together with employers who are well aware of the requirement.

We were one of the first authorities in Britain to achieve this and we must remember that there is no legal requirement for employers to provide monthly data. Experience shared by other Funds is that without monthly data it is likely that statutory requirements will not be met which results in having to report a breach of law to The Pensions Regulator.

Our Pension Administration Strategy was revised and approved by the Pensions Committee in March 2017 following a consultation with all employers. The main amendment was the requirement for all employers to provide monthly data using the I-Connect portal which now provided an alternative way for small employers to do so rather than providing an extract file. As part of the strategy the quantity and quality of monthly data received from employers is published quarterly and has been provided to Committee since June 2014.

Issues around receiving monthly files referred to in 2.5.3 has happened to 2 of our largest employers as a result of procuring the same payroll system that promised a working file extract but failed to deliver. This has been a major frustration for both and caused them additional work however they have overcome this by developing their own file extracts. Both maintained close contact with our Employer Relationship Team who provided assistance whenever possible and accepted temporary solutions to continue to deliver our requirements in the short term.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Ongoing	Claire Mullen, Employer Relationship Manager	Important within audited area

2.6 System Backups & Contingency Planning

- 2.6.1 The system is backed up in line with the contract: an incremental backup is performed each day and retained for 4 weeks, full backups are performed weekly and retained for 12 weeks, and full monthly backups are retained for 12 months. In addition the Supplier confirmed that backups are held offsite.
- 2.6.2 It is important that in the event of the system 'crashing' or suffering catastrophic failure that the system and associated records can be restored from backups. This process is termed 'Disaster Recovery' and an exercise is undertaken annually by the Supplier to test this, with the Service invited to review the functionality of the system within a disaster recovery environment. A full recovery had taken place, and was reviewed by the Service, within the last year, with no issues identified.
- 2.6.3 In the event of the system being unavailable for any length of time it is important that a local contingency plan is in place. The Service confirmed that no such plan was in place as they are using a hosted Service and the current contract stipulates that in the event of access rights affecting all users the target for resolving this is 24 hours, for a few users the target time is 48 hours and for all other issues there is a target time of 14 days. The Service further confirmed that they had no records of any instance where system access had been restricted for more than 1 hour.
- 2.6.4 However, should an incident occur which is beyond the Supplier's ability to repair within the target timescales, or if the Supplier should cease trading, continuity of service might be affected, and it may be difficult to respond appropriately without a contingency / business continuity plan.

Recommendation

The Service should ensure that a Local Contingency Plan is established to give guidance in the event of prolonged system downtime.

Service Response / Action

Agreed.

In 2011 NESPF chose to go with our Suppliers hosted service to negate risks involved with hosting locally. Currently more than 40 local authority pension funds data is managed in the centre and this is why we believe it is the best option to safeguard delivery of pension administration.

We will create a Local Contingency Plan that will provide guidance and focus on communicating with members should an incident occur which is beyond the Suppliers ability to repair within targeted timescales.

Should our Supplier, the largest administration software provider in the UK and Ireland, cease trading this would impact not just the LGPS but majority of Public Sector pensions nationally.

Implementation Date

September 2018

Responsible Officer

Neil Middleton, Technical
Manager

Grading

Significant within audited
area

AUDITORS: D Hughes
C Harvey
D Henderson

Appendix 1 – Grading of Recommendations

GRADE	DEFINITION
Major at a Corporate Level	The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss, or loss of reputation, to the Council.
Major at a Service Level	<p>The absence of, or failure to comply with, an appropriate internal control which could result in, for example, a material financial loss to the Service/area audited.</p> <p>Financial Regulations have been consistently breached.</p>
Significant within audited area	<p>Addressing this issue will enhance internal controls.</p> <p>An element of control is missing or only partial in nature.</p> <p>The existence of the weakness identified has an impact on a system's adequacy and effectiveness.</p> <p>Financial Regulations have been breached.</p>
Important within audited area	Although the element of internal control is satisfactory, a control weakness was identified, the existence of the weakness, taken independently or with other findings does not impair the overall system of internal control.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	22 JUNE 2018
REPORT TITLE	UNAUDITED ANNUAL REPORT AND ACCOUNTS
REPORT NUMBER	PC/JUN18/AR
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	SANDRA BUTHLAY
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 To present the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for consideration.

2. RECOMMENDATION

That the Committee: -

- 2.1 Review and consider the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

3. BACKGROUND

- 3.1 Further to the Local Authority Accounts (Scotland) Regulations 2014 the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are presented to the Committee at this stage for review, with the audited version being presented to the September Committee for consideration and signing.

Appendix I, North East Scotland Pension Fund and the Aberdeen City Council Transport Fund Unaudited Annual Report and Accounts.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle as publication of the annual Statement of Accounts demonstrates the Council's proper stewardship and accountability of the public funds with which it is entrusted.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

NESPF Draft Annual Report and Accounts

11. REPORT AUTHOR CONTACT DETAILS

Laura Colliss
Pensions Manager
LColliss@nespf.org.uk
01224 264158

North East Scotland
PENSION FUND

**UNAUDITED ANNUAL REPORT
& ACCOUNTS**

FOR THE PERIOD

1 APRIL 2017 TO 31 MARCH 2018

**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

1. About the North East Scotland Pension Funds

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 2017/18:

Band	Range	Contribution Rate
1	On earnings up to and including £20,700	5.50%
2	On earnings above £20,700 and up to £25,300	7.25%
3	On earnings above £25,300 and up to £34,700	8.50%
4	On earnings above £34,700 and up to £46,300	9.50%
5	On earnings above £46,300	12.00%

2. Administration 2017/18

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pensions Board
Director of Resources	Steven Whyte
Actuary	Mercer
Global Custodian	BNP Paribas
Performance Measurement	BNP Paribas
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance Company
External Auditors	Audit Scotland
Internal Auditors	Aberdeenshire Council
Investment Consultant	KPMG
Employers	For full details see Appendix 2

3. Pensions Committee & Pensions Board

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 2017/18

Councillor M. Tauqueer Malik (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Barney Crockett
Councillor Neil MacGregor
Councillor Jim Noble (left May 2017)
Councillor Aileen Malone (left May 2017)
Councillor Alan Donnelly (left August 2017)
Councillor James Kiddie (left May 2017)
Councillor Willie Young (left May 2017)
Councillor Steve Delaney (joined May 2017)
Councillor Jennifer Stewart (joined August 2017)
Councillor Philip Bell (joined May 2017)
Councillor John Cooke (joined May 2017)
Councillor Christian Allard (joined May 2017)

Pensions Board

In line with scheme regulations, the Funds 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 should consist of equal numbers of trade union representatives and employer representatives, drawn from Councils and scheduled or admitted bodies.

Membership during 2017/18:

Ms. M Lawrence	Unison	
Mr. K Masson	GMB	
Mr. A Walker	Unite	
Mr S Clunes	UCATT	Joined Feb 2018
Councillor L Ironside	Aberdeen City Council	Left May 2017
Councillor F John	Aberdeen City Council	Joined May 2017, Left Aug 2017
Councillor A Donnelly	Aberdeen City Council	Joined Aug 2017, left Mar 2018
Councillor W Howatson	Aberdeenshire Council	Left May 2017
Councillor A McKelvie	Aberdeenshire Council	Joined May 2017
Councillor J Cowe	The Moray Council	
Ms. M Hart	Police Scotland	Left Apr 2018
Councillor B Stuart	Aberdeenshire Council	Substitute

In line with the training policy, Board members undertook 4 training sessions within 2017/18 with further dates/opportunities identified including Fund Manager Presentations and investment seminars in 2018/19.

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 Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2017/18 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on our website at www.nespf.org.uk

4. Administration and Performance

This year's administration report focuses on statement compliance, General Data Protection Regulation (GDPR), Guaranteed Minimum Pension (GMP) reconciliation, Testing Working Party (TWP), actuarial valuation and the pension administration strategy.

Statement Compliance

The biggest administrative challenge for the NESPF continues to be the requirement to issue benefit statements to all active members by the 31 August. In total 24,409 statements were issued to active members prior to the deadline which represented 99.76% compliance. We were able to identify the outstanding members to allow us to rectify the data issues on the administration system and 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.

There were no significant governance issues during the year however the Governance Team carried out and were involved in several projects which included contributing to the Governance Framework review within Aberdeen City Council, reviewing and implementing policy documents and monitoring ongoing compliance with the LGPS (Scotland) and the Pensions Regulator requirements.

General Data Protection Regulation

The General Data Protection Regulation (GDPR) comes into force on 25 May 2018 and replaces the EU 1995 Data Protection Directive and 1998 Data Protection Act in the UK.

To prepare for change the Technical Team chaired a project group that had representatives from all teams within the NESPF. A data gathering exercise was carried out to identify all areas that would be affected, and all documentation and contracts were reviewed. The NESPF arranged to meet with other Scottish funds and our software provider to discuss required system developments which were delivered at the start of 2018 making us ready for GDPR.

Guaranteed Minimum Pension Reconciliation

With contracting out ending on 6 April 2016, Her Majesty's Revenue and Customs (HMRC) provided a Scheme Reconciliation Service to assist pension funds with reconciling members guaranteed minimum pension (GMP) values held on their systems with the values held on the pension administration system. To date NESPF have reconciled more than 13,000 deferred and pensioner members and more than 9,000 active members and are on course to complete the exercise by December 2018.

Testing Working Party

The NESPF continues to be actively involved in the national Testing Working Party (TWP) for software releases from our supplier. During 2017/18 there were two

releases and we participated in both along with 5 other LGPS funds. The benefits of receiving early releases, which included the development for reporting transactional data from 1 April 2018 and being GDPR compliant for 25 May 2018, ensures our readiness for change and makes the many hours of testing worthwhile.

Actuarial Valuation

As required by the LGPS (Scotland) Regulations 2014 the Fund commissioned the scheme actuary, Mercer, to carry out the triennial valuation as at 31 March 2017 for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The valuation exercise is carried out to determine the overall funding level(s) as well as determine the individual contribution rates for all participating employers within both Funds.

The exercise started in early 2017 to determine the methodology and assumptions that were to be applied by the scheme actuary for the calculation of the liabilities. The process to gather and reconcile member data, extract the data and carryout the calculations meant that the proposed employer contribution requirements were provided by the actuary by September 2017. This allowed the Employer Relationship Team (ERT) to begin the process of communicating these requirements with the individual employers through a full employer consultation. This included discussions on the appropriateness of the assumptions used by the actuary, affordability and the potential impact of changes to the admission agreements.

The valuation certificate was signed off by the scheme actuary in March 2018 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels and the finalised rates were issued to all employers and published on the NESPF website following the completion of the actuarial process.

Pension Administration Strategy

In January 2017 our Pension Administration Strategy (PAS) was revised to incorporate the new LGPS regulations introduced from 1 April 2015. The revised PAS was introduced from 1 April 2017 and continues to focus on NESPF processing against key performance measurements and the quantity and quality of monthly data provision from employers.

NESPF processing performance

Key performance measurements	Target	2016/17	Amount	Achieved	2017/18
Letter notifying death in service to dependent	5 days	84%	40	33	83%
Letter notifying retirement estimate	10 days	98%	915	895	98%
Letter notifying actual retirement benefits	10 days	97%	1,596	1,550	97%
Letter notifying deferred benefits	10 days	79%	1,174	1,094	93%
Letter notifying amount of refund	10 days	79%	1,427	1,323	93%
Letter detailing transfer in quotes	10 days	91%	133	118	89%
Letter detailing transfer out quotes	10 days	97%	471	459	98%

2017/18 saw a strong processing performance by the Benefits Team which was achieved by introducing specialisation and leavers being managed by the Employer Relationship Team. This contributed to the significant percentage increases for both deferred and refund processing.

Retirement processing percentage remained high at 97% despite having to process over 200 more cases than ever before because of Voluntary Severance/Early Retirement undertaken by employers.

With the introduction of freedom and choice there was also a significant increase in requests for transfer out information however performance slightly increased as staff were able to target these more efficiently through group working.

Employer data provision

The NESPF identified the need for receiving monthly information from employers in 2014. Since then the secure i-Connect portal has been rolled out to participating employers with the smaller employers using the online returns version of the system from April 2017. The NESPF now receives, processes and reconciles monthly data files from 52 of the 55 participating employers with 2 employers currently testing monthly submissions.

The NESPF have experienced many benefits of monthly data provision. Efficiencies and savings have been made in the year end process, provision of information for the actuarial valuation and benefits processing. In addition, the quality of the data held by the NESPF on the member records is very high resulting in more accurate calculations and a greater confidence in the actuarial results.

Updates from I-Connect	2015/16	2016/17	2017/18
Starters	4,355	4,029	4,415
Amendments	33,464	12,430	30,314
Leavers	3,416	3,256	3,345
Contributions (employee, employer and additional)	260,665	184,205	261,380
Salary	148,677	178,650	259,913
CARE pay	231,866	176,274	251,773
	682,443	558,844	811,140

Data received from employers is monitored and classed as being of high, medium or low quality depending on amount of event updates successfully processed and validated by the Employer Relationship Team (ERT). All data submissions received in 2017/18 were of a high quality.

It is essential that data is received from employers in a timely manner to ensure that it can be reconciled against the payment of contributions being received by the NESPF. The vast majority of data for 2017/18 was uploaded by employers in advance of the deadline of the 19th of the month following the deduction of contributions from the member. Any late uploads are monitored by the ERT who are working with employers to ensure the provision of data is carried out in a timely and consistent manner.

The success of receiving monthly data has resulted in several requests for us to share our experiences. In 2017/18 Strathclyde Pension Fund and Health and Social Care – Northern Ireland visited the ERT and conference calls were held with Buckinghamshire County Council and Plumbing Pensions UK.

Employer discretions

Under Regulation 58 of the LGPS (Administration) (Scotland) Regulations 2014 employers must have a policy on the discretionary regulations. These policies must be published to allow members to access the information and a copy of policies held must be provided to the NESPF. As at 31 March 2018 the NESPF holds copies of discretions policies for 85% of the participating employers.

Communications

Following the development of the Funds' member self-service website, My Pension, 2017/18 saw the NESPF continue to promote and develop the service, with over 12,300 members registered at 31 March of 2018. Plans were also put in place for My Pension to accommodate the 2018 Deferred Benefit Statement as it moves to become an online only document.

A restructure of the NESPF website was also completed to ensure ease and efficiency for members when seeking information. The website was split into main areas including – Active, Deferred, Pensioners, and Thinking of Joining resulting in specific information for each member group being promptly accessible.

The NESPF also continued to monitor customer satisfaction levels, utilising surveys to gauge opinion. Results illustrated over 80% of new members either agreed or strongly agreed they were satisfied with the service provided by the Fund with 85% of pensioners also stating they were satisfied with the Fund's service.

A particularly notable achievement for the NESPF in 2017 was winning the Public Sector Scheme of the Year award at the Professional Pensions Pension Scheme of the Year Awards.

Investment and Accounting

The Investment and Accounting Teams are responsible for the financial management of the Pension Funds, including the delivery of investment strategies; to receive monies in respect of contributions, transfer values and investment income; to carry out the Funds' investment business; and to account for the Funds' assets and all monies received and paid from the Funds.

During 2016/17, the Funds moved Global Custodian to BNP Paribas, a move that required a significant investment of time and work by both the Accounting and Investment teams.

The Accounting Team gives support across the Funds to ensure accurate and timely data. In 2017/18, the Team continues to hold high level discussions with the Management Team on cost awareness. The first phase of financial coding simplification has been successfully completed with a view to reducing the number of cost centres and improving data accuracy.

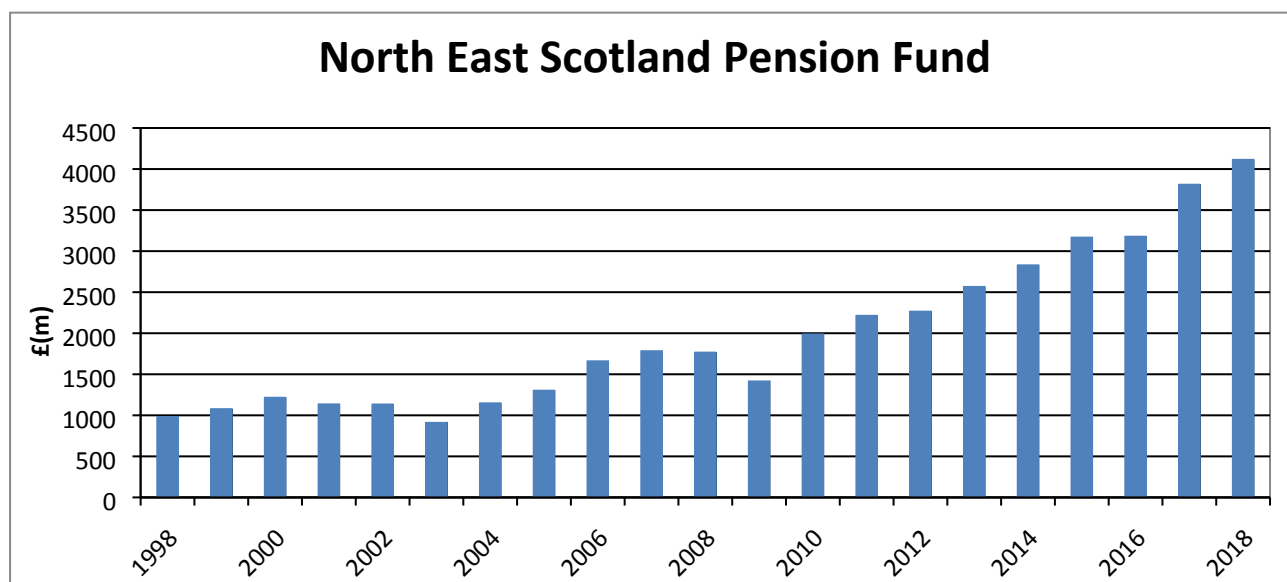
5. Financial Performance

North East Scotland Pension Fund Financial Summary

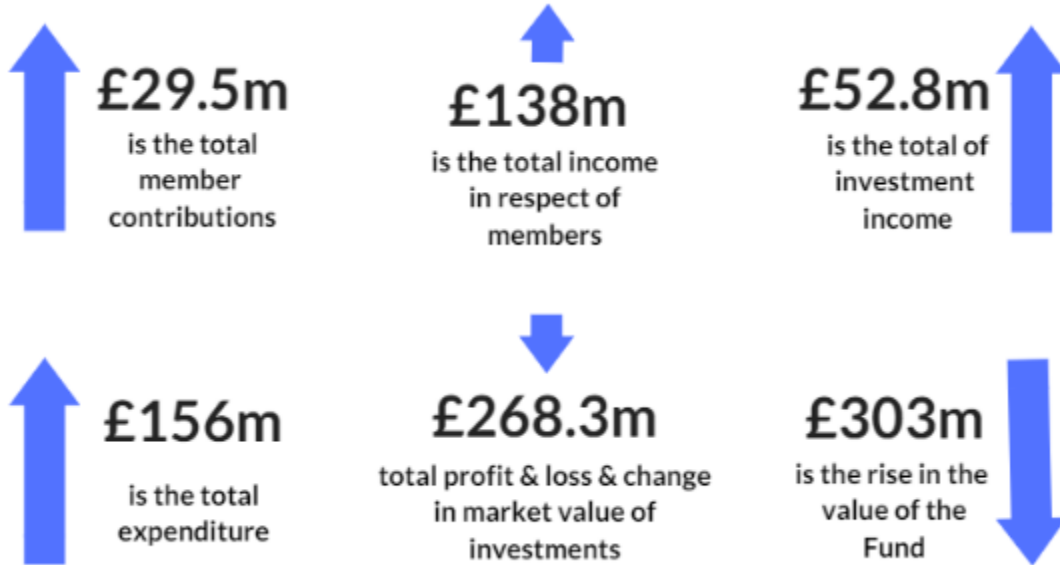
	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)*	(14,958)	(12,357)	(13,485)	(15,456)	(17,944)
Net investment income Change in Market Value Net return on Investment	278,513	350,131	23,929	648,411	321,059
Net increase in Fund	263,555	337,774	10,444	632,955	303,115
Fund Balance as at 31 March (Market Value)	2,833,575	3,171,349	3,181,793	3,814,748	4,117,863

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

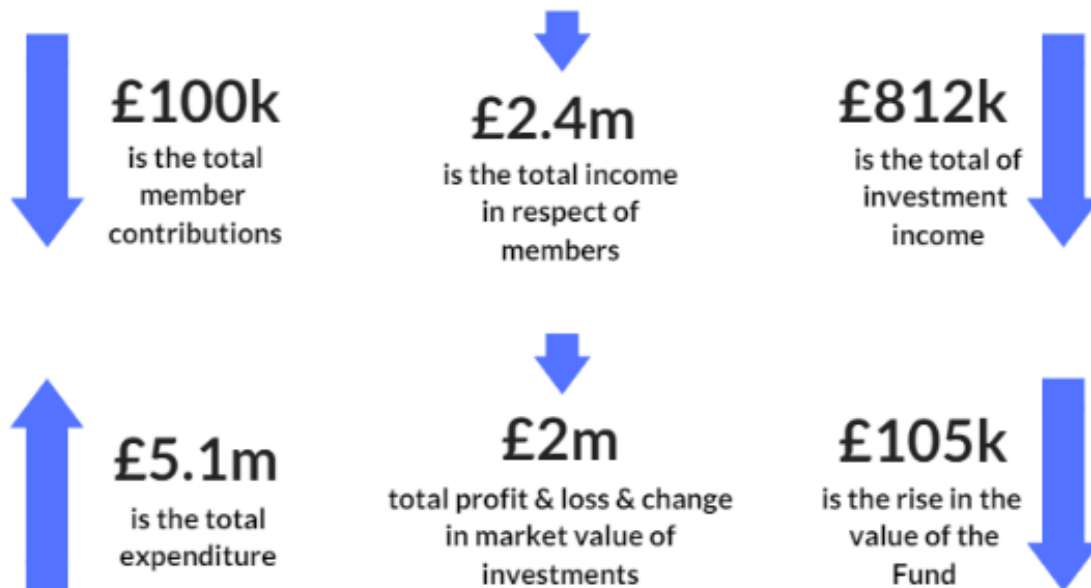
Fund balance as at 31 March 2018 (£m)



North East Scotland Pension Fund's achievements in 2017/18:



The Aberdeen City Council Transport Fund's achievements in 2017/18:



**North East Scotland
Pension Fund
(2017/18)**

**Aberdeen City Council
Transport Fund
(2017/18)**

£138m



**Contributions
Receivable**

£2.4m



£135.1m



**Benefits
Payable**

£4.1m



£20.9m



**Management
Expenses**

£991k



£321.1m



**Net Return on
Investments**

£2.8m



£4,117.9m



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

£100m



The monies belonging to the 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.

Membership Statistics

NESPF	2013/14	2014/15	2015/16	2016/17	2017/18
Active	22,880	24,089	24,546	25,329	25,568
Pensioners	17,106	17,726	18,328	19,111	20,023
Deferred	17,267	17,759	18,455	19,120	19,653

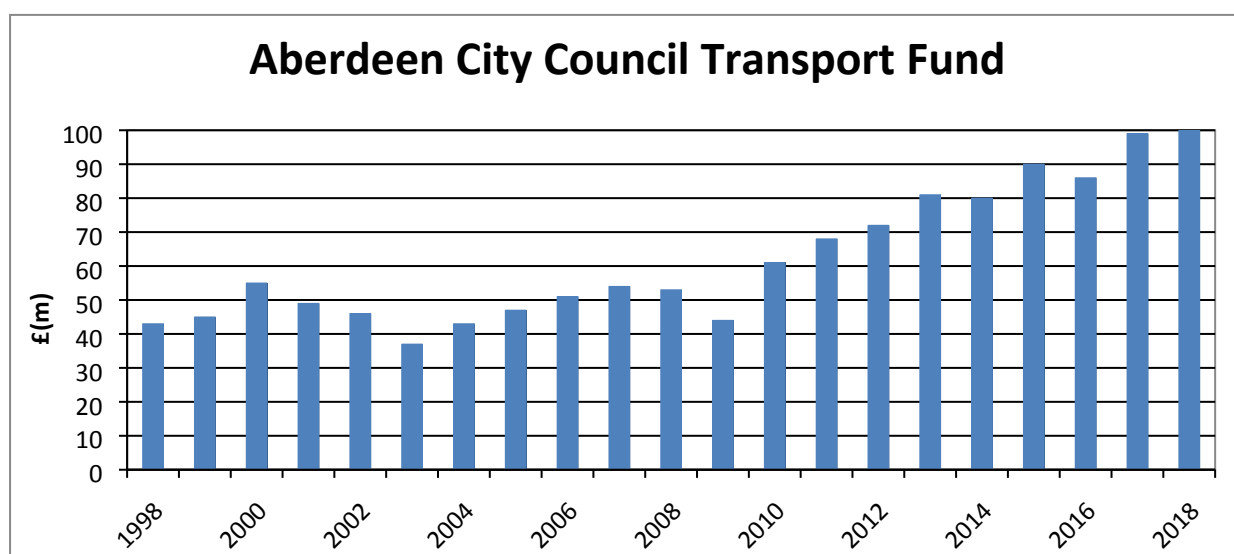
Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several potential factors such as an accelerated trend in longevity seen in recent years.

Aberdeen City Council Transport Fund Financial Summary

	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000	2017/18 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)*	(1,033)	(762)	(1,347)	(1,731)	(2,669)
Net investment income Change in Market Value Net return on Investment	137	10,564	(2,050)	15,454	2,774
Net increase in Fund	(896)	9,802	(3,397)	13,723	105
Fund Balance as at 31 March (Market Value)	79,838	89,640	86,243	99,966	100,071

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 2018 (£m)



Membership Statistics

Transport Fund	2013/14	2014/15	2015/16	2016/17	2017/18
Active	85	78	71	61	48
Pensioners	405	403	411	423	434
Deferred	155	150	142	130	123

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.

6. Economic and Market Background

Major equity and bond markets saw positive returns over the last 12 months. While it may seem that there were many events which could have upset the apple cart – the stalemate of Brexit negotiations; the rise of political populism; the unpredictability of President Trump; the threat of North Korea and unrest in the Middle East – nothing succeeded in doing so. Ultimately, the only thing that mattered was the continued optimistic sentiment around the global economy.

However, we have witnessed a change in direction for monetary policy with the Bank of England raising rates for the first time in a decade and the European Central Bank announcing its intention to begin reducing its monetary stimulus programme this year. As we entered 2018, the concerns surrounding the potential impacts of interest rates rises, coupled with global trade tensions and whether high returns and high valuations were sustainable, began to weigh on sentiment. As a result, we've seen a return of volatility.

US:

As 2017 drew to a close, Trump's tax reform bill was squeezed through the Senate. It represents the most drastic changes to the US tax code for more than 30 years, slashing corporate tax rates and provided an immediate boost to corporate profits and the US market performance. However, as we entered 2018 the market began to worry about risks of further overheating of an economy that was already running with full employment and emerging signs of wage inflation. The origin of the latest bout of volatility can probably be traced back to the release of US wage data early in February, which indicated that wage inflation had taken hold and overall inflation would follow. As a result, we saw volatility in the US market and slightly more muted 12-month performance of +1.3%.

UK:

UK stock market returns, while strong, have been relatively muted when compared to most major markets globally. Possible reasons include the strength of sterling this year, at least when compared to the US dollar. Additionally, there is some ongoing uncertainty around the Brexit negotiations and the still unknowable implications for the UK economy and corporate sector.

Europe:

In Europe, there has been plenty to discuss in the political sphere. Merkel has secured another term as German chancellor, which is perhaps key for that market and the stability of the core Eurozone. In France, it is still early days for Macron, but there are signs that he is having some success at home and on the European stage. On the other hand, in southern Europe, the recovery is still weak. Youth unemployment, for example, remains both depressingly and stubbornly high. However, Europe is looking better than in recent years – it is now growing at its fastest rate in a decade, industrial production has picked up and consumer confidence has risen. European markets continue to perform strongly on the back of upbeat economic outlook, rising 4.3%.

Japan:

Japan continues to enjoy its longest period of economic expansion since the 1980s. At

the turn of the year, its economy grew by 1.6%, as a result of stronger than projected corporate capex. Unemployment continues to trend down. Corporate profits are also growing strongly and, based on company forecasts for the year to end March, aggregate return on equity for listed Japanese companies will reach double digits for the first time. In stock market terms, the Japanese market has been strong, up 7.5% in dollar terms as the yen strengthened against the dollar.

Emerging Markets:

US tariffs on China and US sanctions on Russia have raised market uncertainty and volatility but have had limited impact on economic fundamentals or on corporate profitability among Emerging Market companies.

A number of commodity exporting countries have been through sharp corrections from which they are now recovering. The likes of Brazil, Russia and Indonesia have seen inflation subside, allowing aggressive interest rate cuts, which should kick off a new credit cycle as non-performing loans and provisions subside and loan growth returns. Banks in these countries have been trading at low valuations but should see earnings accelerate and valuations re-rate once the inflection point in the credit cycle is reached.

Bonds:

Government bond yields ended the period slightly higher than where they started but were volatile over the period. The emergency interest rate cut made by the Bank of England following the EU membership referendum was reversed in November, taking the bank rate to 0.5%. The Bank of England expects to continue to raise interest rates barring unexpected economic or political events. The markets are monitoring developments in the Brexit negotiations warily. Inflation moderated over the period but, at 2.7%, remains slightly above the Bank's target. President Trump's tax cuts in the US, along with high employment levels, have raised fears of inflationary overheating.

Corporate profitability remains at high levels. Default rates on riskier companies have been below average. Corporate bond yield spreads – the additional yield over government bonds to compensate for credit risk – fell very slightly. Higher income from investment grade bonds meant that they performed marginally better than equivalent gilts at 0.6%.

There have been indications recently of growing nervousness in financial markets. Major central banks are likely to decrease the amount of bonds held on their balance sheets, reversing the positive boost to global bond prices this had been giving. It is likely that government bond returns will be poor and corporate bond markets must adjust to tighter monetary conditions.

Property:

Over the 12 months to March 2018, according to the IPD Monthly Index property recorded a total return of 11.3%. This was similar to the 11.8% recorded over the previous 12 month period. Capital values rose by 5.6% in the year to March 2018, derived mostly from a fall in yields, with rental value growth of only 2%.

The retail sector was once again the weakest of the main sectors over the 12 months to March 2018, according to IPD, recording a total return of 7.1%. While this was not

dramatically lower than the 8.6% delivered by offices, industrials hugely outperformed the wider market once again, recording a total return of 21.6% over the period. While capital values only rose by 1% in the retail sector, its income return of 6% was considerably higher than the other sectors. Capital growth in offices was 3.6% for the year to March, split relatively evenly between rental value growth (1.6%) and yield impact (2%). Industrials, while seeing very strong rental value growth of 4.9% over the period, derived the majority of its 15.5% capital growth from the impact of yields falling as a result of keen investor demand.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:-			
FTSE All Share Index	1.3	5.9	6.6
FTSE All World Index	2.9	10.9	11.6
FTSE All World ex UK	3.1	11.2	12.1
FTSE North American Index	1.3	12.3	14.4
FTSE Europe (ex UK) Index	4.3	8.5	10.0
FTSE Japan Index	7.5	11.4	11.6
FTSE Developed Asia (ex Japan) Index	1.9	9.8	6.5
FTSE Emerging Markets Index	8.8	10.4	6.9
Bonds:-			
FTA Government Securities All Stocks	0.5	3.4	4.2
ML UK Corporate Bonds	1.3	3.6	5.1
FTA Index Linked All Stocks	0.7	7.8	7.7
Above are total returns in Sterling Source: Thomson Reuters and FTSE			

7. NESPF Investment Strategy

The NESPF's 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 Funds take proper advice at reasonable intervals regarding their investments, through their advisors to the Pensions Committee.

Asset Structure 2017/18

Asset Class	Distribution as at 31 March 2017		Distribution as at 31 March 2018	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	79.4	70.0	76.8	57.5
Bonds / Credit	12.4	15.0	11.4	20.00
Property / Infrastructure	7.1	10.0	10.0	20.00
Cash / Other	1.1	5.0	1.8	2.5
Total	100.0	100.0	100.0	100.0

During the year a revised Investment Strategy was put in place for the North East Scotland Pension Fund and this is set out in the Statement of Investment Principles as follows:

Equities	45.0% (range +/- 5%)
Alternative Assets (including private equity)	12.5% (range +/- 5%)
Bonds/ Credit	20.0% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

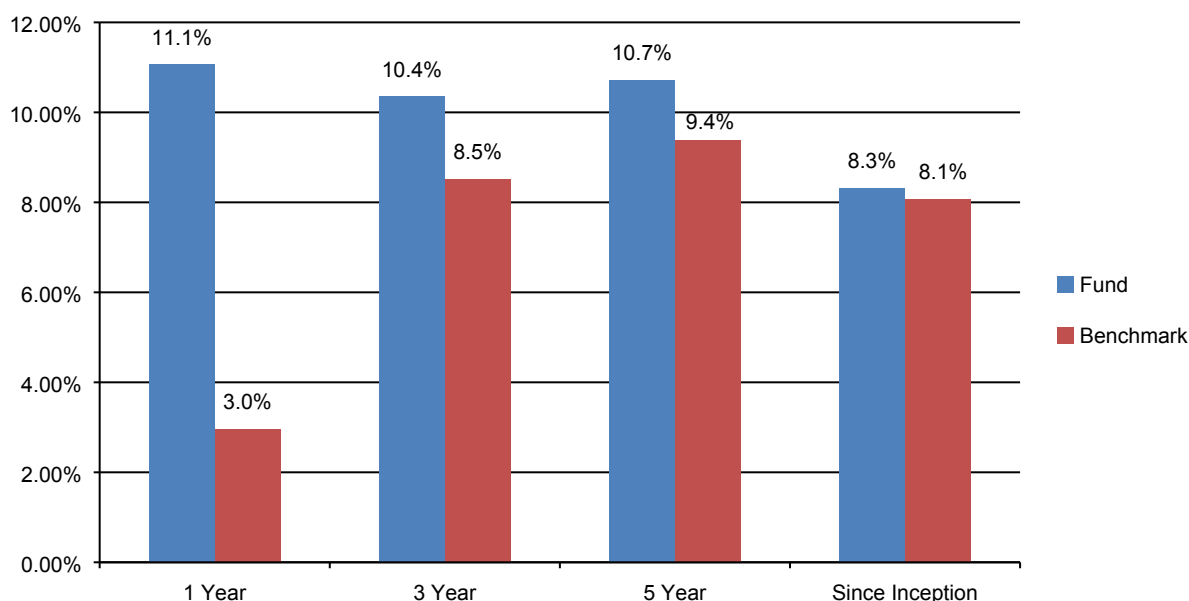
The NESPF continues to rebalance assets in line with its revised investment strategy, aiming to de-risk by reducing exposure to equities and increasing infrastructure, alternatives and credit opportunities.

North East Scotland Pension Fund Performance

2017/18 was a great year for investment returns with equities in particular posting strong positive performance. The strong one year numbers versus the benchmark are attributable to the active managers excelling in particular.

Longer term over all periods the Fund has also outperformed the benchmark returns and longer term comparators such as CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

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



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 Fund's 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.**

Year Ending	2015/16 %	2016/17 %	2017/18 %	Since inception Annualised %
CPI*	0.5	2.3	2.5	2.6
Average Earning*	1.9	2.4	2.6	2.9
NESPF Return	0.7	20.0	11.1	8.3

*Source: Office of National Statistics

Investment Management Structure

The investment management structure is contained within Note 11: “Investments Analysed by Fund Manager” within the NESPF accounts and within Note 9 of the ACC Transport Fund accounts.

8. ACCTF De-Risking Strategy and Performance

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.

The flightpath continues to move in a favourable direction, providing the Fund the opportunity to de-risk. As of March 2017, the funding level was 94% and continues to rise in line with the flightpath.

9. 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: manager skill (alpha) and market risk (beta). 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 NESPF 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

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.

The full Register is available on the website www.nespf.org.uk.

10. 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 2017 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.

Copies of the full statements are available on the website www.nespf.org.uk.

11. 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.

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

The Funds' 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 Funds 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, were examined by the Pensions Committee and led to the strategic benchmarks.

The full statement is available on the website www.nespf.org.uk.

12. Corporate, Environmental and Social Governance

The North East Scotland Pension Fund supports the view that the willingness and ability of a company to adopt the highest standards of corporate responsibility is increasingly important to its long-term growth.

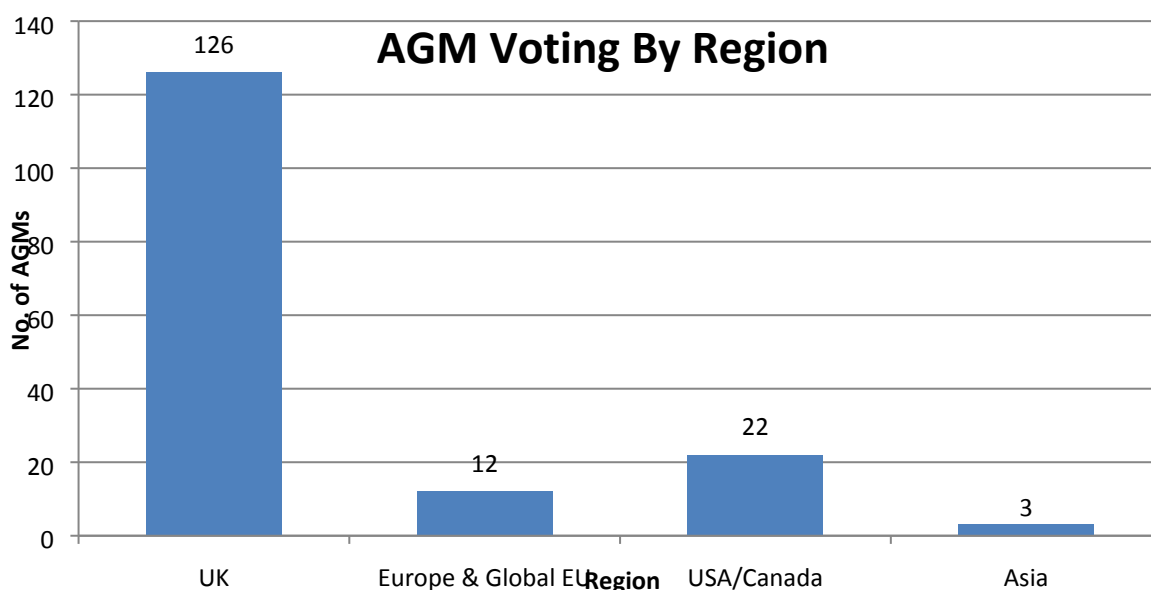
Good corporate governance and good social and environmental practice can have a favourable effect on financial performance and improve investment returns to shareholders as well as society at large.

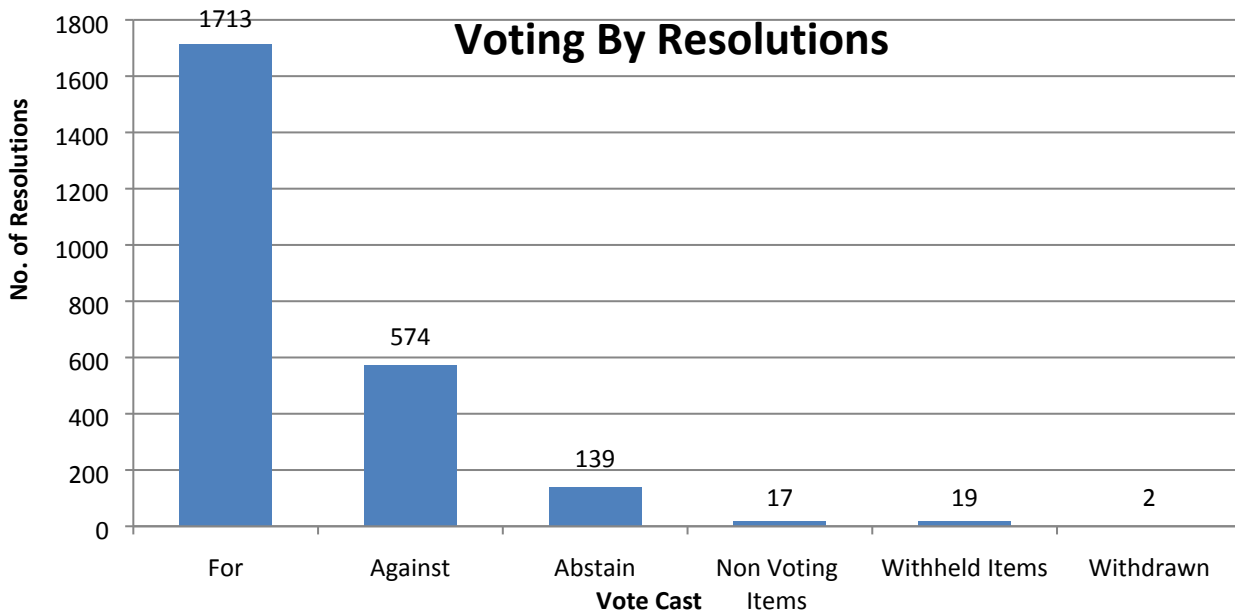
The below gives a snap shot of the activities that the NESPF has undertaken over the past year.

Voting

Voting is an integral part of good governance; it gives the NESPF a direct route to influence the company's management. The NESPF votes in-house for all our Active Managers and over the last year has voted at 163 Annual General Meetings/Special meetings on 2,464 resolutions. The Funds' 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/TheFund/Investment/ResponsibleInvestment/Fund_Voting.aspx





During the last financial year, the most contentious areas were:

Annual Reports

- Vote on Dividend or Dividend Policy not put to shareholders which is contrary to best practice.

Share Issues/Re-purchase

- No clear justification for the Re-purchase put forward by the Board

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.

Executive Pay Schemes

- Potential Executive Pay deemed to be excessive

Engagement

Local Authority Pension Fund Forum (LAPFF)

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £200 billion and brings together over 75 local authority pension funds. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. The Lord Provost Barney Crockett who sits on our the Pension Committee is a member of the LAPFF executive committee.

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

Environmental

Shareholder Resolution Support

In what turned out to be landmark victories for shareholders on climate change disclosure, LAPFF issued voting alerts recommending members support shareholder resolutions at PPL, Chevron and Exxon Mobil. The resolutions sought to require the companies to undertake analysis and produce publicly-available reports on the impact that a two-degree scenario, as outlined in the Paris Agreement, would have on their business and shareholder value. The resolutions at Exxon, the world's largest oil and gas company, and PPL both received majority backing of shareholders.

Social Risk

Human Rights

Historically, much of LAPFF's engagement around human rights has been through the lens of employment standards. This approach continues to be the case to a large extent with companies such as Sports Direct and Ryanair.

This year, though, the range of human rights engagements seems to have increased. For example, LAPFF engaged again on the use of cluster munitions, as well as with companies operating in Israel and the settlements. LAPFF also engaged with extractives companies facing pressure from community groups over their mining practices. These engagements reflect human rights concerns on which LAPFF has engaged previously. However, LAPFF also engaged with 21st Century Fox over its sexual harassment scandal, which seems to be snowballing across the entertainment industry and has even played a role in its attempted acquisition of Sky. This development and the government's focus on worker access to corporate boards also drives home the link between corporate governance and employment rights, highlighting the need for good human capital management, or workforce management as it is increasingly known.

Governance

Cyber security

Cyber security currently ranks as one of the biggest concerns for investors and company boards alike. Recent high-profile cyberattacks have highlighted the operational and reputational costs at stake. To safeguard against these threats, LAPFF has sought further detail and assurances from companies about how they are mitigating the risks posed.

The Forum had meetings with the Chairmen at BT and Vodafone to discuss cybersecurity as both companies are at the forefront of the threat given their role in the exchange of information. At this year's Tesco AGM, LAPFF asked the chairman, in light of the cyberattack on Tesco Bank the previous year, whether the board had the right competencies to mitigate future attacks and gained a better understanding of how cyber risk is managed within the company and the training the board had

received. LAPFF also asked about cyber security at the Scottish Southern Energy AGM. It appears that this issue will continue to increase in importance for investors in the coming years.

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

Principles for Responsible Investment (PRI)

PRI is the world's leading proponent of responsible investment with over 1,800 signatories with approx. \$70 trillion of assets under management.

This is a worldwide initiative with a set of aspirational and voluntary guidelines for investment entities wishing to address environmental, social, and corporate governance (ESG) issues. The North East Scotland Pension Fund signed up to these guidelines in August 2010.

Through being members of the PRI, we have the opportunity to become involved in issues at an early stage and to effect change on a global basis.

Through the year the Fund has added its name to:

- Jan 2018: Working Practices – Re-commit to the Bangladesh Accord for Fire and Building Safety
- Sep 2017: Labour Issues – Letter to the Leather Working Group urging them to expand their remit to include Labour Standards
- Jul 2017: Climate Change – Letter from Global; Investors to Governments of the G& and G20 Nations
- Apr 2017: Working Practices – Statement of support for new Accord for Fire and Building Safety in Bangladesh.

More information on the above can be found on our website at

<http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/ResponsibleInvesting.aspx>

13. Future

During 2017/18, the Funds continued to build on technological advances with the implementation of a new online system. This facility was an extension of a system our larger employers use but was amended to cater towards the needs and capabilities of our smaller employers. With online solutions available for all employers, the Funds made monthly online submissions of data a mandatory requirement for employers from 1 April 2017.

The Funds conducted their Triennial Valuations in 2017/18 to overwhelming success. The results showed a strong improvement in the NESPF's funding position with an increase from 94% (2014) to 107%. The Transport Fund also saw a small increase with the funding position rising from 93% (2014) to 94%..

Further to the significant achievements above, the Funds will continue to transform and improve their capabilities, seeking to take advantage of ever changing technology solutions to enhance customer and staff experience.

The Funds will continue to ensure full utilisation of existing technology along with seeking new solutions to enhance service delivery.

14. 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. We would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2017/18 Annual Report and Accounts.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Director of Resources

Councillor M Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

22 June 2018

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 their 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 Director of Resources for Aberdeen City Council.
- Manage their 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 22 June 2018.

Signed on behalf of Aberdeen City Council

Councillor M Tauqeer Malik
Pensions Committee Convener

The Director of Resources' responsibilities:

The Director of Resources 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 Director of Resource 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 Director of Resource 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 2018.

Steven Whyte, CPFA
Aberdeen City Council, Director of Resource
Date: 22 June 2018

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 Funds, the Council is responsible for ensuring that its business, including that of the Pension Funds, 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 Funds

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 Funds, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Funds to monitor the achievement of their strategic objectives and to consider whether those objectives have led to the delivery of effective services.

The North East Scotland Pension Funds are governed by the Local Government Pension Scheme (Scotland) Regulations. These include requirements for the preparation and production of a number of key policy documents including a Funding Strategy Statement and Statement of Investment Principles. These documents set out the Funds' objectives together with the main risks facing the Funds 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 Funds for the year ended 31 March 2018 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 Funds;
- 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 March 2018, 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 Funds have 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 Funds have a responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

The Pension Funds approach 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 Funds is directly within the remit of the Director of Resources, 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 2017/18, 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 Director of Resource (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 Funds.

Assurance from Internal Audit:

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

During 2017/18, internal audit focused on the Pension Funds' Payroll with the outcome being reported to the Pension Committee during June 2018.

At the Pension Committee meeting on the 16th March 2018, the 2018/19 internal audit plan was approved to review Governance arrangements including risk management.

The objective is to provide assurance over the governance arrangements and procedures in place including risk management and performance management.

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.

A copy of the Governance Compliance Statement can be found on our website www.nespf.org.uk.

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 Funds and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2017/18 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Director of Resources

Councillor M Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

22 June 2018

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 2017/18 financial year and its position at year end as at 31 March 2018.

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 £5,032,863 in 2017/18 (2016/17 £4,654,645).

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 2018 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 Director of Resources, Aberdeen City Council, Resources, 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. AVCs 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 2018 was £224,469,623 (31 March 2017 £220,649,167).

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. The following new or amended standards have been published but not yet adopted:

- **IFRS 9 Financial Instruments**, which introduces extensive changes to the classification and measurement of financial assets, and a new “expected credit loss” model for impairing financial assets. The impact will be to reclassify assets currently classified as loans and receivables to amortised cost. There are not expected to be any changes in the measurement of financial assets and the Fund does not at this stage anticipate any adjustments for impairments.
- **IFRS 15 Revenue from Contracts with Customers**, presents new requirements for the recognition of revenue, based on a control-based revenue recognition model. The Fund does not have any revenue streams within the scope of the new standard.
- **IAS 7 Statement of Cash Flows (Disclosure Initiative)**, will potentially require some additional analysis of Cash Flows from Financing Activities, however since the Fund is not currently required to prepare a Cash Flow Statement it does not anticipate any additional disclosure.

- **IAS 12 Income Taxes (Recognition of Deferred Tax Assets for Unrealised Losses)**, applies to deferred tax assets related to debt instruments measured at fair value. Currently the Fund does not hold such financial instruments.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2018

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	2016/17 £'000	2017/18 £'000
Contributions Receivable			
Employees' Contributions	2	28,856	29,533
Employers' Contributions	2	98,538	105,124
Transfer Values	3	2,343	3,371
Other Income		2	4
		<u>129,739</u>	<u>138,032</u>
Benefits Payable			
Retirement Pensions	4	94,624	99,288
Retirement Allowances	4	22,552	26,184
Death Gratuities	4	4,230	4,646
Contributions Refunded	5	678	563
Transfer Values	5	4,625	4,373
		<u>126,709</u>	<u>135,054</u>
Management Expenses	6	<u>18,486</u>	<u>20,922</u>
Return on Investment			
Investment Income	7	49,813	52,770
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	598,598	268,289
		<u>648,411</u>	<u>321,059</u>
Net Return on Investments		<u>648,411</u>	<u>321,059</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		632,955	303,115
Opening Net Assets of the Fund		3,181,793	3,814,748
Net Assets of the Fund at the end of the year		<u>3,814,748</u>	<u>4,117,863</u>

Notes to Accounts – Please refer to the Contents Page for the page numbers relevant to the North East Scotland Pension Fund.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2018

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

	Notes	2016/17 £'000	2017/18 £'000
Investment Assets			
Fixed Interest, Public Sector		108,069	0
Fixed Interest, Corporate		11,652	0
Fixed Interest, Overseas		163,871	0
Index Linked		7,382	0
UK Equities		740,007	734,875
Overseas Equities		674,024	819,078
Pooled Vehicle		1,554,264	1,944,722
Direct Property	13	259,146	293,045
Unit Trust - Other		3,457	0
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	0
Private Equity - Other		240,975	224,470
Funds held by Investment Managers		18,594	90,704
ACC Loans Fund Deposit	19	39,740	22,780
Total Investment Assets		<u>3,821,181</u>	<u>4,129,674</u>
Investment Liabilities			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(493)	0
Net Investment Assets		<u>3,820,688</u>	<u>4,129,674</u>
Long Term Asset	18	78	33
Current Assets	18	17,028	14,824
Current Liabilities	18	(23,046)	(26,668)
Net Current Assets/(Liabilities)		<u>(6,018)</u>	<u>(11,844)</u>
Net Assets of the Fund at the end of the year		<u>3,814,748</u>	<u>4,117,863</u>

Steven Whyte, CPFA
Aberdeen City Council, Director of Resources
Date: 22 June 2018

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2018

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	2016/17 £'000	2017/18 £'000
Contributions Receivable			
Employees' Contributions	2	115	100
Employer's Contributions	2	2,109	2,028
Other Income		320	320
		2,544	2,448
Benefits Payable			
Retirement Pensions	3	3,083	3,210
Retirement Allowances	3	802	914
Death Gratuities	3	80	2
Contributions Refunded	4	0	0
Transfer Values	4	65	0
		4,030	4,126
Management Expenses	5	245	991
Return on Investment			
Investment Income	6	1,505	812
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	13,949	1,962
		15,454	2,774
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		13,723	105
Opening Net Assets of the Fund		86,243	99,966
Net Assets of the Fund at the end of the year		99,966	100,071

Notes to Accounts - Please refer to the Contents Page for the page numbers relevant to the Aberdeen City Council Transport Fund.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2018

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

	Notes	2016/17	2017/18
Investment Assets		£'000	£'000
Pooled Vehicle		88,705	97,060
Index Linked Securities		7,527	1,117
Funds held by Investment Managers		3,318	1,450
ACC Loans Fund Deposit	16	320	171
Net Investment Assets		<u>99,870</u>	<u>99,798</u>
Long Term Asset	15	350	324
Current Assets	15	180	314
Current Liabilities	15	(434)	(365)
Net Current Assets/ (Liabilities)		(254)	(51)
Net Assets of the Fund at the end of the year		<u>99,966</u>	<u>100,071</u>

Steven Whyte, CPFA
Aberdeen City Council, Director of Resources
Date: 22 June 2018

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 2017.

Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£3,815,000,000
Liabilities	£3,576,000,000
Surplus	£ 239,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities 107%

Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 24 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.4% meaning that the average employer contribution rate is 19.4% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2017 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2021.

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 2021. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the scheme actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the scheme actuary. Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate	4.15% p.a.
Assumed Long Term Price Inflation (CPI)	2.40% p.a.
Salary Increases – Long term	3.90% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.40% p.a.

*Where an allowance for short term pay restraint was determined appropriate either 1% or 2.4% (CPI) was applied.

The full Actuarial Report and the Funding Strategy statement are available from the office of the Director of Resources, Aberdeen City Council, Resources, 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 26 (IAS 26) assumptions, is estimated to be £4,892m (2017 £4,718m). 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

	2016/17	2017/18
	£'000	£'000
Employees' Normal Contributions	28,856	29,533
Employers' Normal Contributions	94,772	101,226
Employers' Deficit Recovery Contributions	3,766	3,898
Employers' Augmentation Contributions	0	0
Total Employers' Contributions	98,538	105,124
Total	127,394	134,657

	2016/17	2017/18
	£'000	£'000
Administering Authority	36,869	42,619
Scheduled Bodies	75,366	78,481
Admitted Bodies	10,928	9,179
Transferee Admission Bodies	4,231	4,378
Total	127,394	134,657

Note 3: Transfers in from other Pension Funds

	2016/17	2017/18
	£'000	£'000
Individual Transfers	2,343	3,371
Total	2,343	3,371

Note 4: Benefits Payable

	2016/17	2017/18
	£'000	£'000
Pensions	94,624	99,288
Commutation and Lump Sum Retirement Benefits	22,552	26,184
Lump Sum Death Benefits	4,230	4,646
Total	121,406	130,118

	2016/17	2017/18
	£'000	£'000
Administering Authority	31,452	35,474
Scheduled Bodies	79,549	81,587
Admitted Bodies	9,162	10,145
Transferee Admission Bodies	1,243	2,912
Total	121,406	130,118

Note 5: Payment to and on Account of Leavers

	2016/17	2017/18
	£'000	£'000
Refunds to Members Leaving Service	527	562
Payments for Members Joining State Scheme	151	1
Group Transfers	0	0
Individual Transfers	4,625	4,373
Total	5,303	4,936

Note 6: Management Expenses

	2016/17	2017/18
	£'000	£'000
Pension Fund Staffing Costs – Administration	971	1,070
Support Services including IT	563	549
Printing and Publications	29	19
Administration Expenses Total	1,563	1,638
Pension Fund Staffing Costs – Investment	131	189
Pension Fund Committee	12	12
Pension Board	2	3
External Audit Fee	32	39
Internal Audit Fee	6	9
Actuarial Fees	112	109
General Expenses	173	106
Oversight and Governance Expenses Total	468	467
Investment Management	10,214	10,722
Performance Fees	4,655	5,033
Direct Operating Property Expenses	347	259
Transaction Costs	1,117	2,679
Custody Fees	122	124
Investment Management Expenses Total	16,455	18,817
Management Expenses Grand Total	18,486	20,922

Analysis of Transaction Costs:

Commission £'000	Fees/Tax £'000	2016/17 Total £'000	Asset Type	Commission £'000	Fees/Tax £'000	2017/18 Total £'000
0	0	0	Fixed Income	781	0	781
315	802	1,117	Equities	239	806	1,045
0	0	0	Pooled Investments	0	842	842
0	0	0	Private Equity	11	0	11
315	802	1,117	Total	1,031	1,648	2,679

Note 7: Investment Income

	2016/17	2017/18
	£'000	£'000
Fixed Interest Securities	6,225	27
Equity Dividends	20,270	23,402
Pooled Property Investments	7	0
Property Rental Income	14,255	14,969
Interest on Cash Deposit	346	90
Other (including P/L from Currency and Derivatives)	8,780	14,582
Total	49,883	53,070
Tax		
Withholding Tax - Fixed Interest Securities	0	(16)
Withholding Tax – Equities	(63)	(284)
Withholding Tax – Pooled	(7)	0
Total Tax	(70)	(300)
Net Total	49,813	52,770

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	290,974	437,404	(719,824)	(8,554)	0
UK Equities	740,007	158,397	(165,636)	2,107	734,875
Overseas Equities	674,024	63,054	(97,976)	179,976	819,078
Pooled Investments	1,557,721	835,168	(519,339)	71,172	1,944,722
Property	259,146	35,136	(12,372)	11,135	293,045
Private Equity	240,975	61,906	(87,415)	9,004	224,470
	3,762,847	1,591,065	(1,602,562)	264,840	4,016,190
Derivative Contracts					
FX Contracts	(493)	3,456,730	(3,459,686)	3,449	0
	3,762,354	5,047,795	(5,062,248)	268,289	4,016,190
Other					
Cash	58,334				113,484
Net Investment Assets	3,820,688				4,129,674

	Market Value 31 March 2016	Purchases	Sales	Change in Market Value	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
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)	47,299	240,975
	3,148,841	1,026,679	1,035,846)	623,173	3,762,847
Derivative Contracts					
FX Contracts	(8,227)	909,161	(876,852)	(24,575)	(493)
	3,140,614	1,935,840	(1,912,698)	598,598	3,762,354
Other					
Cash	46,129				58,334
Net Investment Assets	3,186,743				3,820,688

Note 9: Analysis of Investments

	2016/17	2017/18
Fixed Interest Securities	£'000	£'000
UK		
Public Sector Quoted	108,069	0
Corporate Quoted	11,652	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	115,574	0
Corporate Quoted	48,297	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	283,592	0
Subtotal Index Linked Securities	7,382	0
Equities		
UK		
Quoted	740,007	734,875
Unquoted	0	0
Overseas		
Quoted	674,024	819,078
Unquoted	0	0
Subtotal Equities	1,414,031	1,553,953
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	783,054	938,293
Pooled Property Investment	0	0
Pooled Indexed Linked	190,720	251,551
Overseas		
Fixed Income	0	0
Unit Trusts	583,947	636,218
Global Pooled Bonds	0	118,660
Subtotal Pooled Funds	1,557,721	1,944,722
Private Equity	240,975	224,470
Property, Direct	259,146	293,045
Funds held by Investment Managers	18,594	90,704
ACC Loans Fund Deposit	39,740	22,780
Investment Assets Total	3,821,181	4,129,674
Investment Liabilities		
Forward Ex	(493)	0
Derivatives	0	0
Investment Liabilities Total	(493)	0
Net Investment Assets	3,820,688	4,129,674

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts.

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.

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		£'000		£'000
Open forward Currency Contracts as at 31 March 2018					0	0
Net Forward Currency Contracts at 31 March 2018						0
Prior Year Comparative						
Open Forward Currency Contracts at 31 March 2017					447	(940)
Net Forward Currency Contracts at 31 March 2017						(493)

Note 11: Investments Analysed by Fund Manager

	31 March 2017	%	31 March 2018	%
	£'000		£'000	
Investment Assets				
State Street Global Advisors	1,327,587	34.8	1,420,631	34.5
Baillie Gifford	991,344	26.0	1,130,668	27.4
BlackRock Asset Management	454,539	11.9	465,188	11.3
BlackRock DGF	103,389	2.7	157,367	3.8
Baring Asset Managers	279,992	7.3	(3)	0
AAM Property (API)	265,311	7.0	312,228	7.6
AAM Property Residential	6,890	0.2	8,136	0.2
HarbourVest	117,261	3.1	76,544	1.8
Standard Life	53,791	1.4	51,993	1.3
ACC Loans Fund Deposit	39,740	1.0	22,780	0.5
Global Custodian	3,392	0.1	15,758	0.4
Partners Group	45,962	1.2	52,069	1.3
NESPF*	49	0.0	0	0
Maven Capital	2,894	0.1	2,856	0.1
Capital Dynamics	7,325	0.2	14,901	0.4
RCP Advisors	1,528	0.1	7,402	0.2
Unigestion	15,269	0.4	12,324	0.3
Invesco DGF	104,425	2.7	153,663	3.7
Russell Overlay	0	0.0	33,960	0.8
Russell Multi Asset Credit	0	0.0	101,831	2.5
Russell Transition	0	0.0	479	0.0
Aviva Infrastructure	0	0.0	88,899	2.2
	3,820,688	100.2	4,129,674	100.3
Net Long and Current Assets				
Bank Account	78	0.0	19	0.0
Long Term and Current Debtors Less Creditors	(6,018)	(0.2)	(11,830)	(0.3)
Net Assets	3,814,748	100.0	4,117,863	100.0

*Note: During 2016-17, the following former Fund Managers were merged into one 'In House' Account for the purpose of collecting any residual income:

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

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

Security	Market Value 31 March 2017	% of Net Investment Assets	Market Value 31 March 2018	% of Net Investment Assets
	£'000	%	£'000	%
MPF International Equity Index Pooled Fund	583,947	15.3	279,983	6.8
MPF UK Equity Pooled Fund	552,920	14.5	337,317	8.2

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

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 105% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

There was no stock lending in operation as at 31 March 2018.

Note 13: Property Holdings

	2016/17	2017/18
	£'000	£'000
Opening Balance	232,555	259,146
Additions	0	0
Purchases	34,932	22,393
Construction	2,215	12,705
Subsequent Expenditure	14	38
Disposals	(6,063)	(12,372)
Net Increase in Market Value	(4,507)	11,135
Other Changes in Fair Value	0	0
Closing Balance	259,146	293,045

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:

	2016/17	2017/18
	£'000	£'000
Within One Year	13,984	15,144
Between One Year and Five Years	52,638	55,604
Later than Five Years	96,061	98,560
Total	162,683	169,308

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 2017				31 March 2018		
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
			Financial Assets			
290,974			Fixed Interest	0		
1,414,031			Equities	1,553,953		
1,557,721			Pooled	1,944,722		
0			Pooled Property	0		
240,975			Private Equity	224,470		
0			Derivative Contracts	0		
	58,334		Cash		113,484	
	0		Other		0	
	17,106		Debtors		14,857	
3,503,701	75,440		Subtotal	3,723,145	128,341	
			Financial Liabilities			
(493)			Derivative Contracts	0		
			Other			
		(23,046)	Creditors			(26,668)
			Borrowings			
(493)		(23,046)		0		(26,668)
3,503,208	75,440	(23,046)	Financial Instruments Total	3,723,145	128,341	(26,668)
			Non-Financial Instruments			
259,146			Property	293,045		
3,762,354	75,440	(23,046)		4,016,190	128,341	(26,668)
		3,814,748	Net Assets of the Fund			4,117,863

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

31 March 2017		31 March 2018
£'000	Financial Assets	£'000
627,594	Fair Value through Profit and Loss	257,304
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
(24,489)	Fair Value through Profit and Loss	(150)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
603,105	Net Gains and Losses on Financial Instruments	257,154
	Non-Financial Instruments	
(4,507)	Fair Value through Profit and Loss	11,135
598,598	Net Gains and Losses of the Fund	268,289

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.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations provided
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 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,498,675	0	224,470	3,723,145
Loans and Receivables	128,341			128,341
Total Financial Assets	3,627,016	0	224,470	3,851,486
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Amortised Cost	(26,668)	0	0	(26,668)
Total Financial Liabilities	(26,668)	0	0	(26,668)
Total Financial Instruments	3,600,348	0	224,470	3,824,818
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	293,045	0	293,045
Net Assets of the Fund	3,600,348	293,045	224,470	4,117,863

	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
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,283,052	0	220,649	3,503,701
Loans and Receivables	75,440			75,440
Total Financial Assets	3,358,492	0	220,649	3,579,141
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(493)	0	(493)
Financial Liabilities at Amortised Cost	(23,046)	0	0	(23,046)
Total Financial Liabilities	(23,046)	(493)	0	(23,539)
Total Financial Instruments	3,335,446	(493)	220,649	3,555,602
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	259,146	0	259,146
Net Assets of the Fund	3,335,446	258,653	220,649	3,814,748

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 2017	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 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	220,649	0	0	52,370	(54,004)	26,587	(21,132)	224,470
Total	220,649	0	0	52,370	(54,004)	26,587	(21,132)	224,470

(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 2018.

	Assessed Valuation Range (+/-)	Value at 31 March 2018	Value on Increase	Value on Decrease
		£000	£000	£000
Private Equity	30%	224,470	291,811	157,129
Total		224,470	291,811	157,129

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 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	5.6%
Overseas Bonds	5.6%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - DGF	12.0%
Private Equity	30.0%
Property	13.0%
Cash	1.0%

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.

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	113,484	1.0	114,619	112,349
Investment Portfolio Assets				
UK Bonds	251,551	5.6	265,638	237,464
Overseas Bonds	220,491	5.6	232,838	208,144
UK Equities	1,273,241	16.0	1,476,960	1,069,522
Overseas Equities	1,353,465	20.5	1,630,925	1,076,005
Pooled – Diversified Growth Funds	311,028	12.0	348,351	273,705
Pooled - Infrastructure	88,899	13.0	100,456	77,342
Private Equity	224,470	30.0	291,811	157,129
Total Financial Instruments	3,836,629		4,461,598	3,211,660
Non-Financial Instruments				
Property	293,045	13.0	331,141	254,949
Total Assets Available to Pay Benefits	4,129,674		4,792,739	3,466,609

Asset Type	Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	57,841	1.1	58,477	57,205
Investment Portfolio Assets				
UK Bonds	317,823	5.5	335,303	300,343
Overseas Bonds	163,871	5.5	172,884	154,858
UK Equities	1,315,246	16.0	1,525,685	1,104,807
Overseas Equities	1,257,971	20.5	1,515,855	1,000,087
Pooled – Diversified Growth Funds	207,815	12.0	232,753	182,877
Private Equity	240,975	30.0	313,268	168,682
Total Financial Instruments	3,561,542		4,154,225	2,968,859
Non-Financial Instruments				
Property	259,146	13.0	292,835	225,457
Total Assets Available to Pay Benefits	3,820,688		4,447,060	3,194,316

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 2017 and 31 March 2018 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Cash and Cash Equivalents	58,334	113,484
Cash Balances	78	19
Fixed Interest Securities	481,694	472,041
Total	540,106	585,544

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:

Asset Type	Carrying Amount as at 31 March 2018	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and Cash Equivalents	113,484	114,619	112,349
Cash Balances	19	19	19
Fixed Interest Securities	472,041	476,761	467,321
Total Change in Assets Available	585,544	591,399	579,689

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

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 2017	Asset Value as at 31 March 2018
	£'000	£'000
Overseas Quoted Securities	694,350	819,078
Overseas Unquoted Securities	203,627	198,577
Overseas Unit Trusts	583,947	636,218
Overseas Public Sector Bonds (Quoted)	115,574	0
Overseas Corporate Bonds (Quoted)	48,297	0
Overseas Global Pooled Bonds	0	118,660
Total Overseas Assets	1,645,795	1,772,533

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 11.6%.

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

An 11.6% 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:

Currency Exposure – Asset Type	Asset Value as at 31 March 2018	Change to Net Assets	Change to Net Assets
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Quoted Securities	819,078	914,091	724,065
Overseas Unquoted Securities	198,577	221,612	175,542
Overseas Unit Trust	636,218	710,019	562,417
Overseas Public Sector Bonds (Quoted)	0	0	0
Overseas Corporate Bonds (Quoted)	0	0	0
Overseas Global Pooled Bonds	118,660	132,425	104,895
Total Change in Assets Available	1,772,533	1,978,147	1,566,919

Currency Exposure – Asset Type	Asset Value as at 31 March 2017	Change to Net Assets	Change to Net Assets
		+11.7%	-11.7%
	£'000	£'000	£'000
Overseas Quoted Securities	694,350	775,589	613,111
Overseas Unquoted Securities	203,627	227,451	179,803
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
Total Change in Assets Available	1,645,795	1,838,353	1,453,237

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 2018 was £113,503,000 (31 March 2017 £58,412,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2017	Balance as at 31 March 2018
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	0	0
Deutsche Euro	AAAm	0	0
BNY Mellon LIQ USD	AAAm	0	0
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	39,740	22,780
BNY Mellon	AAAm	0	0
BNP Paribas	AAAm	18,594	90,704
Natwest, (API)	BBB+	0	0
Subtotal		58,334	113,484
Bank Current Accounts			
Clydesdale Bank	BBB+	78	19
Total		58,412	113,503

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 2018 the value of illiquid assets was £517,514,623 which represented 12.6% of the total fund assets (31 March 2017 £479,795,433 which represented 12.6% of the total fund assets).

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

	31 March 2017	31 March 2018
	£'000	£'000
Long Term Assets	78	33
Current Assets		
Employees' Contributions due	2,395	2,329
Employers' Contributions due	7,115	7,367
Sundry Debtors	7,440	5,109
	16,950	14,805
Bank	78	19
Total Current Assets	17,028	14,824
Total Long Term and Current Assets	17,106	14,857

Analysis of Assets (Debtors only)*	31 March 2017	31 March 2018
	£'000	£'000
Long Term Assets		
Other Entities and Individuals	78	33
Central Government Bodies	1,202	193
Other Local Authorities	8,686	8,773
Other Entities and Individuals	7,062	5,839
Total Current Assets*	16,950	14,805
Total Long Term and Current Assets	17,028	14,838

*The above is an analysis of debtors only and does not include the Bank.

	31 March 2017	31 March 2018
Current Liabilities	£'000	£'000
Sundry Creditors	16,000	24,632
Benefits Payable	7,046	2,036
Total Current Liabilities	23,046	26,668

Analysis of Liabilities	31 March 2017	31 March 2018
	£'000	£'000
Central Government Bodies	1,040	1,606
Other Local Authorities	263	760
Other Entities and Individuals	21,743	24,302
Total Current Liabilities	23,046	26,668

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 £1,388,413 (2016/17 £1,214,654).

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 £22,780,000 (2016/17 £39,740,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £36,330 (2016/17 £86,124) 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:

		Accrued Pension 2016/2017	Accrued Pension 2017/2018
		£'000	£'000
Steven Whyte	Director of Resources	26	30

Governance

As at 31 March 2018, 8 members of the Pensions Committee and 6 members 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 2017/18, Elected Members' had interests in Sport Aberdeen, Aberdeen Performing Arts and Aberdeen International Youth Festival.

Note 21: Contractual Commitments as at 31 March 2018

As at 31 March 2018 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	153,374	43,373
Standard Life	127,570	28,328
Partners Group	88,628	30,662
NESPF	0	0
Maven (SLF)	6,444	181
Capital Dynamics	60,000	45,740
RCP Advisors	32,101	24,041
Unigestion	57,038	45,653
AAM Residential Property	30,000	22,398
Total	555,155	240,376

Note 22: Additional Voluntary Contributions (AVC)

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

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.

The amount of additional voluntary contributions paid by members during the year is shown as income in the table below:

2016/2017	Income (AVCs Paid by Members)	2017/2018
£'000		£'000
51	Standard Life	32
2,203	Prudential	2,653

The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation.

Market Value	Additional Voluntary Contributions	Market Value
31 March 2017		31 March 2018
£'000		£'000
1,720	Standard Life	1,580
24,666	Prudential	25,267

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds three 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. Previously, one further insurance bond was held for an employer, however, following a termination event where the liabilities were subsumed by another employer, therefore, rendering this bond no longer valid.

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 total, the Fund has secured guarantees for 25 Community Admission Bodies and Transferee Admission Bodies.

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. As at 31 March 2018 the Fund recognises that there are three employers who have exited from the Fund where payment of the termination fee may not be recovered in full. A termination fee of £211,900 has been registered with the company liquidator, one fee of £130,664 will be settled upon wind up of the admission body and the Fund is currently in discussions with one other employer regarding an amount of £452,000.

Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on our website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, 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 light of any change to the investment strategies 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 2018 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 £224 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 Director of Resources on 22 June 2018. 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 2018, 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.

Global Custody services post year end are provided by HSBC following transition from BNPP on the 2 April 2018.

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:

	2016/17	2017/18
	£'000	£'000
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,331	2,317
Aberdeenshire Council	1,357	1,341
Moray Council	710	703
Scottish Water	1,262	1,261
Other	298	303
Total	5,958	5,925
Associated Payroll Cost	4	4

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 2017. Information from the 2017 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£100,000,000
Liabilities	£106,500,000
Deficit	£ 6,500,000

Funding Level

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

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 average employer cost of providing members benefits (the Primary contribution rate) has been determined as 58.5% of pensionable pay. The Fund have agreed following a consultation with First Aberdeen Limited that the contribution requirement would be set at the same level as the previous valuation of 33% plus £1.5m per annum. This means that the payment towards the deficit will be around £1.1m allowing for the deficit to be recovered over 5 years.

Total Contribution Rate (as percentage of payroll)	2018/19	2019/20	2020/21
	33% plus £1,500,000	33% plus £1,500,000	33% plus £1,500,000

Within the FSS there is the option for the Fund to reassess the contribution requirement for First Aberdeen upon reaching a funding level of 105%.

Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a
Assumed Long Term Price Inflation (CPI)	2.9% p.a
Salary Increases – Long term	3.4% p.a
Salary Increases – Short term	2.9% p.a (to 31 March 2018)
Pension Increases in Payment	2.9% 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 Director of Resources, Aberdeen City Council, Resources, 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 26 (IAS 26) assumptions, is estimated to be £78.0m (2017 £85.6m). 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

	2016/17	2017/18
	£'000	£'000
Employees' Normal Contributions	115	100
Employer's Normal Contributions	609	528
Employer's Deficit Recovery Contributions	1,500	1,500
Employer's Augmentation Contributions	0	0
Total Employer's Contributions	2,109	2,028
Total	2,224	2,128

	2016/17	2017/18
	£'000	£'000
Scheduled Body	2,224	2,128
Total	2,224	2,128

Note 3: Benefits Payable

	2016/17	2017/18
	£'000	£'000
Pensions	3,083	3,210
Commutation and Lump Sum Retirement Benefits	802	914
Lump Sum Death Benefits	80	2
Total	3,965	4,126

	2016/17	2017/18
	£'000	£'000
Scheduled Body	3,965	4,126
Total	3,965	4,126

Note 4: Payment to and on Account of Leavers

	2016/17	2017/18
	£'000	£'000
Contributions Refunded	0	0
Individual Transfers	65	0
Total	65	0

Note 5: Management Expenses

	2016/17	2017/18
	£'000	£'000
Pension Fund Staffing Costs – Administration	29	32
Support Services including IT	20	18
Printing and Publications	1	1
Administration Expenses Total	50	51
Pension Fund Staffing Costs – Investment	4	6
Pension Fund Committee	4	1
External Audit Fee	1	0
Internal Audit Fee	0	1
Actuarial Fees	26	61
General Expenses	3	3
Oversight and Governance Expenses Total	38	72
Investment Management	154	825
Custody Fees	3	43
Transaction Costs	0	0
Investment Management Expenses Total	157	868
Management Expenses Grand Total	245	991

Note 6: Investment Income

	2016/17	2017/18
	£'000	£'000
Fixed Interest Securities	147	687
Equity Dividends	0	0
Pooled Investments	0	95
Interest on Cash Deposit	2	3
Other (including P/L from Currency and Derivatives)	1,356	27
Total	1,505	812
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Equities	0	0
Withholding Tax – Pooled	0	0
Total Tax	0	0
Net Total	1,505	812

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	7,527	0	(6,313)	(97)	1,117
UK Equities	0	0	0	0	0
Overseas Equities	0	0	0	0	0
Pooled Investments	88,705	32,608	(26,312)	2,059	97,060
	96,232	32,608	(32,625)	1,962	98,177
Cash	3,638				1,621
Net Investment Assets	99,870				99,798

	Market Value 31 March 2016	Purchases	Sales	Change in Market Value	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
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
	85,439	142,519	(145,675)	13,949	96,232
Cash	385				3,638
Net Investment Assets	85,824				99,870

Note 8: Analysis of Investments

	2016/17	2017/18
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	7,527	1,117
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	0	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	7,527	1,117
Equities		
UK		
Quoted	0	0
Unquoted	0	0
Overseas		
Quoted	0	0
Unquoted	0	0
Subtotal Equities	0	0
Pooled Funds – Additional Analysis		
UK		
Fixed Income	33,761	38,126
Unit Trusts	23,364	25,629
Pooled Property Investments	0	0
Overseas		
Fixed Income	0	0
Unit Trusts	31,580	33,305
Subtotal Pooled Funds	88,705	97,060
Private Equity	0	0
Property	0	0
Cash Deposits	3,638	1,621
Investment Assets Total	99,870	99,798
Investment Liabilities		
Forward Ex	0	0
Derivatives	0	0
Investment Liabilities Total	0	0
Net Investment Assets	99,870	99,798

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2017	%	31 March 2018	%
	£'000		£'000	
Schroders	99,550	99.7	99,627	99.8
ACC Loans Fund Deposit	320	0.3	171	0.2
Net Investment Assets	99,870	100.0	99,798	100.0

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

Security	Market Value 31 March 2017	% of Net Investment Assets	Market Value 31 March 2018	% of Net Investment Assets
	£'000		£'000	
Blackrock Asset Management UK Aquila Life Currency World Ex UK Equity	14,350	14.4	15,768	15.8
SIF Diversified Completion CLS P Accumulation	10,697	10.7	10,584	10.6
Schroder Investment Management Lux Spec Sits STG Liquidity	4,193	4.2	5,540	5.6
Schroder Matching Plus Synthetic Index Linked Gilt Fund	6,383	6.4	8,352	8.4
SSGA Lux MG GL Treasury Bond Index GBP	11,518	11.5	11,645	11.7
Vanguard Investment Series Global Stock Index FD-INST USD SHS	13,762	13.8	13,879	13.9
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	12,667	12.7	15,045	15.1

Note 10: Stock Lending

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 105% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

There was no stock lending in operation as at 31 March 2018.

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 2017				31 March 2018		
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
			Financial Assets			
7,527			Fixed Interest	1,117		
0			Equities	0		
88,705			Pooled	97,060		
0			Pooled Property	0		
	3,638		Cash		1,621	
	530		Debtors		638	
96,232	4,168	0	Subtotal	98,177	2,259	0
			Financial Liabilities			
			Cash			
		(434)	Creditors			(365)
96,232	4,168	(434)		98,177	2,259	(365)
		99,966	Financial Instruments Total			100,071
			Non-Financial Instruments			
0			Property	0		
96,232	4,168	(434)		98,177	2,259	(365)
		99,966	Net Assets of the Fund			100,071

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

31 March 2017		31 March 2018
£'000	Financial Assets	£'000
13,949	Fair Value through Profit and Loss	1,962
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
13,949	Net Gains and Losses on Financial Instruments	1,962
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
13,949	Net Gains and Losses of the Fund	1,962

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.

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations provided
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 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	98,177	0	0	98,177
Loans and Receivables	2,259	0	0	2,259
Total Financial Assets	100,436	0	0	100,436
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	0	0	0	0
Financial Liabilities at Amortised Cost	(365)	0	0	(365)
Total Financial Liabilities	(365)	0	0	(365)
Total Financial Instruments	100,071	0	0	100,071
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
Net Assets of the Fund	100,071	0	0	100,071

	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
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	96,232	0	0	96,232
Loans and Receivables	4,168	0	0	4,168
Total Financial Assets	100,400	0	0	100,400
Financial Liabilities				
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)
Total Financial Liabilities	(434)	0	0	(434)
Total Financial Instruments	99,966	0	0	99,966
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
Net Assets of the Fund	99,966	0	0	99,966

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 2017/18 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	5.6%
Overseas Bonds	5.6%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - Diversified Growth Funds (DGF)	12.0%

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.

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	1,621	1.0	1,637	1,605
Investment Portfolio Assets				
UK Bonds	39,243	5.6	41,441	37,045
UK Equities	15,045	16.0	17,452	12,638
Overseas Equities	33,305	20.5	40,132	26,478
Pooled – DGF	10,584	12.0	11,854	9,314
Total Financial Instruments	99,798		112,516	87,080
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	99,798		112,516	87,080

Asset Type	Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	3,638	1.1	3,678	3,598
Investment Portfolio Assets				
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
Total Financial Instruments	99,870		111,966	87,774
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	99,870		111,966	87,774

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:

Asset type	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Cash and Cash Equivalents	3,638	1,621
Cash Balances	2	1
Fixed Interest Securities	41,288	39,243
Total	44,928	40,865

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:

Asset Type	Carrying Amount as at 31 March 2018	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	1,621	1,637	1,605
Cash Balances	1	1	1
Fixed Interest Securities	39,243	39,635	38,851
Total Change in Assets Available	40,865	41,273	40,457

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

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 2018 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2017	Asset Value as at 31 March 2018
	£'000	£'000
Overseas Quoted Securities	0	0
Overseas Unit Trusts	31,580	33,305
Overseas Public Sector Bonds (Quoted)	0	0
Total Overseas Assets	31,580	33,305

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 11.6%.

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

An 11.6% 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:

Currency Exposure – Asset Type	Asset Value as at 31 March 2018	Change to Net Assets	Change to Net Assets
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	33,305	37,168	29,442
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	33,305	37,168	29,442

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

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 Aberdeen 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 2018 was £1,622,000 and at 31 March 2017 £3,640,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2017	Balance as at 31 March 2018
		£'000	£'000
Money Market Funds		0	0
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	320	171
BNP Paribas	AAAm	3,318	1,450
Subtotal		3,638	1,621
Bank Current Accounts			
Clydesdale Bank	BBB+	2	1
Total		3,640	1,622

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 2018 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2017 £0 which represented 0% of the total fund assets).

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

	31 March 2017	31 March 2018
	£'000	£'000
Long Term Assets	350	324
Employees' Contributions due	3	2
Employer's Contributions due	16	11
Sundry Debtors	159	300
	178	313
Bank	2	1
Total Current Assets	180	314
Total Long Term and Current Assets	530	638

Analysis of Assets (Debtors Only)*	31 March 2017	31 March 2018
	£'000	£'000
Central Government Bodies	350	324
Other Entities and Individuals	0	0
Total Long Term Assets	350	324
Central Government Bodies	31	48
Other Local Authorities	0	0
Other Entities and Individuals	147	265
Total Current Assets*	178	313
Total Long Term and Current Assets	528	637

*The above is an analysis of Debtors only and does not include the Bank

	31 March 2017	31 March 2018
Current Liabilities	£'000	£'000
Sundry Creditors	305	232
Benefits Payable	129	133
Total Current Liabilities	434	365

Analysis of Liabilities	31 March 2017	31 March 2018
	£'000	£'000
Other Local Authorities	0	0
Other Entities and Individuals	434	365
Total Current Liabilities	434	365

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 £42,941 (2016/17 - £37,567).

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 £171,000 (2016/17 - £320,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £674 (2016/17 - £1,265) 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. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, 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 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
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 Director of Resources on 22 June 2018. 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 2018, 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.

Global Custody services post year end are provided by HSBC following transition from BNPP on the 2 April 2018.

Appendix 1- Statement by the Consulting Actuary

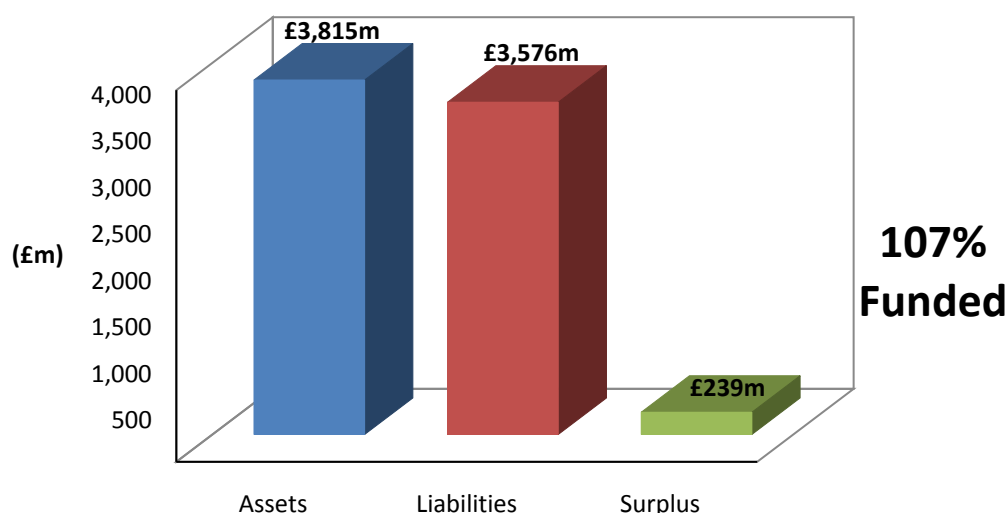
Accounts for the year ended 31 March 2018 - Statement by the Consulting Actuary

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 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £3,815 million represented 107% of the Fund's past service liabilities of £3,576 million (the "Funding Target") at the valuation date. The surplus at the valuation was therefore £239 million.



The valuation also showed that a Primary contribution rate of 22.0% of pensionable pay per annum was required from employers. The Primary 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 as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At this actuarial valuation the average spread/recovery period adopted is approximately

24 years, and the total initial surplus reclaimed on a whole fund level (the “Secondary rate” for 2018/19) is approximately £12.8 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the 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 is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

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

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2021.

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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of pay increases*	3.8% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.3% per annum	2.1% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint (2014 valuation for the 31 March 2017 figure, 2017 valuation for the 31 March 2018 figure).

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018 (the 2014 valuation assumptions were used for the 31 March 2017 figures).

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. Both of these factors combined served to decrease the liabilities over the year.

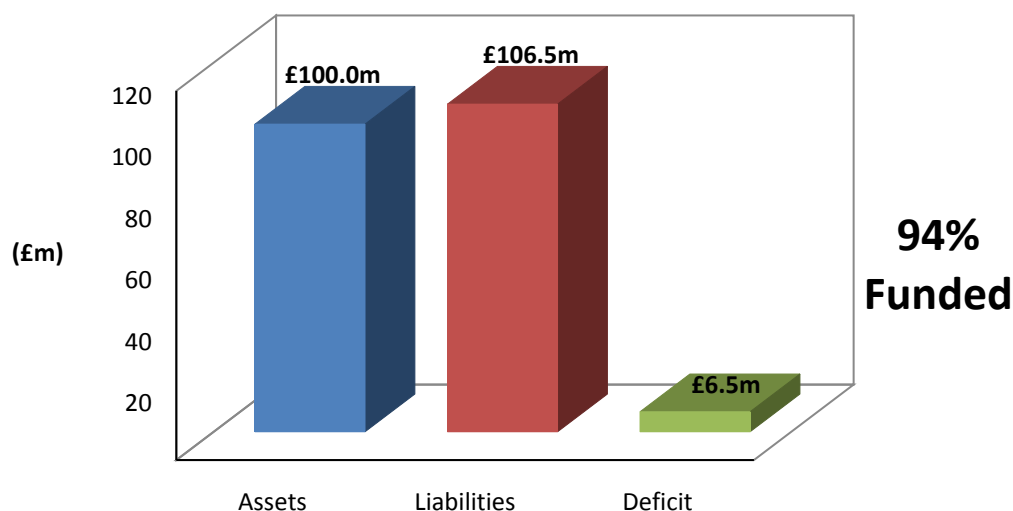
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £4,718 million. Interest over the year increased the liabilities by c£119 million, and allowing for net benefits accrued/paid over the period then increased the liabilities by c£81 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a decrease in liabilities of £26 million made up of "actuarial gains" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above, offset to some degree by the results of the 2017 valuation).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £4,892 million.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million.



The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. The Primary 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 as set out in the Funding Strategy Statement (FSS) is to achieve a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. In line with the FSS, 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 FSS sets out the process for determining the recovery plan. At this valuation, the Administering Authority and First Aberdeen Limited have agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation which are 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.1m p.a. On this basis the deficit would be expected to be removed in about 5 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

The valuation was carried out using the attained age actuarial method and the main actuarial assumptions used for assessing the Funding Target and the Primary rate of contribution were as follows:

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	1.6% per annum
Rate of pay increases (short term)	2.9% per annum to 31 March 2018
Rate of pay increases (long term)	3.4% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.9% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.9% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2021.

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 2018 (the 31 March 2017 assumptions are included for comparison):

	31 March 2017	31 March 2018
Rate of return on investments (discount rate)	2.5% per annum	2.6% per annum
Rate of pay increases*	4.3% per annum	2.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.3% per annum	2.1% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint (2014 valuation for the 31 March 2017 figure, 2017 valuation for the 31 March 2018 figure).

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018 (the 2014 valuation assumptions were used for the 31 March 2017 figures).

During the year, corporate bond yields rose slightly, resulting in a higher discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.6% p.a. versus 2.5% p.a.). The expected long-term rate of CPI inflation decreased during the year, from 2.3% p.a. to 2.1%. The real (long term) salary growth above inflation has also reduced from 2.0% p.a. to 0.5% p.a. These factors combined served to decrease the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2017 was estimated as £85.6 million. Interest over the year increased the liabilities by c£2.1 million, though allowing for net benefits accrued/paid over the period then decreased the liabilities by c£3.4 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further decrease in liabilities of £6.3 million made up of "actuarial gains" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above, offset to some extent by the results of the 2017 valuation).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2018 is therefore £78.0 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2018

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 Service	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. Sport Aberdeen	Transferee
19. Robertson Facilities Management (City)	Transferee
20. Forth & Oban Ltd	Transferee
21. Alcohol and Drugs Action	Transferee
22. Idverde UK	Transferee
23. Visit Aberdeenshire	Transferee
24. Citymoves Dance Agency	Transferee
25. Xerox (UK) Ltd	Transferee
26. Forth and Oban Ltd (Shire)	Transferee
27. Aberdeen Endowments Trust	Admitted
28. North East Sensory Services	Admitted
29. Aberlour Child Care Trust	Admitted
30. Fraserburgh Harbour Commissioners	Admitted
31. Peterhead Port Authority	Admitted
32. Robert Gordon 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. Archway	Admitted
40. Middlefield Community Project	Admitted
41. Gordon Rural Action	Admitted
42. St Machar Parent Support Project	Admitted
43. Printfield Community Project	Admitted
44. HomeStart Aberdeen	Admitted
45. Aberdeen Foyer	Admitted
46. HomeStart (NEA)	Admitted
47. Pathways	Admitted

48. Outdoor Access Trust for Scotland	Admitted
49. Osprey Housing	Admitted
50. Aberdeen Performing Arts	Admitted
51. Aberdeen International Youth Festival	Admitted
52. Sanctuary Housing	Admitted
53. Sanctuary Scotland	Admitted
54. Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1. First Aberdeen	Scheduled
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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	22 JUNE 2018
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/JUN18/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	SANDRA BUTHLAY
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	1.2

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.

2. RECOMMENDATION(S)

That the Committee: -

- 2.1 Review and approve the Scheme policy document updates (as set out in item 3.9.1)

3. BACKGROUND

- 3.1 In line with the structural review of the Pension Fund, six specific areas were identified to fully address the strategic management of the Fund;

- Investment
- Accounting
- Benefit Administration
- Technical
- Governance
- Employer Relations

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

- 3.3 The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report service updates covering the six

strategic areas will also be available via the secure website (<http://www.nespf.org.uk/TheFund/Governance/Committee.aspx>) and email.

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

3.5 **INVESTMENT**

- 3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

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

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

3.6 **ACCOUNTING**

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

Separate Report, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Enhanced Admin to Payroll**

- 3.7.2 The pensions section currently operates the pensioner payroll through Aquila Heywood software Altair Payroll. An additional module is available, Enhanced Administration to Payroll, that provides a more streamlined and secure process of passing pensioner data from the administration to payroll system.

- 3.7.3 Currently, a lot of changes need to be made after an individual has been put onto the payroll system and all authorisation checks are done manually. This new module will reduce the risk, for example, of putting a pension into payment before it is due or with incorrect figures. All the payroll data can be checked before the interface is processed and the record will only pass onto payroll when the start date is in the correct pay period. Once the figures are on the interface they are protected and cannot be changed without recalculating the benefits.

- 3.7.4 It will save time as multiple records can be processed onto the payroll in one transaction, saving each being processed individually. The calculation will also work out the adjustments due to the pension providing a double check for the first payment which is not currently present. The system can also hold details of regularly used Third Party payment details, saving input time for Officers.

- 3.7.5 Productivity should be increased as the interface will automatically generate a new payroll number when the payroll record is created, reducing the need for

manual input and avoiding the chance of a duplicate number being used. All the relevant calculations are performed by the bulk calculations and therefore do not need to be input manually after the details have been authorised and passed onto payroll.

3.7.6 The system will not allow payment details to be passed across to payroll until they have been authorised and it will not allow the same person to perform the calculations and authorise the payments. This enhanced functionality will allow the Fund to address a key risk (item 2.4.8) identified in the Internal Audit Report-Pensions System.

3.7.7 There will be no additional licence or support and maintenance fees associated with securing the Enhanced Admin to Pay module. However, there will be an initial implementation cost of approximately £8,100 (based on implementation effort of 6 days).

3.7.8 **2018 LGPS Regulations**

3.7.9 The Local Government Pension Scheme (Scotland) Regulations 2018 were laid before the Scottish Parliament on 2 May 2018 for further scrutiny. The Regulations are expected to come into force from 1 June 2018. The Fund will communicate the main changes to members which include the ability for active members to now retire from age 55 without requiring employers consent (subject to actuarial reductions).

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Policy Updates**

3.9.2 Revisions as at May 2018 have been made to the following Scheme policies:

- Governance Policy
- Communication Policy
- Myners Compliance Statement
- Training Policy
- Reporting Breaches of Law Policy
- Record Keeping Requirements Policy
- Data Protection Policy (**new**)

3.9.3 Details of the revisions to each policy are provided in *Appendix II*. Copies of the revised policies are available on request from the Governance Team or can be accessed in the secure member area of the NESPF website (www.nespf.org.uk)

3.9.4 Scheme Advisory Board

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

3.9.5 LGPS Structure Review Update

The consultation on the future structure options is expected to run mid-June to late summer. A seminar 'Options for the Future Structure of the LGPS in Scotland' is also being planned for June.

3.9.6 Breaches of Law

3.9.6.1 There were 39 separate breaches of law recorded in the Breaches Register during 2017/18. The majority of these were down to Scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions, not providing the Fund with a copy of their discretions policy or submitting a late year end return.

3.9.6.2 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 action taken to rectify or prevent future reoccurrence.

3.9.6.3 The Pension Fund will continue to engage with employers throughout 2018/19. We will continue to monitor breaches and where patterns are identified through the Register, the Employer Relationship Team will work with employers to provide additional training or support.

3.9.7 Pension Board Annual Report

Appendix III, Pension Board Annual Report 2017/18

3.9.8 Pensions Committee & Board Training Plan

Separate report, provided

3.9.9 Pension Fund Staff Training

Staff training has continued throughout 2017/18 covering topics such as accounting and data protection. Individual staff training plans have all been updated for 18/19.

The Trainee Pensions Officers are progressing well through the Fund's internal training programme, with exams scheduled for July.

3.9.10 NESPF Business Plan

Separate report, provided

3.10 **EMPLOYER RELATIONSHIP**

3.10.1 **Annual Administration Forum**

The Pension Fund will be hosting its 2018 Administration Forum on Wednesday 4 July 2018 at the Beach Ballroom, Aberdeen. The event is aimed at Scheme employers and will consist of several workshops covering different aspects of pensions administration.

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. The costs in relation to the Enhanced Admin to Payroll module (item 3.7.1) will be met by the Pension Fund.

5. **LEGAL IMPLICATIONS**

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

6. **MANAGEMENT OF RISK**

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

Appendix IV, Copy of Risk Register (May 2018)

7. **OUTCOMES**

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.
Workforce	This report links to the 'workforce' design principle as the report details the six separate areas of the Fund, each with clear roles and responsibilities, ensuring accountability across the Fund. The Fund structure is kept under review to ensure we can continue to meet immediate obligations as well as being able to anticipate and meet longer terms needs.
Technology	This report links to the 'technology' design principle by seeking a new enhanced functionality in our

	payroll process to improve overall efficiency and productivity.
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8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES (if applicable)

Appendix I, Pension Administration Strategy Update
Appendix II, Document Review
Appendix III, Pension Board Annual Report 2017/18
Appendix IV, Copy of Risk Register

11. REPORT AUTHOR CONTACT DETAILS

Laura Colliss
Pensions Manager
LColliss@nespf.org.uk
01224 264158

Pension Administration Strategy



Quarterly Reporting | March 2018

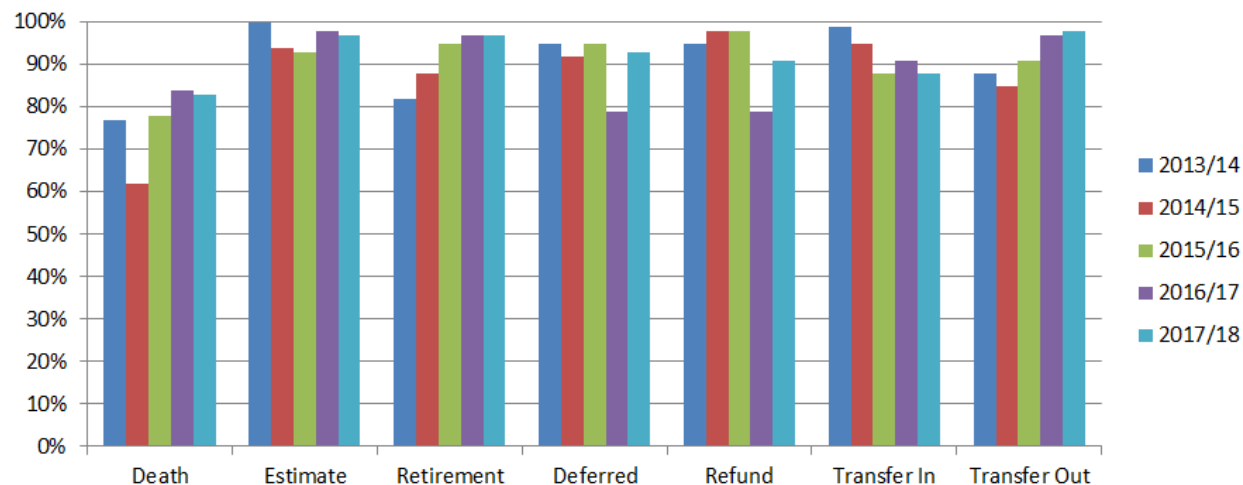
1. NESPF performance to 31 March

1.1 Key administration tasks

Measuring performance is essential to evidence the efforts made by both the Pension Fund and Scheme employers to comply with statutory requirements and deliver a high quality pension administration service. The Pension Fund aims to provide the information below within the agreed timescales shown.

Administration Task	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	40	33	83%
Notification of retirement estimate	10 days	915	895	98%
Notification of retirement benefits	10 days	1596	1550	97%
Notification of deferred benefits	10 days	1174	1094	93%
Notification of refund	10 days	1427	1323	91%
Notification of transfer in value	10 days	133	118	89%
Notification of transfer out value	10 days	471	459	97%

1.2 Previous years comparison



2. Employer performance to 31 March

2.1 Policy on discretions received (85%)

Each Scheme employer is required under regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2014 to prepare a written statement of its policy on how it will exercise various discretions provided by the Scheme. This 'discretions policy' must be kept under review by employers and revised as necessary.

Employers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberdeen Performing Arts	Aberdeen Sports Village	AIYF
Aberdeenshire Council	Aberlour	Archway	Bon Accord Care
Bon Accord Support	Outdoor Access Trust for Scotland	Fersands and Fountain	First Aberdeen
Forth & Oban (City)	Fraserburgh Harbour	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
Pathways	Peterhead Port Authority	Printfield Community Project	Robert Gordons College
Robert Gordon University	Sanctuary Housing	Sanctuary Scotland	Scottish Fire and Rescue
Scotland's Lighthouse Museum	Scottish Police Authority	Scottish Water	Sport Aberdeen
St Machar Parent Support Project	Station House Media Unit	The Moray Council	Visit Scotland
Xerox	Scottish Fire and Rescue		

2.2 Signed PLO statements received (46%)

Following the revision of the NESPF Pension Administration Strategy in April 2018 each Scheme employer must designate a named individual to act as a Pension Liaison Officer, the main contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS).

Pension Liaison Officers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberlour Childcare Trust	Alcohol & Drugs Action	Archway
Bon Accord Care	Bon Accord Support	Outdoor Access Trust for Scotland	Fraserburgh Harbour
Middlefield Community Project	Moray College	North East Scotland College	North East Sensory Services
Pathways	Peterhead Port Authority	Printfield Community Project	Robert Gordons College
Scottish Fire and Rescue	Scottish Water	Sport Aberdeen	St Machar Parent Support Project
Visit Aberdeenshire	Xerox		

2.3 Quantity of data received (815,387)

All Scheme employers are now required to provide monthly data using I-Connect, by way of a monthly file extracted from the payroll system or by completing electronic forms for individual members.

I-Connect events processed	Total
Starters (new start and opt in)	4415
Amendments (address, personal details, hours and absence)	30314
Leavers (exit and opt out)	3345
Contributions (employee, employer and additional)	261380
Salary	259913
Cumulative CARE pay	251773
Works address	4247

2.4 Quality of data received

The quality of data received from Scheme employers is assessed and checked by the Employer Relationship Team (ERT). Red, Amber and Green flags will be used to assess the quality of the data. The Pension Fund will seek, at the earliest opportunity, to work closely with Scheme employers in identifying areas of unsatisfactory performance, and provide the necessary training and development for improvement.

Since the introduction of the requirement to provide monthly information in this format the quality of the data received through i-Connect has been of a very high standard. This allows the Fund to provide accurate and up to date information to members, meet the requirements of The Pension Regulator and improved the accuracy of the financial information held for the valuation of the Fund.

Green	I-Connect events processed and validated by ERT
Amber	I-Connect events processed however missing or incorrect data identified by ERT
Red	I-Connect events not processed
Blank	Data not provided (as at 31 December 2017)

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	Extract File												
Aberdeenshire Council	Extract File												
Bon Accord Care	Extract File												
Bon Accord Support	Extract File												
Grampian Valuation Joint Board	Extract File												
Moray Council	Extract File												
NESTRANS	Extract File												
Police Scotland (Aberdeen)	Extract File												
Robert Gordon University	Extract File												
Moray College	ALCARE/Extract												
Scottish Water	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												
Aberdeen Performing Arts	Online Return												
Aberdeen Sports Village	Online Return												
Aberlour Child Care Trust	Online Return												
Aberdeen International Youth Festival	Online Return												
Archway	Online Return												
City Moves Dance Agency	Online Return												
Alcohol & Drugs Action	Online Return												

Fersands and Fountain	Online Return													
First Aberdeen	Online Return													
Forth and Oban (City)	Online Return													
Forth and Oban (Shire)	Online Return													
Fraserburgh Harbour	Online Return													
Homestart Aberdeen	Online Return													
Homestart NEA	Online Return													
ID Verde	Online Return													
Inspire	Online Return													
Mental Health Aberdeen	Online Return													
Middlefield Community Project	Online Return													
North East Sensory Services	Online Return													
Osprey Housing	Online Return													
Outdoor Access Trust Scotland	Online Return													
Pathways	Online Return													
Peterhead Port Authority	Online Return													
Printfield Community Project	Online Return													
Police Scotland (Glasgow)	Online Return													
Robert Gordon College	Online Return													
Robertson FM City	Online Return													
Robertson FM Shire	Online Return													
Sanctuary Housing	Online Return													
Sanctuary Scotland	Online Return													
SCARF	Online Return													
Scotlands Lighthouse Museum	Online Return													
Scottish Fire and Rescue	Online Return													
St Machar Parent Support Project	Online Return													
Station House Media Unit	Online Return													
Visit Scotland	Online Return													
Xerox	Online Return													
North East Scotland College	ALCARE													

*March files that did not include full time equivalent pays or correct year end data were recorded as amber.

Document Name		Revisions
1.	Governance Policy	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Updated to reflect changes in ACC Governance Framework and revised Terms of Reference
2.	Communication Policy	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Minor amendments for consistency with other documents and practice.
3.	Data Protection Policy	<ul style="list-style-type: none"> • Implemented in response to General Data Protection Regulation from 25/05/2018 to set out the Fund's data protection policies
4.	Myners Compliance Statement	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Updated to reflect change to Chief Officer-Finance
5.	Training Policy	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Minor amendments to reflect current practices e.g. website content
6.	Reporting Breaches of Law Policy	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Revisions to reflect current practice and introduction of new General Data Protection Regulation
7.	Record Keeping Policy	<ul style="list-style-type: none"> • New format to bring in line with other policy documents • Revisions to reflect current practice and introduction of new General Data Protection Regulation

All of the above revised reports are available to view via the Pension Fund website at www.nespf.org.uk

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NESPF Pension Board Annual Report

For the period 1 April 2017 to 31 March 2018

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Introduction

This is the 2017/18 annual report of the North East Scotland Pension Fund Pension Board.

The North East Scotland Pension Fund (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 2017/18.

Legal Background to the Local Pension Board

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 properly constituted and trained Pension Boards 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 Pensions 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.

A copy of the Board's recruitment and appointment policy can be found at www.nespf.org.uk.

Regulatory Oversight by the Pensions Regulator (tPR)

The Public Service Pensions 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 2017/18

The NESPF Pension Board is made up of an equal number of member (trade union) and employer representatives;

Unison

Morag Lawrence

GMB

Mr Kevin Masson

Unite

Mr Alan Walker

UCATT

Mr Steven Clunes *joined Feb'18*

Admitted/Scheduled Bodies

Ms Marie Hart (Police Scotland)

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor William Howatson *left May 2017*

Councillor Alistair McKelvie *joined May 2017*

Aberdeen City Council

Councillor Len Ironside *left May 2017*

Councillor Freddie John *joined May 2017, left August 2017*

Councillor Alan Donnelly *Joined August 2017, left March 2018*

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 Alan Walker as the member representative Chair for 2017/18, an employer representative will be required to act as Chair in 2018/19.

An appointment was made during 2017/18 from UCATT to fill the vacant trade union position.

Meeting Attendance (for 2017/18)

In compliance with the LGPS (Governance)(Scotland) Regulations 2015, the Pension Board;

- is to meet at the same place and time as the Pensions Committee of the Scheme Manager to consider the same agenda as the Committee, but
- the Pension Board may meet separately from the Pensions Committee with the agreement of the Pensions Committee.

Board Member Employer	Meetings & Attendance				
	12/06/2017	23/06/2017	15/09/2017	01/12/2017	16/03/2018
Cllr Freddie John	✓	✓			
Cllr Alan Donnelly			✓	X	
Cllr Alistair McKelvie		✓	✓	✓	✓
Cllr John Cowe	X	✓	✓	✓	✓
Marie Hart	✓	✓	✓	X	X
Union					
Kevin Masson	X	✓	✓	✓	✓
Morag Lawrence	✓	✓	✓	✓	✓
Alan Walker	✓	✓	✓	✓	✓
Steven Clunes					✓
Overall Attendance Rate	67%	100%	100%	71%	86%

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 Pensions 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 2017/18:

- Asset & Investment Manager Performance
- Investment Strategy
- Budget & Projected Spend Strategy

In addition, the Committee also received reports/updates on:

- Training
- New Admitted Body
- Actuarial Valuation
- Employer Covenant
- Annual Report & Account
- External Audit
- Pension Administration Strategy performance
- Statement of Accounts
- Corporate Governance
- Risk Management
- Governance Review
- Internal Audit
- Risk Register

Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money.

During the period 2017/18 the cost of administering the Pension Board was as follows:

Area	Costs £'s
Travel Costs	2,457.40
Allowances/Other*	567.10
Training Room	500.00
Total	3,524.50

*includes loss of earnings to attend meetings/training

Training Requirements

The Public Service Pensions Act 2013 requires that members of local pension boards have an appropriate level of **knowledge and understanding** in order to carry out their role. 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.

The NESPF Pension Board's training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A copy of the training policy can be found at [Appendix II](#). There were no changes made to the policy during 2017/18.

The NESPF is committed to supporting Board members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance; training 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 2017/18

Board Member	11/08/2017	31/10-1/11/2017	21/11/2017	11-12/01/2018	Individual Attendance Rate
Cllr Freddie John	✓				
Cllr Alan Donnelly	✓*	X	✓	✓	67%
Cllr Alistair McKelvie	✓	X	X	X	25%
Cllr John Cowe	✓	X	X	✓	50%
Marie Hart	X	✓	✓	X	50%
Kevin Masson	X	X	X	X	0%
Morag Lawrence	✓	X	✓	✓	75%
Alan Walker	✓	✓	✓	✓	100%
Steven Clunes					
Overall Attendance Rate	71%	29%	57%	57%	

*as a member of the Pensions Committee

The training on the 11th August took place at the Town House in Aberdeen. Training was carried out by the Fund Managers, the Scheme actuary and the Fund's investment consultants, as follows:

Baillie Gifford	Equities and Bonds
BlackRock	Alternatives
Schroders	Transport Fund
Mercers	Actuary
KPMG	Investment Consultant

The LGC Seminar on the 31st October/1st November took place over the course of two days in Edinburgh.

Sessions on Day 1 covered:

- Geo-Political debate: what keeps the investment managers awake at night
- National update
- The impact of MiFID II
- Focus on Investment Strategy: Case study on Strathclyde's investment strategy
- How the LGPS landscape in Scotland is changing

Sessions on Day 2 covered:

- An early view of the initial valuation results
- How can funds capitalise on the infrastructure opportunity: Focus on Infrastructure debt and Focus on Infrastructure equity
- ESG – integration into strategy
- Case study from one of the funds
- Update on pooling from the LGPS in England/Wales

The LGPS (Scotland) Training Seminar held on the 21st November at the COSLA offices in Edinburgh saw presentations by a number of different speakers. They included:

Aon Hewitt	Introduction to the LGPS
Pinsent Mason	Governance & Fiduciary duty
Mercer	Triennial Valuations
KPMG	Investment Strategies
Legal & General	Corporate Governance/Stewardship
Northern Trust	Role of the Global Custodian

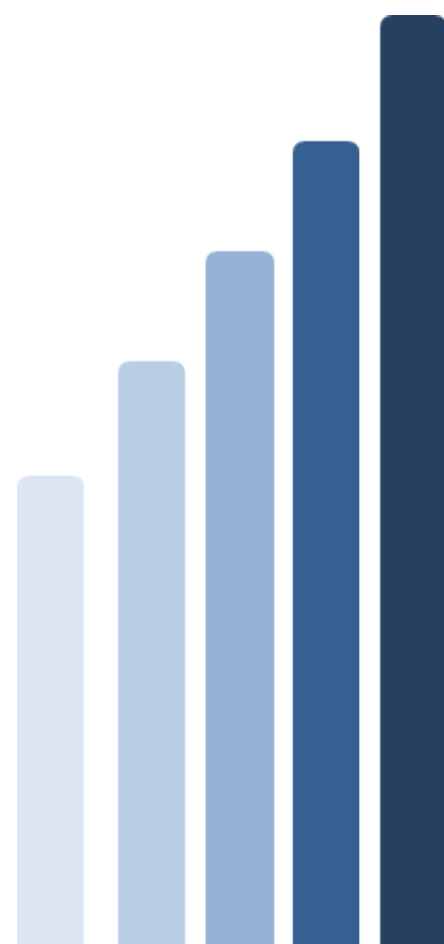
The training on the 11/12th January took place at the Blackrock offices down in London covering various topics from the fund managers.

Day 1 sessions covered:

BlackRock	UK Equities
Baillie Gifford	Global Equities
Invesco	Diversified Growth Funds (DGF)
Russel Investments	Multi-Asset Credit
Aberdeen Standard	Property

Day 2 sessions covered:

BlackRock	DGF
Unigestion	Private Equity
Capital Dynamics	Private Equity
Partners Group	Infrastructure & Real Estate



Code of Conduct, Conflicts of Interest & compliance with tPR

Code of Conduct

Members of the NESPF Pension Board agreed to a Code of Conduct on appointment to the Board in April 2015 (or on subsequently joining). 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 Pensions Committee on 1 December 2017. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

As a standing item at each Pensions 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 2017/18 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 2017/18.

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 key controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively. A review using the tPR scheme assessment tool confirmed there were no areas of concern.

At the time of the last review, work was ongoing to review the processes and policies in preparation for the introduction of the General Data Protection Regulation (GDPR) from 25 May 2018. Officers had identified a number of areas which needed further attention including:

- Subject Access Requests – to ensure robust procedures were in place to assist staff in both identifying and responding to these within stricter timeframes under GDPR.
- Tracing Exercise – to ensure the Fund continues to comply with Record Keeping requirements.

A Governance Review report was presented to the March Pensions 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 Pensions 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 breaches reported to tPR during the year 2017/18.

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 Pensions Committee and Pension Board.

Work for 2018/19 onwards

The following areas will be looked at by the Committee & Board in the next 12 months (subject to review):

- Annual Training Plan update
- Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Compliance Review
- Internal/Audit plan and updates
- Conflicts of Interest declarations

APPENDIX I

PENSION BOARD – TERMS OF REFERENCE**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.

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 Pension Board deem appropriate
- 2.3** The Pension Board is not a decision making body.
- 2.4** The Pension Board is not a scrutiny function.
- 2.5** The Pension Board will be collectively and individually accountable to the Pensions Committee

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.

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 Pension 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 Pension 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 Pension Board may establish sub-committees.

4.5 While the statutory roles and function of the Pensions 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.

DISPUTE RESOLUTION

5.1 If the Pensions 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 Pensions 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

1.1 If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions 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.

TRAINING

6.1 All members (and named substitutes) of the Pension 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 Pension 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.

ACCESS TO INFORMATION

- 7.1** The Scheme Manager and Pension 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 Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

North East Scotland **PENSION FUND**

Training Policy

March 2018

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Introduction

This policy statement details the training agenda for members of the North East Scotland Pension Fund (as administered by Aberdeen City Council) Pensions Committee and Pension Board.

The level of knowledge required by members of both the Pensions 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 Pensions 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 Pensions Committee.

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 Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

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

All remaining documentation will be available to Committee and Board members via the Pension Fund website at www.nespf.org.uk

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

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.

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

Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding'.

The Training Policy will be reviewed annually.

Reimbursement of Expenses

All training costs are met directly by the Pension Fund.

Further Information

If you have any questions relating to this Statement please contact the **Governance Team**:

Corporate Governance
Business Hub 16
3rd Floor-West
Marischal College
Broad Street
Aberdeen
AB10 1AB

Phone: 01224 26 4169
Email: msuttie@nespf.org.uk
Web: www.nespf.org.uk

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	
	Pensions Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> • General and Scheme Pension Legislation • Scheme Governance • Pension regulators and advisors • Legislative framework • Risk 	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2	3
Investment Governance <ul style="list-style-type: none"> • Investment Strategy • Financial Markets 	2	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of advisors • Performance of the committee • Performance of support services and advisors 	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Outsourcing 	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 Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:

- The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
- The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
- The appointment of investment and actuarial advisors and other third party services
- The Governance Framework
- The communication strategy of the Fund or Funds

2. And to monitor:

- The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
- The costs of running the Pension Fund and Scheme
- 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 Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions 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 Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

Requirement	Essential	Desirable
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	Enthusiastic, not easily deterred and able to convey enthusiasm to others. Committed to the objectives of the Pension Scheme and Fund(s).	
6. Equal Opportunities	Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.	

The vice convener of the Pensions 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 PLSA 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 PLSA 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 annually to the June meeting of the Pensions 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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1. In line with best practice and the Pensions Regulator (tPR) 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 review and updated quarterly, with reporting to the Pensions Committee.

3. RAG Summary as at May 2018

Catastophi c	9, 18	1, 16, 21	6			
Critical		4, 19, 20	8, 15, 25	14, 24		
Marginal	17	2, 5, 13, 29	7, 11, 12, 22, 23	3, 10, 28		26
Negligle						
Impact Likelihood	Almost impossible	Very Low	Low	Significant	High	Extremely High

Pension Fund Risk Register

No	Risk Description	Effect/Consequences	Current Controls	Current Risk		Risk Movement	Current Status/Progress	
				Impact	Likelihood Score			
Pension Fund Level								
1	Lack of effective Risk Management	Failure to identify and respond to risks will impact on service delivery capabilities	Pension Fund Risk Register is reviewed and updated quarterly	4	2	8	↔	Ongoing
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create a regulatory compliance issue, lead to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, ensuring both regulatory and Council objectives compliance	2	2	4	↔	Ongoing - annual review reported to Committee
3	Lack of Performance Measures	Failure to monitor performance across the Fund will provide a lack of transparency on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	2	4	8	↔	The Fund participates in national benchmarking exercises and has internal measures which are reported to Committee
4	Failure of Pensions Committee and Pension Board to operate effectively	Failure to ensure effective joint working will result in non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	Annual review of Committee and Board, in consultation with both	3	2	6	↔	Annual Report to Committee and Board on effectiveness and training (March 2018)
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC	2	2	4	↔	Review to take place and Pension Fund Team to be made fully aware
6	Failure to recruit and develop staff	Service delivery and succession planning at risk	Individual staff training plans reviewed annually, ongoing review of staffing requirements	4	3	12	↔	Several vacant posts to be filled
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	2	3	6	↔	Information provided by FMS
Governance								
8	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding legislation	Audit criticism, legal challenge, reputational risk, financial loss/penalties	Six monthly compliance review and annual report to Committee	3	3	9	↔	Ongoing - reported to Committee (March 2018)

9	Failure to comply with FOI requests	Audit criticism, legal challenge, reputational risk	Internal controls in place to ensure deadlines adhered to, Pension Fund Manager responsible for all FOI requests	4	1	4	↔	Ongoing
10	Conflicts of Interest	Audit criticism, legal challenge, reputational risk	Regular discussions between CO-Finance and Pension Fund Manager. Areas of risk and conflict declared at Pensions Committee and Pension Board meetings, conflicts register to record and monitor	2	4	8	↔	Ongoing
Benefit Administration								
11	Requirement to complete GMP reconciliation	Failure to ensure future member benefits are calculated correctly, audit criticism and financial loss	Appointment of GMP Project Team	2	3	6	↔	Ongoing, report due to Committee in June'18
12	Fraud/Negligence	Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitting lump sum payments	2	3	6	↔	Ongoing - regular reporting to Committee in place (June 2018)
13	Overpayments of pension benefits	Audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitting lump sum payments	2	2	4	↔	Ongoing
Investments								
14	Insufficient assets to meet the Fund's long term liabilities	Increase in employer contribution rates and investment risk, audit criticism, legal challenge, reputational risk, financial loss	Quarterly assessment of investment performance and funding updates, tri-ennial valuation and investment strategy review.	3	4	12	↔	Ongoing
15	Failure to monitor investment managers and assets	Audit criticism, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with managers	3	3	9	↔	Ongoing
16	Failure of work stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	4	2	8	↔	Ongoing - revised investment strategy to Committee (March 2018)

17	Negligence/fraud/default by investment managers	Financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	2	1	2	↔	Ongoing
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	4	1	4	↔	Ongoing - new custodian appointed April'18
Accounting								
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	3	2	6	↔	Ongoing
20	Annual review of Code of Practice and any other overriding regulations	Qualified accounts	Review of Code, attending CIPFA meetings/reviews	3	2	6	↔	Ongoing
Technical								
21	Failure to secure and manage personal data in line with Data Protection requirements	Audit criticism, legal challenge, reputational risk, financial penalties	Internal control and procedures for management of data, project group set up to implement GDPR & assess current processes.	4	2	8	↔	Policies and procedures to be reviewed for GDPR implementation from May 2018
22	Failure of the Fund's administration system	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location	2	3	6	↔	Quarterly report is provided to Pension Fund Manager on any hosted system errors/resolutions
23	Failure to carry out effective member tracing	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS)	2	3	6	↔	Ongoing
Employer Relationship								
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Employer Covenant Policy	3	4	12	↔	Ongoing
25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Employer Covenant Policy and discretions	3	3	9	↔	Ongoing
26	Employers leaving Scheme/closing to new members	Orphaned liabilities could fall to remaining employers	ERT to manage through Employer Covenant Policy	2	6	12	↔	Ongoing
27	Longevity	Increase in employer contribution rates	Actuarial valuation every 3 years which undertakes scheme specific analysis including review of life expectancy/mortality assumptions	2	2	4	↓	Ongoing - revised Investment Strategy and FSS to Committee following tri-ennial valuation (March 2018)

28	Employer contributions not received, collected or recorded accurately	Orphaned liabilities could fall to remaining employers	Accounting Team escalate any issues to Governance/ERT Team, with escalation to tPR if persists. Breaches Policy and Register in place	2	4	8	↔	Ongoing
29	Failure to maintain member record; data incomplete or inaccurate	Incorrect pension payments made, incorrect assesstment of actuarial liabilities	All employers required to submit monthly data which is reconciled by the ERT	2	2	4	↔	Quarterly PAS reporting to Committee

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North East Scotland
PENSION FUND

The logo for the North East Scotland Pension Fund. It 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.

Pension Service Business Plan

June 2018

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Document	Pension Service Business Plan
Draft/Review Date	March 2018
Approval Date	June 2018
Author & Team	Laura Colliss
Review Date	June 2019

Introduction

Welcome to the Pension Fund Business Plan for 2018/21. This document sets out our plans to build on our strengths and internal capabilities to drive transformation through the service, involve our staff and customers in delivering a first-class service to Pension Fund stakeholders.

The Plan covers a three-year planning cycle from 2018/21 with a focus on 2018/19 and will be subject to regular reviews and updates in line with the development of the Local Government Pension Scheme and Aberdeen City Council as the administering authority for the Pension Fund.

The Pension Fund Business Plan builds on our objective:

To work together as an effective and flexible team that will deliver a high-quality service to scheme members, scheme employers, council tax payers and others with an interest in the management and administration of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

North East Scotland Pension Fund and Aberdeen City Council Transport Fund

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

There are two funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF).

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

Employers within the North East Scotland Pension Fund include the administering authority, Aberdeenshire Council and Moray Council along with 8 further scheduled bodies and 45 other admitted bodies.

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.

Pension Fund Section

The Pension Fund section is responsible for the day to day management of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund, reporting to the Chief Officer - Finance and quarterly to the Pensions Committee and the Pension Board. Full details of the Pension Fund governance arrangements can be found in the Pension Fund '**Governance Statement**' which is reviewed annually by the Pensions Committee.

The Pension Fund section is divided into 6 teams:

The Investment Team is responsible for all aspects of the management of the Funds' investment business

- Delivery of an investment strategy, having due regard to risk and return within the Funds' objectives and liability requirements
- Corporate, social and economic governance
- Review and appointment of new investment managers
- Performance monitoring

The Accounting Team is responsible for recording and oversight of all financial transactions carried out by the Pension Fund

- Receipt of monies in respect of contributions, transfer values and investment income
- Provides funds to pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses
- Account for the funds' assets and all monies received and paid from the Fund
- Prepares the Fund's Annual Report and Accounts

The Benefit Administration Team is responsible for over 60,000 scheme members and the calculation of scheme benefits covering

- Retirement benefit calculations

-
- Survivor/Dependant's benefit calculations
 - Transfer benefit calculations
 - Divorce calculations
 - Estimates for retirement calculations
 - Payment of pensions through Pensioner Payroll
 - Employee surgeries
 - One to one meetings with scheme members
 - Supporting system testing for system upgrades and regulation changes

The Employer Relationship Team is a dedicated team responsible for managing employer engagement

- Support employers from initial enquiry to join the Fund, through general administration to termination
- Work with Directors of Finance, Legal Advisors, HR and Payroll departments to answer queries
- Assess and monitor employer covenant risk
- Reconcile monthly data received from employers
- Provide face to face training for scheme employers
- Monitor employer PAS performance and engage with scheme employers

The Technical Team is responsible for maintenance and upgrade of the Altair Benefits Administration System

- Maintenance and upgrade of the Altair administration and payroll system
- Maintenance and upgrade of Member Self Service (MSS)
- Creation and maintenance of the Pension Fund website
- Scheme technical reporting
- Apply revaluation and pensions increase
- Production of annual benefit statements and pension saving statements

The Governance Team is responsible for governance matters in relation to the Fund

- Committee reporting
- Tendering
- Document control
- Staff training
- Freedom of Information requests
- Communication
- Preparation of the Pension Fund Annual Report

Service Description

What services do you provide, and to whom?

Customer Relationships

Team	Internal	External
Accounting	Finance, Pension Fund, Audit	Audit, Fund Managers, Global Custodian
Benefit Administration	Pension Fund	Scheme Members, Scheme Employers
Employer Relationship	Pension Fund	Scheme Members, Scheme Employers, Regulatory Bodies, Actuary
Investment	Pension Fund	Service Providers, Regulatory Bodies, Scheme Members
Governance	Pension Fund, Finance, Audit, Elected Members	Audit, Scheme Employers, Regulatory Bodies
Technical	Pension Fund	Scheme Employers, Regulatory Bodies, Actuary

The Pension Fund section has an important role in supporting the Council priorities, being responsive to the retirement benefit provision of Council staff, Elected Members and employees of both Aberdeen City Council and a range of external organisations.

Our objective is to deliver best value. We do this through improving service delivery, meeting changing customer requirements and contributing to the savings target of both Aberdeen City Council and our external bodies.

Challenges ahead

The pace of change and challenges that the Local Government Pension Scheme is facing are unprecedented, it is therefore becoming even more essential that effective financial and administration management underpins the Pension Fund plans, operations and transformation as we face the challenges ahead.

The detailed improvement plans, and actions are introduced later in the document, however, it is recognised that in addition to the tasks themselves, new approaches and measures are required to make their implementation successful.

Examples of these measures include:

- Restructuring the Pension Fund section to meet the changes in the technology and engagement with scheme employer
- Investment in measures to deliver training, support and technology to improve our services

- The creation of working groups within the Fund to deliver specific projects such as Guaranteed Minimum Pension (GMP), the General Data Protection Regulation (GDPR) and LGPS (Scotland) 2018
- Enhanced communication tools

Improving our efficiency

Our approach to our improvement plans will be in accordance with the following principles:

- Pro-active involvement of staff to identify improvements and drive change
- Close consultation with staff on any service changes
- Applying opportunities to work across the Pension Fund section to strengthen skills and integrate processes
- Use of targeted external support to complement the skills of our staff
- Phasing initiatives appropriately for the most effective delivery

Our approach is relevant for all staff working in the Pension Fund section. A particularly important aspect is to strengthen our team work and effectiveness; many of our new initiatives and the way we plan tasks are being designed to support this way of working to improve our resilience, quality of service and to deliver improvements more successfully.

To fulfil this approach, we will:






- Make best use of the staffing resources available to us, delivering improvement in our service priorities in the most cost-effective manner;
- Develop a flexible, skilled and motivated workforce;
- Listen to, and be responsive to, our customers, shaping our services around their needs and focusing our resources where they are most needed; and
- Work closely with our partners, including elected members of both the Pensions Committee and the Pension Board, scheme employers and scheme advisors

Summary of Performance

Key achievements against the 2014 – 2017 plan

The 2014 – 2017 Business Plan identified the following priorities for the Fund:

Business Priorities	Achievement	Evidence
---------------------	-------------	----------

Introduction of the new Local Government Pension Scheme 2015		Scheme fully implemented, with first new member benefit statements issued August 2016
Engagement with scheme employers		New Employer Relationship Team fully operational, regular employer site visits, positive feedback on employer forums 97% member data updates received
Implementing an Investment Strategy to achieve the Funding Objective of 100% funded		New Investment Strategy implemented
Enhancing our governance arrangements		New Governance Team in place document control centralised,
Involving Staff		Creation of 6 specialist service teams, regular team meetings, individual staff training plans

Achievements in 2016/17 – 2017/18

2016/17

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 Funds' long term move to digital information exchange for both employers and members has seen data quality and overall administration improve. As the Funds continue 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 Funds:

- further reduced the time taken to complete year end from 220 days to just 63
- successfully issued 99.6% of benefit statements before the 31st 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 Funds also went live with the new online Member Self Service (MSS) facility. This service was redesigned with improved functionality.

The success of these online technologies has been recognised across the industry with the Funds holding 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 Funds continued to grow in value as they maintained their long-term investment strategy, which includes the diversification of assets and therefore risk. This has

helped the Funds maintain and increase their overall value. Furthermore, the Funds moved to a new Global Custodian, which was finalised in December 2016.

2017/18

During 2017/18, the Fund continued to build on technological advances with the implementation of a new online system. This facility was an extension of a system our larger employers use but was amended to cater towards the needs and capabilities of our smaller employers. With online solutions available for all employers, the Fund made monthly online submissions of data a mandatory requirement for employers from 1st April 2017.

With training and guidance provided on the new system, uptake and implementation was highly successful with 96% of employers providing information online. As such year-end processing is expected to further reduce from 63 days to 40 with the number of automatic system updates expected to greatly surpass the levels achieved in 2016/17.

The Fund conducted its Triennial Valuation in 2017/18 to overwhelming success. The results showed a strong improvement in the NESPF's funding position with an increase from 94% (2014) to 107%. The Transport Fund also saw a small increase with the funding position rising to 94% from 93% in 2014.

Finally, the Fund was nominated for 8 national awards, winning "Public Sector Scheme of the Year" at the Professional Pensions Pension Scheme Awards. The Fund was judged against several criteria including investment management, communications, governance, innovation and administration and the win recognises the achievements made in improving our service to members and employers.

KPI performance

NESPF performance measurements are reported as part of the Pension Administration Strategy (PAS) introduced in July 2013 in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008¹.

In 2015/16 the total number of cases processed (5282) increased by more than 1000. The overall percentage achieved increased by 3% and was the highest ever recorded despite it being the first year of the new scheme. This was particularly pleasing given some manual processing was required through the first part of the year and there was a significant increase in estimate, deferred, refund and retirement processing.

¹ Amended to Regulation 57B of the LGPS (Administration) (Scotland) Regulations 2014

In 2016/17 the total number of cases processed (5818) increased by more than 500. Death, estimate, retirement and transfer percentages all improved however for deferred and refunds it reduced significantly and lowered the overall percentage achieved. To address this a move towards specialisation and group working was introduced.

In 2017/18 the total amount of cases processed (5756) was consistent with the previous year. The percentage achieved for retirements remained at 97% despite having to process 200+ more than ever before. Transfer out processing significantly increased because of “freedom and choice” but again this did not affect performance. The measures introduced for deferred and refund processing were successful with both percentages back above 90% and the overall percentage achieved higher than the previous best in 2015/16.

NESPF key performance measurements	Target	2015/16	2016/17	Amount	Achieved	2017/18
Letter notifying death in service to dependent	5 days	78.4%	84.4%	40	33	82.5%
Letter notifying retirement estimate	10 days	92.8%	98.4%	915	895	97.8%
Letter notifying actual retirement benefits	10 days	95.2%	97.4%	1596	1550	97.1%
Letter notifying deferred benefits	10 days	95.4%	79.3%	1174	1094	93.2%
Letter notifying amount of refund	10 days	97.5%	79.3%	1427	1323	92.7%
Letter detailing transfer in quotes	10 days	87.5%	90.6%	133	118	88.7%
Letter detailing transfer out quotes	10 days	90.9%	96.9%	471	459	97.5%
Overall percentage achieved		94.6%	87.7%			95.1%

Service Assessment

PESTLE analysis (*External factors that will/may impact on the service*)

Political	Economic
<ul style="list-style-type: none"> National and international geopolitical outlook International political outlook COSLA Policy changes affecting scheme employers impacting on financial pressures Local political impact and reputational factors 	<ul style="list-style-type: none"> Global economic outlook Market Volatility Currency Risk Interest Rate Risk Inflation Risk Regional economic strategies Aberdeen locality – impact on recruitment

<ul style="list-style-type: none"> • SAB scheme review • Brexit 	<ul style="list-style-type: none"> • EU relations/funding for scheme employers
<p>Social</p> <ul style="list-style-type: none"> • Responding to demographic change 	<p>Technological</p> <ul style="list-style-type: none"> • New technological developments • Social media • Digital strategy • Mobile/flexible working • Upgrades to our existing software products and standards
<p>Legal</p> <ul style="list-style-type: none"> • Legislative change • Council restructuring – national/local • New standards of governance, stakeholder expectation • Admission Agreements • Fund Manager Contracts • Procurement • Internal/External Legal Requirements 	<p>Environmental</p> <ul style="list-style-type: none"> • Environmental Social and Governance agenda • Best practice and development of standards on a wider scale • Benchmarking and sharing of services

Summary of critical issues from the PESTLE analysis that will influence the plan

The key overriding issue which will impact all aspect of the PESTLE is the uncertainty surrounding Brexit. Noted below are some of the areas to be monitored over the period of the service plan:

- Political impact – review of the nature of the scheme, impact on scheme employers and their funding
- Economic – global outlook, market volatility, currency risk, interest rate risk and inflation risk
- Legal – domicile of scheme managers and the global custodian, their legal and regulatory obligations, impact on procurement rules

Political

The Fund recognises the changes in global and national politics will impact on the Fund; much of this will be incorporated in the work of the Scheme Advisory Board (SAB). The Fund will support and work with, the SAB to promote the future welfare of the LGPS Scotland.

Economic

Brexit, - the global economic outlook and its impact on market volatility, presents challenges to the Fund in meeting its long-term funding plan. The Fund also recognises the potential impact of Brexit on all scheme employers funding and will work with them to manage their membership of the LGPS.

Social

The Fund continues to monitor the impact of longevity on the liability profile of the Fund, taking appropriate steps to mitigate risk through increasing bond exposure.

Technological

Technology continues to be a key factor in the Fund delivering an efficient and cost-effective administration solution to all scheme employers.

Internally the Fund continues to work to enhance the use of 'workflow' to ensure that the Fund meets and seeks to exceed its performance targets.

All Pension Fund section staff now have a personal training plan which recognises the need for ongoing training and development of technology skills.

Legal

Document Review – the introduction of the Pension Fund Governance Team will allow for the review of the scheme documentations ensuring that all contracts are fit for purpose.

Procurement – the Pension Fund recognises the key role service providers play in the administration of the Pension Fund and its assets. Effective procurement and review of contract arrangements on a regular basis are essential to the cost-effective management of the Pension Fund.

Environmental

Good corporate governance and good social and environmental practice can have a favorable effect on financial performance and improve investment returns to shareholders as well as society at large. Conversely, companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs, (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

Therefore, to protect and enhance the value of its investments, the NESPF seeks to encourage the companies in which it invests to operate to the highest standards of corporate governance, corporate social responsibility and environmental practices. As a major long-term shareholder, the main tools open to the NESPF to use its influence is, by the responsible exercise of its voting power and engagement on social and environmental factors with the companies in which it invests.

SWOT analysis (Strengths, Weaknesses, Opportunities & Threats for the service)

<p>Strengths</p> <ul style="list-style-type: none"> • Audit record of strong financial management • Successful history of delivering critical legislative tasks • Successful improvements implemented and responsiveness to change/approachability, high customer satisfaction • Strong succession plan and staff development programme • Networks to national and international bodies • Successful collaboration with the LGPS across the UK • Status in Scottish LGPS community 	<p>Weaknesses</p> <ul style="list-style-type: none"> • Finance processes, training and systems could be enhanced • Need to continue to embed staff development and engagement programmes within Pensions • Managing changing priorities and resources is effective but needs more evidence • Connectivity of systems and teams within Pensions and our wider stakeholders • Evidence based decision making could be strengthened
<p>Opportunities</p> <ul style="list-style-type: none"> • Further collaboration • Staff empowerment • Outcomes approach • Growing service building on strengths • Longer term planning 	<p>Threats</p> <ul style="list-style-type: none"> • Economy and austerity • Market Volatility • Recruitment and staff turnover • Reputational risk due to high focus in the city from press • Political change leading to short termism • Transformation failing and impacting on Pension service

Evidence of strengths:

- Consistent record of unqualified accounts
- Collaboration with other Scottish LGPS's
- Successful introduction of new LGPS 2015
- Introduction of new workflow system to enhance service delivery

-
- Implementing new Pension Fund staffing structure to focus of the key delivery areas Governance, Employer Relationships, Benefit Administration, Technical, Accounting and Investment
 - Setting a long-term investment strategy focused on meeting the fund's long-term liabilities at minimum risk
 - Maintaining employer contribution rates as nearly constant as possible, setting a rate that is a reasonable cost to the taxpayers, scheduled and admitted bodies

Identified Weaknesses

- The new Governance Team will work with all other teams within the Pension Fund section to enhance financial processes and ensure that the Fund's new training plans are implemented across all staff
- The new Pension Fund management team will be responsible for actively engaging with all team members to deliver improvement in our service priorities in the most cost-effective manner and develop a flexible, skilled and motivated workforce;
- Enhanced communication with our stakeholders will be led by the Governance Team
- The Pension Fund management team will focus on evidencing performance achievements and key tasks

Summary of critical success factors emerging from the SWOT

Critical success factors emerging from the SWOT drive directly the key priorities and action plans around organisational culture.

Customer experience – we need to be proactive in building on strengths, marketing our services and building our reputation to minimise threats. This includes exploring joint arrangements and reviewing those in place, strengthening our approach to benchmarking and links to other organisations and ensuring consistent customer standards.

Staff experience – to meet the organisations goals, we need to focus strongly on developing our most critical and significant resource – our staff. Stronger staff engagement can enable us to maximise our opportunities and build on our strengths. We need to continue to strengthen PR&D, staff development and change management. The newly developed 6 teams will support this. We need to continue to develop our approaches to succession planning and performance management.

Use of resources – the significant Use of Resources programme that impacts Council wide will work in tandem with the Pension Fund section to improve stewardship and enable transformation of the way we manage our money, assets, staff and technology.

Service Business Plan

Service Vision

The mission for the Pension Fund section is: **To be the best in the eyes of our customers, staff and stakeholders.**

We will achieve this through aiming towards our vision that:

- Our stakeholders have confidence in the Fund’s financial integrity
- There is a clear framework of leadership, accountability, systems and controls supported by external scrutiny
- Fund policies reinforce scheme sustainability and support strategic decision making and performance management
- Fund strategies support a culture of innovation and improvement, balancing control and flexibility
- Our income collection maximises the effectiveness of the capability of the organisation
- Our Pension Fund administration provides our members and employers with a high degree of confidence

As part of our planning process we have thought carefully about how we add value to the Fund Stakeholders. We have developed our Fundamentals to find a way of expressing how we do this in a way that is clear and simple to understand whilst recognising the complexity and diversity of the team. They form a set of standards which give us focus and a clear framework we will use across the different areas in the Pension Fund section and with all our stakeholders.

Financial Leadership	Strengthen the Fund, develop strategy, Build for the future
Insight and Solutions	Scheme focused, Innovative Solutions, Customer focused
Customer Engagement	Proactively engaging, Assertive and confident, Customer focused
High Quality Reporting, Planning and Analysis	Quality financial information
Strong Financial Controls and Accurate transaction processing	Efficient processes, Right first time, Continuous improvement

Pension Fund Fundamental standards are important both for staff to aspire to and consider in their daily tasks and how that feeds through to the overall Council objectives.

HOW WE DO BUSINESS:

For the Pension Fund, this means changing how we do business, recognising the challenging landscape within which we operate, of increasing service demand, a reducing financial envelope.

We will need to **modernise** the ways in which we deliver our services, embracing new technology and changing our processes to improve our service quality and operational efficiency.

We will need to become more **innovative**, seeking better and new ways to serve our customers, both external and internal. A programme of continuous improvement through doing things better, and a more transformational approach looking at doing better things will demand different thinking and learning from best practice elsewhere.

Putting these new ideas into practice is effectively how we **transform** the organisation, which will demand courage in decision making, diligence in our assessment and management of risk, and a focus upon rigorous implementation of our plans.

ORGANISATIONAL CULTURE:

How we go about this is guided by the culture we wish to evolve and nurture within the Pension Fund section – a culture based upon an avid commitment to add value to our stakeholders, on improving the work environment and opportunities for our staff and through managing the resources of the Fund in a more efficient and effective way.

Improving the Staff Experience recognises that the employees of the Pension Fund are the core “product” of service and that the quality of the services that we provide is entirely dependent upon a motivated and empowered staff, whose behaviors, relationships and ways of working form the culture of the Pension Fund section. A positive culture depends on a staff who understand our vision and direction, share our values and ambitions and have the drive and desire to play their part, and on managers who take on a lead role in this and understand how to engage and empower their teams. The Pension Fund aims to be an employer of choice within and without the Council, attracting, recruiting and retaining staff whose values are aligned to the Pension Fund section, who share the Council’s vision and goals and who have the drive and ambition to make a difference.

Improving our Use of Resources recognises that the Pension Fund faces a challenging environment whereby costs are to be reduced, service demand and customer expectations are increasing, and we have an ambitious agenda and vision for the Pension Fund. We therefore, must become much more efficient at delivering the core services through continuous improvement, to create the headroom to transform the organisation and invest in our future priorities for the Fund.

Improving the Customer Experience starts with an organisation that embeds “customer centricity” within everything we do, from the staff we employ to the processes and systems we adopt to manage the organisation effectively. This also recognises that everyone in the

Pension Fund section has a contribution to make, and that our customers may be external or internal, but the focus upon delivering an improved experience to those customers is paramount. We will transform the ways in which customers are able to access our services, and the services themselves as we continuously review what we do against a backdrop of changing customer demands and increasing financial constraints. We will recognise that one size does not fit all and build in tailored solutions where appropriate that recognise the diversity of our customer base and their individual needs and expectations.

RESOURCES MANAGEMENT:

As recognised above the Pension Fund section continues to need to respond to constant changing demands from all our stakeholders. Many of those changes are set out in this improvement plan

- The need for more value-added analysis to enable the business to respond to the challenges of austerity, commercialisation, demographic and political change
- Increasing customer demands for quality of service, improved technology, transparency, information and delegated decision making
- A changing Pension Fund landscape requiring collaboration with other Scottish LGPS Funds

How will the Fund meet those needs?

- The Pension Fund cannot match the private sector in pay levels for qualified and experienced Pension Fund. This challenge can be somewhat balanced by offering flexible terms and conditions, job satisfaction and training opportunities, further the Fund will,
- Recognise and develop the talents of existing Pension Fund staff
- Support succession planning throughout the Pension Fund section
- Maximise the use of technology to allow the effective use of staff resources
- Identify areas of weakness within the knowledge basis and either provide staff training or employ external service providers to meet the knowledge requirements
- Respond to needs teams through role redesign, restructuring and collaboration.
- Seek skills development and knowledge sharing opportunities e.g. CIPFA conference feedback

Risk management

At the heart of the Pension Fund improvement plan is the need to manage within a risk framework. Our approach to risk management is linked to the overall review of risk at a Corporate level. The Pension Fund section reviews risk on a quarterly basis considering:

- Accounting Risk - finance administration, effective financial control
- Benefit Administration Risk – maintaining service levels to meet KPI's
- Employer Relationship Risk– external stakeholders, assessment of employer covenants
- Investment Risk – asset management, impact on funding strategy
- Governance Risk – high level oversight of the Fund
- Technology Risk – systems availability, reviews and upgrades

The Pension Fund Risk Register has been summarised and broken down into the six teams of the Fund and at Fund level, detailing their specific risks while providing increased accountability.

Service Business Plan

Pension Fund Service Goals – overarching goals that link to strategic priorities

	Goal – description	Lead Officer
1	Day to day management of the benefits function, ensuring full compliance of financial and legislative requirements. Ensure timeous and correct payment of pensions benefits	Benefit Administration Manager
2	Efficient and effective management of all matters relating to scheme employers within the NESPF's	Employer Relationship Manager
3	Development and management of the Fund's Investment Strategy and Fund Management Appointments. Management of the Global Custodian. Incorporate ESG oversight, Taxation, and cash management	Investment Manager
4	Responsible for preparation and delivery of the Pension Accounting Function including production of annual statement of accounts	Accounting Manager
5	Management of the governance arrangements of the Pension Fund, ensuring that the Pension Fund meets its regulatory obligations, reporting and communication requirements to the Pensions Committee, Pension Board, Pensions Regulator and all those with an interest in the administration of the North East Scotland Pension Funds. Internal training arrangements for Benefit and Technical staff within the Pension Fund section.	Governance Manager
6	Management and development of the Pension Fund IT systems in support of the Pension Fund provision of benefit administration to scheme members and scheme employers	Technical Manager

Pension Fund Level - Key Priorities

Objective	Activity	Outcome	Timetable	Lead Officer
Improve customer experience	<ol style="list-style-type: none"> 1. Review all communication and develop new website. 2. Continue to utilise technology to improve service delivery. 	Improved customer service impacts positively on customer outcomes and experience.	Ongoing	Pension Fund Manager
Improve staff experience	<ol style="list-style-type: none"> 1. Continue to implement workforce and succession planning. 2. Continue to roll out and update individual training plans. 	Improved staff development leads to better trained staff and impacts positively on customer outcomes and experience.	Ongoing	Pension Fund Manager
Improve our Use of resources	<ol style="list-style-type: none"> 1. Improve work planning and business support. 2. Develop management reporting across the Fund. 3. Risk review. 	Improved use of resources impacts positively on all Pension Fund KPI's and reduces risk across the Fund.	Ongoing	Pension Fund Manager

Pension Fund Level – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Lack of effective Risk Management	Failure to identify and respond to risks will impact on service delivery capabilities	Pension Fund Risk Register reviewed and updated quarterly	8	Ongoing
2	Poor Governance	Failure to have suitable policies and procedures in place could create a regulatory compliant issue	Fund has in place an annual review of its governance statement and supporting policies and procedures, ensuring both regulatory and Council objectives compliance	4	Ongoing – Annual review reported to Committee
3	Lack of Performance Measurement	Failure to monitor performance across the Fund will provide a lack of transparency on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	8	The Fund participates in national benchmarking exercises and has internal measures which are reported to the Committee
4	Annual review of the Pension Committee and Board	Failure to ensure effective joint working of Committee and Board will result in not complying with regulatory requirements	Annual review of Committee and Board, in consultation with both	6	Annual Report to Committee and Board on effectiveness and training.
5	Unable to access the workplace	Loss of service delivery, staff downtime	Disaster recovery plan in place, incorporated into ACC	8	Review to take place, Pension Fund team to be made fully aware
6	Failure to recruit and develop staff	Service delivery and succession planning at risk	Ongoing review following 2016 restructure	12	Several vacant posts
7	Interest & Inflation rates	Potential increase in liabilities	Quarterly funding updates	6	Ongoing

Accounting – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop quarterly reporting	2019/20	Accounting Manager
Financial Management	Improving use of resources	Introduction of new accounting procedures following Global Custodian appointment	2018/19	Accounting Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Accounting Manager
Financial Management	Improving use of resources	Simplify coding structure	2019/20	Accounting Manager

Accounting – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Poor financial reporting	Qualified Accounts	Comprehensive policies and procedures	6	Ongoing – reviewed annually
2	Annual review of Code of Practice and any other overriding regulations	Qualified Accounts	Review of Code, attending CIPFA meetings/reviews	6	Ongoing – reviewed annually

Benefit Administration – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Systems	Improving customer experience	Ensure that all procedures are reviewed and relevant to assist with the administration of pension benefits and best utilise the workflow system	Ongoing	Benefit Administration Manager
Administration	Improving use of resources	Monitor the level of outstanding workload and allocate resources to ensure targets are met	Ongoing	Benefit Administration Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Benefit Administration Manager
Performance Measurement	Improving customer experience	Develop quarterly reporting	Ongoing	Benefit Administration Manager

Benefit Administration – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Overpayment of pension benefits	Audit, Legal challenge, reputational risk	All payments signed off by senior pension officer – segregation of duties	4	Ongoing
2	Fraud/Negligence	Overpayment, unauthorised payments, system corruption, Audit, reputational risk	All payments signed off by senior pension officer – segregation of duties	6	Ongoing – regular reporting in place to Committee
3	GMP Reconciliation	Audit, financial loss	Project set up to deliver GMP	6	Ongoing, report due to September 18 Committee

Employer Relationship – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop quarterly reporting	2019/20	Employer Relationship Manager
Financial Management	Improving customer experience	Continued implementation and maintenance of the Covenant Policy	Ongoing	Employer Relationship Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Employer Relationship Manager
Administration	Improving customer experience	Ensure the continued provision of monthly data and employer compliance (discretions)	Ongoing	Employer Relationship Manager

Employer Relationship – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Failure to maintain member records and comply with regulations	Incorrect pension payments and assessment of liabilities	All employers required to submit monthly data, which is checked	4	PAS reporting quarterly Committee
2	Longevity	Increase in employer contributions	Triennial valuation and specific analysis undertaken	6	Ongoing – revised strategy to March 18 Committee
3	Employers leaving scheme/closing to new members	Orphaned liabilities falling to remaining employers	Continue to implement the Covenant Policy	12	Ongoing
4	Failure to recover employer payments, contributions/strain	Orphaned liabilities falling to remaining employers	Accounting will report payment issues to ER team to be recorded and escalated to TPR if they persist	8	Ongoing
5	Employer early retirement strategies	affordability	ERT to manage through covenant policy and employer discretions	9	Ongoing
6	Failure to monitor employer covenants	Orphaned liabilities falling to remaining employers	Continued implementation of employer covenant policy	12	Ongoing

Investment - Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop quarterly reporting	2019/20	Investment Manager
Financial Management	Improving use of resources	Implementation of strategic benchmark allocation of assets, including ESG Policy	2019/20	Investment Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Investment Manager
Financial Management	Improving use of resources	Performance monitoring of current fund managers and mandates	Ongoing	Investment Manager

Investment - Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Fund's investments fail to deliver returns in line with expectations to meet funding requirements	Increase in employer contributions and investment risk	Quarterly assessment of investment performance, triennial valuation and quarterly funding updates	12	Ongoing
2	Failure of world stock markets	Increase in employer contributions	Diversification of scheme assets, investment strategy review following triennial valuation outcome	8	Ongoing – revised strategy to March 18 Committee
3	Failure of Global Custodian	Loss of assets and control of assets	Regular meetings and receipt of SAS70 report	4	Ongoing – due to transition to HSBC April 18
4	Failure to monitor investment managers and assets	Audit, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with investment managers	9	Ongoing
5	Negligence, fraud and default by investment managers	Loss of asset value, reputational risk	Investment manager monitoring SAS70 reports and IMA's	2	Ongoing

Governance – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop quarterly reporting	2019/20	Governance Manager
Governance	Improving use of resources	Ongoing review of Funds' regulatory compliance	Ongoing	Governance Manager
Staff	Improving staff experience	Continuation of staff training, including review of internal training programs	Ongoing	Governance Manager
Communications	Improving customer experience	Review and update of all communication material and continue to promote the Fund	Ongoing	Governance Manager

Governance – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding regulations	Audit, Legal challenge, reputational risk, financial loss/penalties	Six monthly review of compliance	9	Ongoing – reported to Committee
2	Potential risks and conflicts of interest between ACC and NESPF	Audit, legal challenge and reputational risk	Regular discussions between Chief Officer – Finance and Pension Fund Manager. Areas of risk and conflicts reported Committee. Register in place to record and monitor	8	Ongoing
3	Failure to comply with FOI requests	Audit, legal challenge and reputational risk	Pension Fund Manager responsible for all FOI requests	4	Ongoing

Technical – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop quarterly reporting	2019/20	Technical Manager
Systems	Improving use of resources	Develop Testing Strategy, to ensure standardized testing is utilized for testing working parties	2019/20	Technical Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Technical Manager
Systems	Improving use of resources	Investigate technology lead service improvement opportunities across the Fund	Ongoing	Technical Manager

Technical – Risk Assessment

No	Description	Potential Consequence of Risk	Risk mitigation measures	Risk Score	Status
1	Pension Administration system failure	Loss of service delivery, staff downtime	System is hosted externally with back up in separate location	6	Report provided to Pension Fund Manager quarterly on hosted system errors and resolutions
2	Data Protection – failure to secure and manage personal data	Audit, legal challenge and reputational risk	Internal control and procedures for management of data, project group set up to implement GDPR and assess current processes	8	Ongoing – policies and processes implemented by May 2018
3	Failure to carry out effective member tracing	Incorrect pension payments and assessment of liabilities	Tracing service in place	6	Ongoing

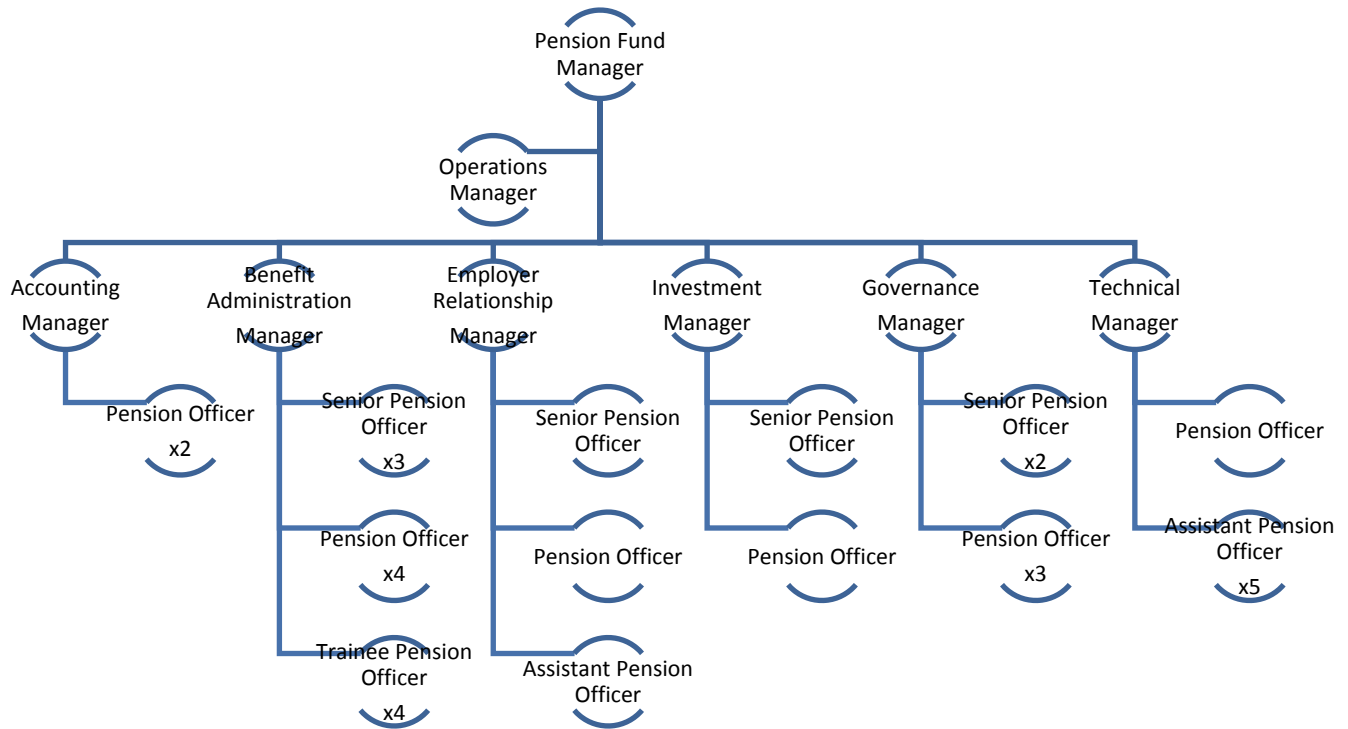
Future Service Improvement/Transformation Plan

No	Section	Description	Outcome	Timetable
1	Accounting	Technology lead efficiencies	Interface between Global Custodian and the Funds financial system providing straight through processing	2019/20
2	Accounting	Financial System	Fund specific financial system, providing further efficiencies	2020/21
3	Benefit Administration	Benefit System	Ensuring full utilisation of existing system to drive service delivery (Altair)	Ongoing
	Benefit Administration	Payroll System	Enhanced administration to payroll interface to ensure segregation of duties and new elements to split payments made between final salary, main and 50/50 schemes for reporting to GAD.	2018/19
4	Employer Relationship	Technology lead efficiencies	Ensuring full utilisation of existing systems to drive service delivery (I connect and FSM. Ensuring data quality and accurate assessment of liabilities	Ongoing
5	Governance	Legal Tender	Efficient and independent advice	2019/20
6	Governance	Ltd Companies	To enhance recruitment and retention capabilities and In-house investment capabilities	2019/20
7	Governance	Accommodation	Delivery of a secure and efficient environment	2018/19
8	Investment	In-house investment	Improve In-house capabilities, driving costs down and improve returns	2019/20
9	Investment	Consolidation of banking requirements	Increased efficient management of cash providing improved governance and potential returns	2019/20
10	Investment	FX Opportunities	To drive efficiencies and increase returns	2019/20
11	Technical	Technical Support	Development of staff to deliver technology lead efficiencies	Ongoing

The above have been identified as leading the way to continue to improve service delivery to all stakeholders, focusing on technology driven opportunities to deliver efficiencies with in the service, improve potential asset returns and improve overriding governance of the Pension Fund.

Some are currently ongoing, and some will become major projects for the Fund and will require additional resources, the more complex will be brought to Committee for approval in due course.

Organisation



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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	22 JUNE 2018
REPORT TITLE	TRAINING
REPORT NUMBER	PC/JUN18/TRA
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	SANDRA BUTHLAY
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	Purpose 3 4.2

1. PURPOSE OF REPORT

- 1.1 To provide details of the training plan (2018/19) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Agree the proposed training schedule (as set out in items 3.4-8) and:
- Approve the travel of members to the training session in London
 - Approve the travel of members to external training opportunities
 - Approve the travel of members to attend LAPFF meetings

3. BACKGROUND

- 3.1 As stated within the Training Policy there is a requirement under the Pensions Regulator (tPR) 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 function of a member of the Pensions Committee or Board.
- 3.3 The Pensions Regulator toolkit is available at

<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>

TRAINING DELIVERY AND CONTENT

- 3.4 Officers propose to deliver training over two set periods during 2018/19, together with any industry externally delivered training when available.
- 3.5 The first training session will take place during August (exact date to be confirmed) providing members further insight across the Fund.
- 3.6 A second training session will take place in London in early 2019 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.
- 3.7 The fund 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.
- 3.8 Further to the above there are also the following external training opportunities available, including but not limited to:

Scottish Funds Investment Governance Group

Edinburgh, date and agenda (tbc)

LGC Investment Seminar Scotland

Edinburgh, 23-24 October 2018, agenda (tbc)

Local Authority Pension Fund Forum (LAPFF)

Location, date (tbc) – quarterly with annual conference

PENSIONS COMMITTEE AND TRAINING ATTENDANCE

- 3.9 Meeting Attendance in 2017/18

2017/18	23 June	15 September	1 December	16 March
Cllr Donnelly	✓	✓*	X*	X
Cllr Stewart		✓	X	
Cllr Crockett	✓	✓	✓	✓
Cllr Reynolds (Vice Convener)	✓	✓	✓	✓
Cllr MacGregor	✓	✓	✓	✓

Cllr Malik (Convener*)	✓	✓	✓	✓
Cllr Philip Bell	✓	✓	X	✓
Cllr Allard	✓	✓	✓	✓
Cllr Delaney	✓	✓	✓	✓
Cllr Cooke	✓	✓	✓	✓
Overall Attendance %	100%	100%	78%	89%

* The Convener of the Pensions Committee changed during the 17/18 year from Councillor Crockett to Councillor Donnelly following the local council elections in May 2017. Councillor Donnelly then moved to the Pension Board in August 2017 and Councillor Stewart took over the role, before it changed again in March 2018 to Councillor Malik.

3.10 Training Attendance In 2017/18

2017/18	16 June	11 Aug	31 Oct/1 Nov	21 Nov	11-12 Jan
Cllr Crockett	X	X	X	X	✓
Cllr Reynolds (Vice Convener)	X	✓	X	X	✓
Cllr Donnelly*	✓	✓	X*	✓*	✓*
Cllr Bell	✓	✓	X	X	✓
Cllr Stewart			X	X	X
Cllr MacGregor	✓	✓	✓	✓	✓
Cllr Malik (Convener)	X	X	X	X	✓
Cllr Cooke	✓	✓	X	X	X
Cllr Allard	✓	✓	✓	✓	✓
Cllr Delaney	X	X	X	X	✓
Overall Attendance %	56%	67%	22%	22%	78%

*Councillor Donnelly moved from the Committee to the Board in August 2017. He attended the remaining training sessions in this capacity and his attendance has not been counted in the above overall percentages.

Recording and monitoring meeting and training attendance allows any issues to be addressed promptly.

4. FINANCIAL IMPLICATIONS

4.1 Training costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

- 5.1 Failing to ensure Committee and Board members have sufficient training, as detailed in the Fund's Training Policy, could result in the Pension Fund being in breach of the Pensions Regulator Code of Practice 14 and the Public Service Pensions Act 2013, which set out knowledge and understanding requirements.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This purpose of this report is to propose training for Committee and Board members in line with their Training Plans and in compliance with Pensions Regulator requirements. This ensures continuing good governance of the Pension Fund.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES (if applicable)

Appendix I, Training Plan

11. REPORT AUTHOR CONTACT DETAILS

Laura Colliss
Pensions Manager
LColliss@nespf.org.uk
01224 264158

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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 above the words "PENSION FUND" in a larger, bold, blue sans-serif font. 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 to the left.

Training Policy

April 2018

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Document	Training Policy
Draft/Review Date	28/02/2018
Approval Date	
Author & Team	Mairi Suttie, Governance
Review Date	May 2019

Introduction

This policy statement details the training agenda for members of the North East Scotland Pension Fund (as administered by Aberdeen City Council) Pensions Committee and Pension Board.

The level of knowledge required by members of both the Pensions 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 Pensions 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 Pensions Committee.

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 Chief Officer-Finance
 - Role of the Pensions Manager and Pensions Section

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

All remaining documentation will be available to Committee and Board members via the Pension Fund website at www.nespf.org.uk

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 PLSA 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

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.

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
-

Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding'.

The Training Policy will be reviewed annually.

Reimbursement of Expenses

All training costs are met directly by the Pension Fund.

Further Information

If you have any questions relating to this Statement please contact the **Governance Team**:

Corporate Governance
Business Hub 16
3rd Floor-West
Marischal College
Broad Street
Aberdeen
AB10 1AB

Phone: 01224 26 4169
Email: msuttie@nespf.org.uk
Web: www.nespf.org.uk

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	
	Pensions Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> • General and Scheme Pension Legislation • Scheme Governance • Pension regulators and advisors • Legislative framework • Risk 	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> • Audit and accounting regulations and requirement 	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2	3
Investment Governance <ul style="list-style-type: none"> • Investment Strategy • Financial Markets 	2	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of advisors • Performance of the committee • Performance of support services and advisors 	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Outsourcing 	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 Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:

- The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
- The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
- The appointment of investment and actuarial advisors and other third party services
- The Governance Framework
- The communication strategy of the Fund or Funds

2. And to monitor:

- The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
- The costs of running the Pension Fund and Scheme
- 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 Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions 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 Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

Requirement	Essential	Desirable
1. Educational	Appropriate financial experience and training. Knowledge of pension funds and schemes.	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes. Operated for 5 years at a senior level. Experience of risk and performance frameworks.	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	Chairing skills. Influencing and consensus building. Listening skills. Able to assimilate complex information.	Mathematical/statistical literacy. Knowledge of public sector and local government finance.
4. Adjustment & Social Skills	Ability to establish good working relationships with councillors, officers and advisors. Able to direct discussions in politically sensitive environments. Able to command respect and demonstrate strong	Diplomacy and tact.

	<p>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>	
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 Pensions 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 PLSA 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 Pensions 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 PLSA 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 annually to the June meeting of the Pensions 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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Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

Document is Restricted

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