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

Pension Board:- Councillor McKelvie, Chair; Mrs M Lawrence, Vice Chair; Councillors Allan and Cowe; and Mr I Black, Mr L Knox, Mr K Masson and Mr A Walker.

Town House,
ABERDEEN, 7 March 2019

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, 15 MARCH 2019 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 5 - 6)

MINUTES OF PREVIOUS MEETINGS

- 4 Minute of Previous Meeting of 30 November 2018 (Pages 7 - 14)

COMMITTEE BUSINESS PLANNER

- 5 Business Planner (Pages 15 - 18)

NOTICES OF MOTION

- 6 There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

- 7 Internal Audit Plan 2019/20 (Pages 19 - 30)

- 8 External Audit Annual Audit Plan (Pages 31 - 44)

- 9 Local Government in Scotland: Financial Overview 2017/18 - Local Government Pension Funds Supplement (Pages 45 - 62)

RISK MANAGEMENT

- 10 Strategy (Pages 63 - 92)

- 11 Strategic Infrastructure Priorities and the Scottish Local Government Pension Scheme (Pages 93 - 98)

- 12 Statement of Accounts 2018/19 - Action Plan (Pages 99 - 102)

FINANCE

- 13 Budget Forecast and Projected Spend 2018/19 (Pages 103 - 110)

LEGAL OBLIGATIONS

- 14 Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements (Pages 111 - 136)

- 15 Guaranteed Minimum Pension Reconciliation Update (Pages 137 - 140)

EXEMPT BUSINESS - NOT FOR PUBLICATION

SCRUTINY

- 16 Asset & Investment Manager Performance Report (Pages 141 - 168)

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

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DECLARATIONS OF INTEREST

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.

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 30 November 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 (to article 9); Councillor Alan Donnelly, the Depute Provost; and Councillors Allard, Bell, Cooke, Delaney and MacGregor (Pensions Committee); and Councillor McKelvie, Chairperson; Councillors Allan and Cowe; and Mr L Knox and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; and Rachel Browne, Senior Audit Manager, Audit Scotland and Colin Morrison, Senior Auditor, Audit Scotland.

The agenda and reports associated with this minute can be found [here](#).

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.

The Convener intimated that in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973, he considered that the following item be taken as a matter of urgency to enable the Pensions Committee to receive a report back to its meeting in March 2019, in line with a decision taken in respect of the matter at the City Growth and Resources Committee earlier in the week.

URGENT MOTION

1. The Convener moved as an urgent motion, seconded by Councillor Donnelly:-

That Committee:-

- (a) agree to note the position adopted by the City Growth and Resources Committee on 27 November 2018, with specific reference to the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan, being an instruction to the Chief Executive to explore how Scottish local government pension funds could invest locally; and
- (b) instruct the Chief Officer – Finance to explore how the North East of Scotland Pension Fund could invest locally in the North East, including, but not confined to, the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan, with a report back to the Pensions Committee of 15 March 2019.

The Committee resolved:-

to agree the motion.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
30 November 2018

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 10 (Procurement of New NESPF Website), 11 (Asset and Investment Manager Performance Report) and 12 (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 10 to 12, so as to avoid disclosure of exempt information of the class described in paragraphs 8 and 10 (item 10) and 6 (items 11 and 12).

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 14 SEPTEMBER 2018

4. The Committee had before it the minute of its previous meeting of 14 September 2018.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

COMMITTEE BUSINESS PLANNER

5. The Committee had before it the committee business planner as prepared by the Chief Officer – Governance.

The Committee resolved:-

to note the planner.

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The Board resolved:-

to note the decision of the Committee.

BUDGET FORECAST AND ANNUAL SPEND

6. With reference to article 8 of the minute of its meeting of 14 September 2018, the Committee had before it a report by the Director of Resources which provided detail of the Management Expenses Budget / Forecast and Projects Spend 2018/19 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 2018/19;
- (b) note the update on Pension Fund staff costs and staffing vacancies; and
- (c) note the update on the ongoing work with the NESPF Accounting team and the Global Custodian and its impact upon the reporting of Investment Management Expenses.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

UPDATE ON ANNUAL BENEFIT STATEMENTS

7. The Committee had before it a report by the Director of Resources which provided an update on the provision of Annual Benefit Statements to the Funds' active and deferred members. The report advised that 99.81% of active statements had been issued for 2017/18, just below the target of 100%. Some issues had been identified in the remaining members' records which prevented a benefit statement being generated and officers would address these issues in preparation for the 2018/19 statements.

As the target of 100% had not been achieved, this would be recorded as a breach in the Register in terms of the NESPF Breaches of Law Policy, however as the breach was not considered to be of material significance, it would not be reported to the Pensions Regulator.

The report recommended:-

that the Committee note the contents of the report.

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The Committee resolved:-

- (i) to note that officers would continue to provide updates to the Committee and Board in respect of the ongoing work trace the 1,317 deferred members who had been marked as 'gone away' on the Altair system; and
- (ii) to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2017/18

8. The Committee heard from Ms Rachel Browne, External Audit, who advised that she had intended to present key messages from the Local Government in Scotland: Financial Overview 2017/18, however due to the late publication of the overview and the Local Government Pension Funds Supplement, she proposed to bring the item to the March 2019 meeting of the Committee and Board instead, noting that she could circulate the documents electronically prior to that meeting if Members would find this helpful.

The Committee resolved:-

to note the update.

The Board resolved:-

to note the decision of the Committee.

STRATEGY

9. With reference to article 9 of the minute of its previous meeting, the Committee had before it a report which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

Further to the discussion at the previous meeting in respect of the formal response to the Scheme Advisory Board consultation, officers had prepared a response which was appended to the report for Committee approval.

The report also provided an update on the Pension Fund staffing, noting that the Senior Pensions Officer – Training and Development and Pensions Officer – Employer Relationship posts had been filled, with interviews to be held to recruit two Assistant Pensions Officers and a Trainee Pensions Officer – Benefit Administration.

The report also outlined the request for approval of travel to Advisory Committees in Singapore, Chicago and Boston in 2019 to ensure due diligence and scrutiny of the Fund's investments in Harbourvest, RCP and the Partners Group.

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The report further advised of a change following the introduction of the Local Government Pension Scheme (Scotland) Regulations from 1 June 2018, which allowed for a payment of a calculated surplus to employers exiting the Fund upon a termination event, and the resulting consultation on a new Funding Strategy Statement (FSS) which had been carried out with participating employers. As a result of the consultation, no changes had been recommended to the FSS.

Finally, the report advised of a new draft Business Continuity Plan which was available to view on the members' area of the website.

The report recommended:-

that Committee –

- (a) approve the submission of the response to the Scheme Advisory Board formal consultation on the LGPS (Scotland) Structure Review, as set out in Appendix II to the report (section 3.9.2 refers);
- (b) approve the travel for one appointed Advisory Committee Officer to attend the following (section 3.9.4 refers):-
 - Partners Group, Singapore, March 2019
 - RCP, Chicago, June 2019
 - Harbourvest, Boston, December 2019; and
- (c) approve the changes to the NESPF Funding Strategy Statement, incorporating how the Fund will deal with any potential surplus amounts upon termination, following the introduction of the Local Government Pensions Scheme (Scotland) Regulations 2018 (section 3.10 refers).

The Committee resolved:-

to approve the recommendations.

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.

PROCUREMENT OF NEW NESPF WEBSITE

10. The Committee had before it a report by the Director of Resources which sought approval for the proposed development of a new website for the North East Scotland Pension Fund which would address a number of issues which were leading to a poor experience for users, as although there had been updates made, the functionality of the website had remained unchanged since its introduction in 2009.

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The report recommended:-

that Committee approve the Fund's development of a new Pension Fund website, with procurement subject to approval of the estimated expenditure by the Strategic Commissioning Committee.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT

11. With reference to article 10 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided a review of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 September 2018.

Appended to the report was information in respect of the NESPF and environmental, social and governance (ESG) matters and responsible investment. The Committee and Board heard from Mr Graham Buntain in respect of the detail contained within the report. Mr Buntain provided a verbal update in respect of the performance of the North East Scotland Pension Fund against benchmarks, noting that the figures had not been available on this occasion prior to publication of the agenda. He advised that he could circulate the figures electronically to Members if required.

The report recommended:-

that the Committee note the contents of the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

INVESTMENT STRATEGY UPDATE

12. The Committee had before it a report by the Director of Resources which proposed recommendations in respect of changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

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The report recommended:-

that Committee –

- (a) approve the use of Headroom Limits (as detailed at section 3.1 of the report), to approve an increase to Headroom Limits to 15% (of the total Fund) in accordance with regulation 14(3) and item 3 of Part 1 of Schedule 1 of the regulations; and
- (b) approve in principle the proposal set out in section 3.2 of the report.

The Committee resolved:-

- (i) to approve recommendation (a); and
- (ii) to instruct officers to continue dialogue in respect of the proposal set out in section 3.2 of the report, and report back to the Committee on 15 March 2019.

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			15 March 2019						
4	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	Remit 1.2		
5	Local Government in Scotland: Financial Overview 2017/18 - LG Pension Funds Supplement	To present the LG Pension Funds Supplement		Rachel Browne	External Audit	External Audit	Remit 2.2		
6	Guaranteed Minimum Pension Reconciliation Update	To provide an update on the project following anticipated completion		Gary Gray	Finance	Resources	Remit 1.1		
7	Strategic Infrastructure Priorities and the Scottish Local Government Pension Scheme	Pensions Committee 30/11/18 - To instruct the Chief Officer - Finance to explore how the North East Scotland Pension Fund could invest locally in the North East, including, but not confined to, the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan, with a report back to the Pensions Committee of 15 March 2019		Laura Colliss	Finance	Resources	Remit 1.2		
8	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	Remit 1.3		
9	Investment Strategy Update	Pensions Committee 30/11/18 - To instruct officers to continue dialogue in respect of the proposal set out in section 3.2 of the Investment Strategy Report and report back to Committee on 15 March 2019; and To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF.		Graham Buntain / Laura Colliss	Finance	Resources	Remit 1.2	D	To be delayed to June 2019 to enable further detailed information to be available for Committee - update included in Strategy report
10	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	Remit 5.1		

	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									
11	Governance Arrangements (Internal Audit)	To present the outcome of the audit to Committee		David Hughes	Governance	Governance	Remit 2.2	D	To be delayed to June 2019
12	Internal Audit Plan 2019/20	To present the internal audit plan 2019/20		David Hughes	Governance	Governance	Remit 2.1		
13	External Audit Annual Audit Plan 2018/19	To present the external audit plan 2018/19		Rachel Browne	External Audit	External Audit	Remit 2.1		
14	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide an annual review of governance arrangements		Mairi Suttie	Finance	Resources	Remit 4.1 and 4.2		
15	Statement of Accounts	To provide high level information and key dates in relation to the 2018/19 Statement of Accounts		Laura Colliss	Finance	Resources	Remit 1.3		
16			14 June 2019						
17	Internal Audit Annual Report	To present the annual report to Committee	Apr-19	David Hughes	Governance	Governance	2.1		
18	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		
19	Revised Training Policy	To present the revised training policy for approval		Mairi Suttie	Finance	Resources	1.3		
20	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
21	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		
22	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
23	Annual Committee Effectiveness Report	To present the annual effectiveness report for the Committee.		Steph Dunsmuir	Governance	Governance	GD 7.4		
24			13 September 2019						
25	External Audit Annual Audit Report 2018/19	To present the external audit annual audit report		Rachel Browne	External Audit	External Audit	2.1		
26	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		
27	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		

	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									
28	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		
29	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
30			6 December 2019						
31	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		
32	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
33	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
34	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		
35			AD HOC REPORTS (CYCLE DEPENDENT ON REQUIREMENT TO REPORT)						
36	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		

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 March 2019
REPORT TITLE	Internal Audit Plan 2019/20
REPORT NUMBER	IA/19/004
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2019/20.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2019/20.

3. BACKGROUND/MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to approve the Internal Audit plan relating to the North East of Scotland Pension Fund.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2019/20, along with the methodology for determining the areas to be reviewed, has already been approved by the Audit, Risk and Scrutiny Committee. This followed consultation with management through the Corporate Management Team.
- 3.3 The audit included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.4 Internal Audit's work will be undertaken in compliance with Public Sector Internal Audit Standards and Aberdeen City Council's Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 22 June 2017.

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. The purpose of this report is to seek approval for the Internal Audit plan.

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.
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. APPENDICES

9.1 Appendix A – Internal Audit Plan 2019/20

9.2 Appendix B – Analysis of NESPF Risk Register.

10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor
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Appendix A

INTERNAL AUDIT PLAN 2019/20

NORTH EAST OF SCOTLAND PENSION FUND

Area	Scope	Objective	Link to RR
Investment Strategy and Investment Performance Management	Investment Strategy and Investment Performance Management	To provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers.	NESPF RR 15, 17 & 18

APPENDIX B

ANALYSIS OF RISK REGISTER

Key

	No Previous IA Coverage
	Some Previous IA Coverage
	Previous IA Coverage as Detailed
	Proposed Inclusion in IA Plan

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
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	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
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	Planned audit of Pensions Governance & Risk Management in 2018/19; AC1725 Pension Fund Payroll October 2017; AC1620 Pensions Investment Strategy & Management May 2016.	None	Agreed
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	Looked at partly in AC1620 Pensions Investment Strategy & Management May 2016 (reporting of fund managers' performance)	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
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	None	None	Agreed
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC	None	See Corp004 in Corporate Risk Register	Agreed
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	None	See Corp003 in Corporate Risk Register	Agreed
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	AC1620 Pensions Investment Strategy & Management May 2016	None	Agreed
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	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
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	None	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
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	Planned audit of Pensions Governance & Risk Management in 2018/19	None	Agreed
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	None	None	Agreed
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. Admin to Pay to be implemented in 2018.	Pensions Payroll audit AC1725, October 2017.	None	Agreed
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	Pensions Payroll audit AC1725, October 2017.	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
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, triennial valuation and investment strategy review	AC1620 Pensions Investment Strategy & Management May 2016	None	Agreed
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	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
16	Failure of world stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, triennial valuation and investment strategy review	None	No	Agreed
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	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	AC1620 Pensions Investment Strategy & Management May 2016	Proposed review of Investment Strategy and Investment Performance Management	Agreed
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	None	None. This would be picked up by external audit.	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
20	Annual review of Code of Practice and any other overriding regulations	Qualified accounts	Review of Code, attending CIPFA meetings/reviews	None	None. This would be picked up by external audit.	Agreed
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.	None	See Corp005 in Corporate Risk Register	Agreed
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	Pensions System audit AC1827, March 2018.	None	Agreed
23	Failure to carry out effective member tracing	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS)	Pensions Payroll audit AC1725, October 2017.	None	Agreed
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Employer Covenant Policy	None	None	Agreed
25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Employer Covenant Policy and discretions	None	None	Agreed
26	Employers leaving Scheme/closing to new members	Orphaned liabilities could fall to remaining employers	ERT to manage through Employer Covenant Policy	None	None	Agreed

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan	Management Comment
27	Longevity	Increase in employer contribution rates	Actuarial valuation every 3 years which undertakes scheme specific analysis including review of life expectancy/mortality assumptions	None	None	Agreed
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	Pensions System audit AC1827, March 2018.	None	Agreed
29	Failure to maintain member records; data incomplete or inaccurate	Incorrect pension payments made, incorrect assessment of actuarial liabilities	All employers required to submit monthly data which is reconciled by the ERT	Pensions System audit AC1827, March 2018.	None	Agreed

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North East Scotland Pension Fund

Annual Audit Plan 2018/19



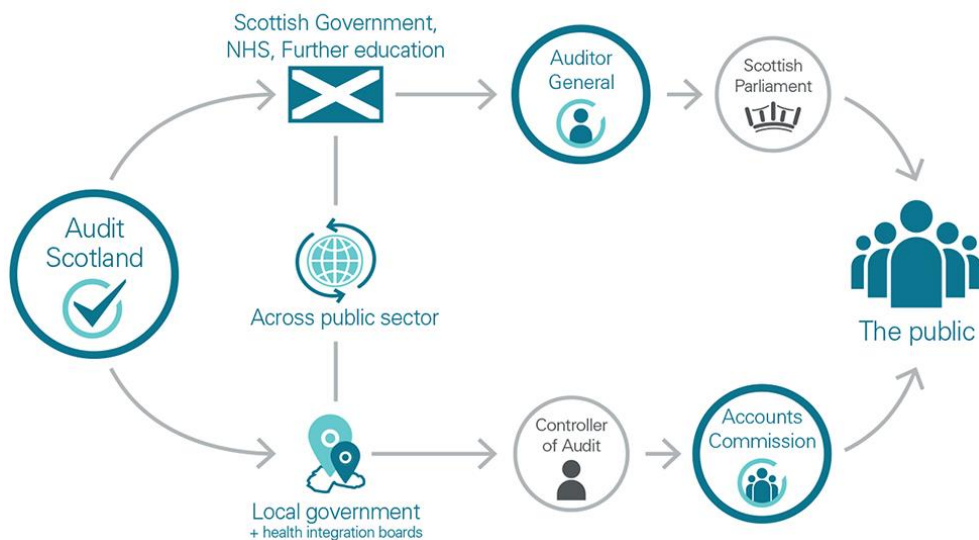
 AUDIT SCOTLAND

Prepared for members of Aberdeen City Council Pensions Committee
March 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Risks and planned work	4
Audit scope and timing	8

Risks and planned work

1. Our audit of the North East Scotland Pension Fund (the Fund) is carried out in accordance with the Code of Audit Practice, International Standards on Auditing (ISAs), and other relevant guidance. This plan contains an overview of the planned scope and timing of our audit. It sets out the work necessary to allow us to provide an independent auditor's report on the financial statements and to meet the wider scope requirements of public sector audit.

2. The wider scope of public audit contributes to assessments and conclusions on financial management, financial sustainability, governance and transparency, and value for money.


Adding value

3. We aim to add value to the Fund through our audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we intend to help the Fund promote improved standards of governance, better management, and decision making, and more effective use of resources.


Audit risks

4. Building on our knowledge from previous years, discussions with staff, attendance at committee meetings and a review of supporting information we have identified a number of key financial and wider dimension audit risks. These risks are detailed in [Exhibit 1](#).

Exhibit 1 2018/19 Key audit risks

 Audit Risk	Source of assurance	Planned audit work
Financial statement issues and risks		
<p>1 Assurances on administering authority key financial systems used by NESPF</p> <p>Aberdeen City Council (ACC) is the administering authority for the North East Scotland Pension Fund. Several ACC key financial systems (general ledger; accounts payable; accounts receivable) underpin the NESPF accounting records. We are dependent on the council's external auditor, KPMG, for audit assurances on these systems.</p>	<ul style="list-style-type: none"> Management places reliance on ACC internal and external audit reports for assurance over council systems used by NESPF. 	<ul style="list-style-type: none"> Assurances will be agreed with and obtained from KPMG on key Aberdeen City Council financial systems which underpin NESPF accounting records.
<p>2 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of</p>	<ul style="list-style-type: none"> Owing to the nature of this risk, assurances from management are not applicable in this instance. 	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates.

	Audit Risk	Source of assurance	Planned audit work
	<p>fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>		<ul style="list-style-type: none"> • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.
3	<p>Risk of fraud over income and expenditure</p> <p>ISA 240 presumes a risk of fraud over income; this is expanded to include the risk of fraud over expenditure in the public sector by the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised).</p> <p>The Fund receives a significant amount of income from third party sources. This presents a risk due to the extent and complexity of income.</p> <p>The Fund also makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>	<ul style="list-style-type: none"> • Monthly reasonableness checks of employers' contributions and timeliness of payments. • Reconciliations of contributions received with monthly and year end returns from employers and pension administration system. • Annual assurance requested from key employers. • Monthly cash reconciliations. • Segregation of duties between fund staff for any income transactions keyed into the custodian system. • Reconciliations between custodian and fund manager records. 	<ul style="list-style-type: none"> • Evaluation of the effectiveness of systems for income recognition and recording. • Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the global custodian. • Analytical procedures on income and expenditure streams. • Agree income to third party confirmation. • Substantive testing of expenditure. • Evaluation of progress in relation to the 2018/19 National Fraud Initiative.
4	<p>Estimation and judgements</p> <p>There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation.</p> <p>Investments include level 3 investments such as unquoted equity, where valuations involve application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>This subjectivity entails a risk of misstatement in the financial statements.</p>	<ul style="list-style-type: none"> • Quarter 2 (June 2019) custodian's valuation reports. • Triennial Review Report by the Actuary. • Supporting documents relating to the Triennial Review. 	<ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments. • Confirmation of valuations to valuation reports and/ or other supporting documentation. • Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary. • Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2018/19.
Wider Dimensions			
5	<p>Training and Development</p> <p>Pension Funds are complex in nature and as such it is important</p>	<ul style="list-style-type: none"> • Meeting and training attendance is monitored and reported to both Pensions Committee and Pension 	<ul style="list-style-type: none"> • Review training logs. • Review Pension Board minutes of 7 June for

	Audit Risk	Source of assurance	Planned audit work
	<p>that members of the Pensions Committee and Pension Board obtain sufficient training to carry out their role effectively.</p> <p>The Fund's Training Policy requires each Committee and Board member to receive at least 2 days of training each year, but this is not always achieved by all members. Two Pension Board members did not meet this requirement last year.</p>	<p>Board. Attendance will be discussed at the next Annual Board meeting to be held on the 7th June; we will discuss how we can support attendance going forward and if continued lack of attendance could result in the members being asked to stand down from the Board.</p>	<p>discussion/ decisions on this matter.</p>

Source: Audit Scotland

Reporting arrangements

5. Audit reporting is the visible output for the annual audit. All annual audit plans, and the outputs as detailed in [Exhibit 2](#) and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

6. Matters arising from our audit will be reported on a timely basis and will include agreed action plans. Draft management reports will be issued to the relevant officers to confirm factual accuracy.

7. At the end of our audit we will provide the Aberdeen City Council Pensions Committee, the Aberdeen City Council Chief Officer - Finance and the Controller of Audit with an annual report on the audit containing observations and recommendations on significant matters which have arisen in the course of the audit. We will also issue independent auditor's report containing our opinion on the financial statements.

Exhibit 2 2018/19 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	5 March 2019	15 March 2019
Annual Audit Report	3 September 2019	13 September 2019
Independent Auditor's Report	13 September 2019	13 September 2019

Source: Audit Scotland

Audit fee

8. The proposed audit fee for the 2018/19 audit of the Fund is £40,000 (2017/18: £40,000). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 24 June 2019.

9. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work

of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Aberdeen City Council Pensions Committee and Chief Officer - Finance

10. Audited bodies have the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance, propriety and regularity that enable them to successfully deliver their objectives.

11. The audit of the financial statements does not relieve management or the Aberdeen City Council Pensions Committee, as those charged with governance, of their responsibilities.

Appointed auditor

12. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973 and the Code of Audit Practice (including supplementary guidance) and guided by the Financial Reporting Council's Ethical Standard.

13. Auditors in the public sector give an independent opinion on the financial statements and other information within the annual accounts. We also review and report on the arrangements within the audited body to manage its performance and use of resources. In doing this, we aim to support improvement and accountability.

Audit scope and timing

Financial statements

14. The audit of the annual accounts, including the financial statements, will be the foundation and source for most of the work necessary to support our judgements and conclusions. We also consider the wider environment and challenges facing the public sector. Our audit approach includes:

- understanding the business of the Fund and the associated risks which could impact on the financial statements
- assessing the key systems of internal control, and establishing how weaknesses in these systems could impact on the financial statements
- identifying major transaction streams, balances and areas of estimation and understanding how the Fund will include these in the financial statements
- assessing the risks of material misstatement in the financial statements
- determining the nature, timing and extent of audit procedures necessary to provide us with sufficient audit evidence as to whether the financial statements are free from material misstatement.

15. We will give an opinion on the financial statements as to whether they:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2019 and the amount and disposition as at that date of its assets and liabilities
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the Code of Practice on Local Authority Accounting in the UK and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



Other information in the annual accounts

16. We review and report on other information published within the annual accounts including the management commentary, annual governance statement and the governance compliance statement. We give an opinion on whether these statements have been compiled in accordance with the appropriate regulations and frameworks in our independent auditor's report.

17. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We are not required to consider the wider compliance of the annual report with regulatory requirements.

Materiality

18. We apply the concept of materiality in planning and performing the audit. It is used in evaluating the effect of identified misstatements on the audit, and of any uncorrected misstatements, on the financial statements and in forming our opinions in the independent auditor's report.

19. We calculate materiality at different levels as described below. The calculated planning materiality values for the Fund are set out in [Exhibit 3](#).

Exhibit 3 Materiality values

Materiality	Main Fund	Transport Fund
Planning materiality – This is the calculated figure we use in assessing the overall impact of audit adjustments on the financial statements. It has been set at 1% of net assets for the year ended 31 March 2018 based on the latest audited accounts for 2017/18.	£41 million	£1 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£31 million	£0.75 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality (with a maximum of £250,000 as Audit Scotland considers that the Scottish public would perhaps find it unreasonable that an amount beyond this maximum could ever be described as "clearly trivial").	£250 thousand	£25 thousand

Source: Audit Scotland

Lower specific materiality

20. In addition to planning materiality we set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the accounts.

21. We recognise that pension benefits payable to members are of importance to the users of the accounts and we set specific materiality levels as shown in [Exhibit 4](#).

Exhibit 4 Lower specific materiality values



Materiality	Main Fund	Transport Fund
Benefits payable materiality – It has been set at 10% of benefits payable for the year ended 31 March 2018 based on the latest audited accounts for 2017/18.	£13.5 million	£0.4 million
Benefits payable performance materiality – Using our professional judgement we have calculated performance materiality at 75% of the Fund Account benefits payable materiality.	£10 million	£0.3 million

Source: Audit Scotland

Timetable

22. To support the efficient use of resources it is critical that an annual report and accounts timetable is agreed with us to produce the unaudited accounts. We have included an agreed timetable at [Exhibit 5](#).

Exhibit 5 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual accounts by those charged with governance	14 June 2019
Latest submission date of unaudited annual accounts with complete working papers package	24 June 2019
Latest date for final clearance meeting with Pensions Manager and Aberdeen City Council Chief Officer - Finance	23 August 2019
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	13 September 2019
Independent auditor's report signed	13 September 2019

Source: Audit Scotland

Internal audit

23. Internal audit is provided by the Aberdeenshire Council internal audit service, overseen by the Chief Internal Auditor. As part of our planning process we carried out an annual assessment of the internal audit function to ensure that it operates in accordance with Public Sector Internal Audit Standards (PSIAS).

24. We concluded that internal audit has sound documentation standards and reporting procedures in place and complies with the main requirements of the Public Sector Internal Audit Standards (PSIAS).

Using the work of internal audit

25. Auditing standards require internal and external auditors to work closely together to make best use of available audit resources. We seek to rely on the work of internal audit wherever possible to reduce duplication.

26. We do not plan to place reliance on internal audit's work for our 2018/19 financial statements audit: the scope of the internal audit work will not reduce the level of our audit testing in support of our audit opinion on the financial statements. We will however take account of internal audit's findings to inform our wider Code responsibilities.

Audit dimensions

27. Our audit is based on four audit dimensions that frame the wider scope of public sector audit requirements as shown in [Exhibit 6](#).

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

28. As auditors we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on the Fund's financial sustainability. We define financial sustainability as having medium term (two to five years) and longer term (greater than five years) financial plans in place. We will review, conclude and report on:

- the effectiveness of financial planning in identifying and addressing risks to financial sustainability in the short, medium and long term
- the appropriateness and effectiveness of funding arrangements and the investment strategy in place to address any identified funding gaps
- whether the Fund can demonstrate the affordability and effectiveness of funding and investment decisions it has made.

Financial management

29. Financial management in the context of a pension fund is complex and includes not just investment and funding strategy, but also arrangements for contract management, performance review, budget setting, forecasting and the financial control environment. We will review, conclude and report on:

- the Fund's financial performance and funding levels for the year, including performance against its investment strategy
- whether the Fund has arrangements in place to ensure systems of internal control are operating effectively
- whether the Fund can demonstrate the effectiveness of the budgetary control system
- whether the Fund has established appropriate and effective arrangements for the prevention and detection of fraud and corruption.

Governance and transparency

30. Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial and performance information. The knowledge and skills of the

pension committee and pension board members is key to this process. We will review, conclude and report on:

- the governance disclosures in the annual report and accounts
- whether the Fund can demonstrate that the governance arrangements in place are appropriate and operating effectively
- whether there is effective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting
- the quality and timeliness of financial and performance reporting on the Fund's administration and investments
- consistency of the annual governance statement and the governance compliance statement with the disclosures made in the financial statements.

Value for money

31. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Fund can provide evidence that it is demonstrating value for money in the use of resources, has focus on improvement and that there is a clear link to the outcomes delivered.

Independence and objectivity

32. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must also comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies. These standards impose stringent rules to ensure the independence and objectivity of auditors. Audit Scotland has robust arrangements in place to ensure compliance with these standards including an annual "fit and proper" declaration for all members of staff. These arrangements are overseen by the Director of Audit Services, who serves as Audit Scotland's Ethics Partner.

33. The engagement lead (i.e. appointed auditor) for the Fund is Gillian Woolman, Audit Director. Auditing and ethical standards require the appointed auditor to communicate any relationships that may affect the independence and objectivity of audit staff. We are not aware of any such relationships pertaining to the audit of the Fund.

Quality control

34. International Standard on Quality Control (UK and Ireland) 1 (ISQC1) requires that a system of quality control is established, as part of financial audit procedures, to provide reasonable assurance that professional standards and regulatory and legal requirements are being complied with and that the independent auditor's report or opinion is appropriate in the circumstances.

35. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Accounts Commission and Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. The Institute of Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

36. As part of our commitment to quality and continuous improvement, Audit Scotland will periodically seek your views on the quality of our service provision. We welcome feedback at any time and this may be directed to the engagement lead.

North East Scotland Pension Fund

Annual Audit Plan 2018/19

If you require this publication in an alternative format and/or language, please contact us to discuss your needs: 0131 625 1500 or info@audit-scotland.gov.uk

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Local government in Scotland
Supplement 2

Financial overview 2017/18

Scottish Local Government Pension Scheme



ACCOUNTS COMMISSION 

Prepared by Audit Scotland
December 2018


The Accounts Commission

The Accounts Commission is the public spending watchdog for local government. We hold councils in Scotland to account and help them improve. We operate impartially and independently of councils and of the Scottish Government, and we meet and report in public.

We expect councils to achieve the highest standards of governance and financial stewardship, and value for money in how they use their resources and provide their services.

Our work includes:

- securing and acting upon the external audit of Scotland's councils and various joint boards and committees
- assessing the performance of councils in relation to Best Value and community planning
- carrying out national performance audits to help councils improve their services
- requiring councils to publish information to help the public assess their performance.

You can find out more about the work of the Accounts Commission on our website: www.audit-scotland.gov.uk/about-us/accounts-commission 

Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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Summary

Key messages

- 1. The triennial funding valuation at 31 March 2017 showed improved funding positions for most funds, with a number showing funding levels of more than 100 per cent.**
 - 2. Employer contribution rates have largely remained the same or gone up, reflecting lower expectations around investment returns going forward.**
 - 3. Membership of the Scottish Local Government Pension Scheme (SLGPS) continues to grow but total benefits and administration costs have exceeded contribution income in the last two years.**
 - 4. Investment returns were positive in 2017/18 although short-term performance was variable across funds.**
 - 5. Pension funds have been reviewing their investment strategies due to factors such as the maturity of the pension fund, the overall funding position and investment advisers' outlook on markets (particularly in connection with EU withdrawal).**
 - 6. Some pension funds have introduced Investment Panels. Lothian, Falkirk and Fife pension funds are collaborating on investment advice.**
 - 7. There have been many changes affecting the administration of schemes including new regulations, staffing pressures and new systems.**
 - 8. The Scottish Scheme Advisory Board is currently consulting on the future structure of the SLGPS.**
-

About this report

- 1. This supplement accompanies our Local government in Scotland: Financial overview 2017/18 and provides an overview of the Scottish Local Government Pension Scheme (SLGPS). We have drawn on the annual accounts of the pension funds administered by councils and on the reports of their appointed auditors. There are 11 main funds in Scotland, but also a number of other funds - often "Transport Funds" - administered by councils. Unless otherwise identified, our comments refer to the main 11 funds. The 11 main funds cover 32 local authorities and around 500 other employers.**
- 2. This report identifies some of the major issues that pension funds had to deal with in 2017/18.**

Funding

Triennial valuations

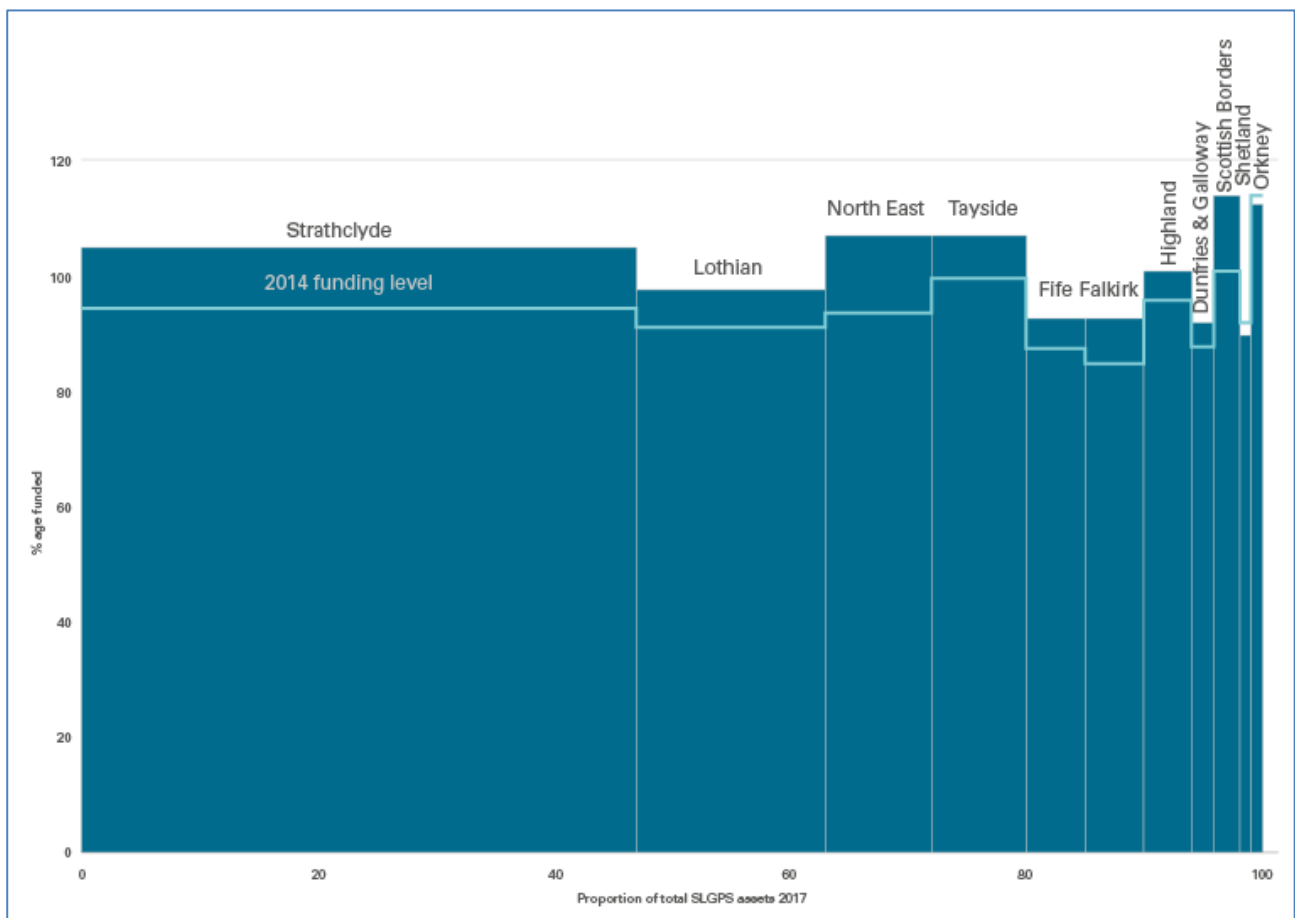
The triennial funding valuation at 31 March 2017 showed improved funding positions for most funds with a number showing funding levels more than 100 per cent.

- The results of the triennial funding valuation, undertaken at 31 March 2017, were reported in 2017/18. In overall terms, SLGPS assets exceeded the liabilities to be met by the scheme. Assets of the main funds had increased to £42 billion while the estimated value of liabilities increased to around £41 billion. However, not all pension funds were fully funded as shown in Exhibit 1.

Exhibit 1

SLGPS funding levels 2014 and 2017

Strathclyde accounts for 47 per cent of SLGPS assets at 31 March 2017 and had a funding level of 105 per cent. In most cases funding levels improved with six funds in excess of 100 per cent.



Source: Pension fund annual reports and accounts

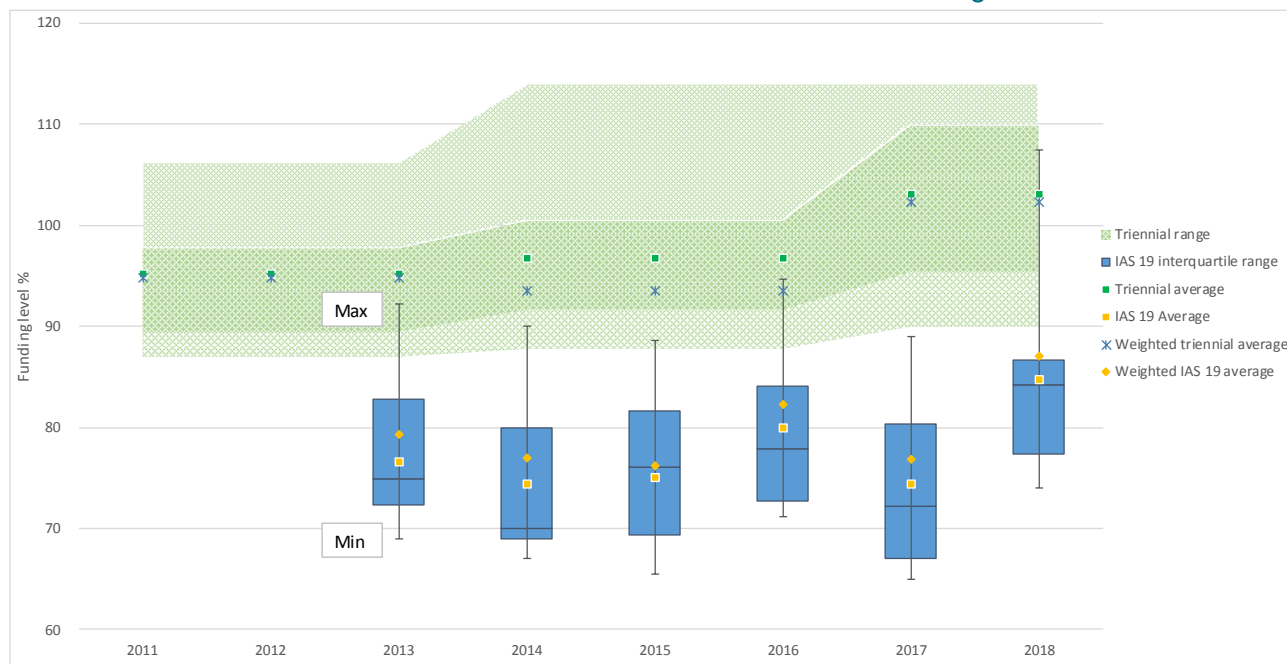
- The 2017 funding positions represented an improvement on 2014 for all funds, except Orkney and Shetland. These improved funding positions arise because of increased asset values.

- Triennial valuations at 31 March 2017 provide one basis for assessing the overall position of funds (funding basis). Actuaries prepare a valuation at 31 March each year, on an accounting basis (IAS19 basis). This approach uses a lower discount rate for long-term liabilities and this tends to produce a more cautious result, as can be seen in [Exhibit 2](#).

Exhibit 2

Valuation history of SLGPS funds (triennial and IAS 19)

IAS19 annual valuations tend to be more cautious than the triennial funding valuations.



Source: Pension fund annual reports and accounts 2010/11 to 2017/18

Employer contributions have tended to stay the same following the triennial valuation

- For most employers, contribution rates have remained the same even where pension funding levels exceed 100 per cent. This reflects lower expectations for investment returns going forward:
 - at Strathclyde, North East Scotland, Tayside, Highland, Shetland, Scottish Borders, Fife, and Dumfries and Galloway pension funds contribution rates have remained stable
 - rates in Lothian and Falkirk pension funds have increased
 - Orkney rates have reduced.

Membership and cashflow

Membership of the SLGPS continues to grow but benefits and administration costs have exceeded contribution income in the last two years

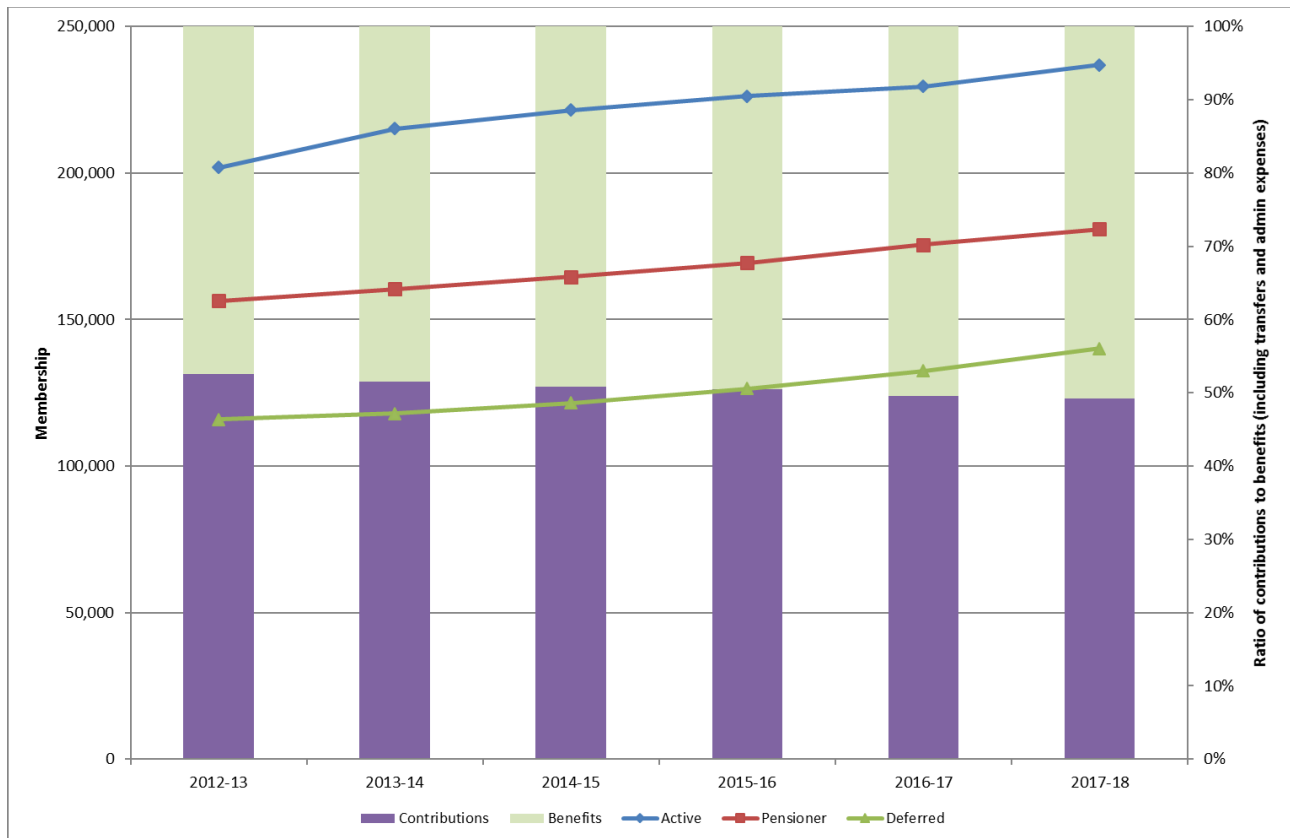
- [Exhibit 3](#) shows that the numbers of both active employee members and pensioner members of the SLGPS have been increasing in recent years. This is largely a result of auto enrolment and employer severance schemes. Active membership increased by 7,300 or three per cent in

2017/18 and pensioner numbers went up by 5,300, also an increase of three per cent. Across the SLGPS, total contribution income is now less than the benefits paid (negative cashflow from dealing with members). Five funds now have negative cashflows. As funds mature, an element of pension payments are being made from investment returns, rather than being met from ongoing contributions from active members. It's important that funds manage the cashflow implications of this.

Exhibit 3

SLGPS membership, contributions and benefits 2013 to 2018

Membership has been increasing. Costs are greater than contributions received.



Source: Pensions fund annual reports and accounts

- 8. The proportion of active members compared to pensioner members is higher than it was five years ago. Despite there being greater numbers of active members, this has not reversed the trend of negative cashflow from dealing with members. This is plausible as many of these new active members were added through auto enrolment and are lower paid employees with lower contributions relative to pensions in payment.

Investment performance and strategy

Investment returns

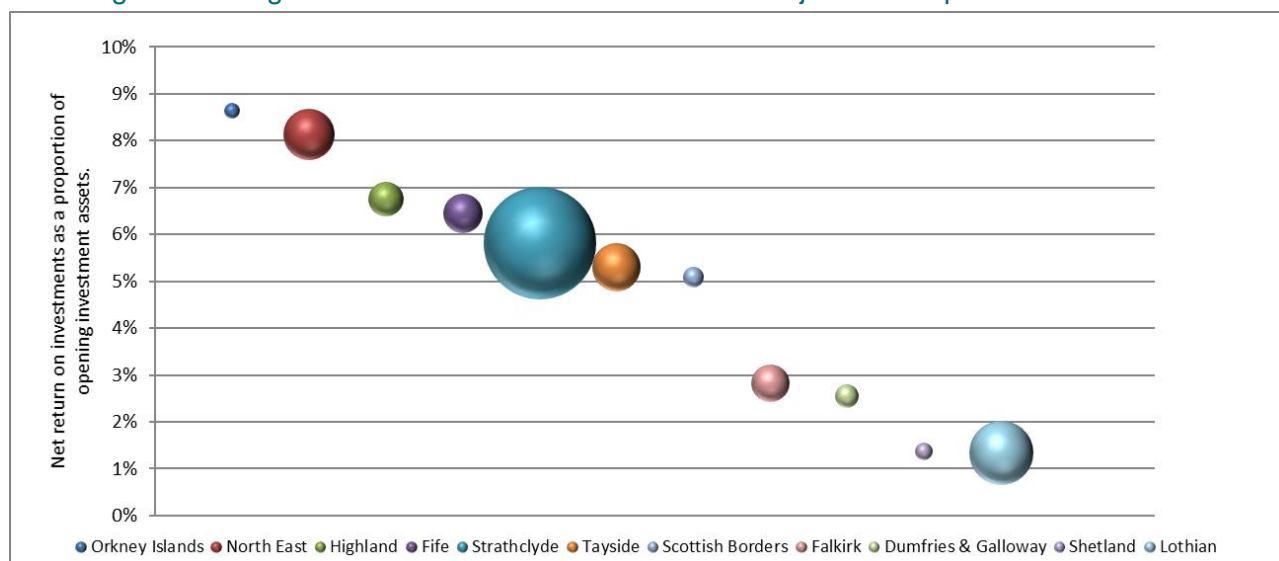
Annual investment returns were positive in 2017/18 although performance was variable

9. Investment returns remained positive in 2017/18 despite increased volatility and decline in the final quarter of the year. The weighted average return on investments was around five per cent, a significant decrease compared to 18 per cent in 2016/17. This reflects the general performance of markets between the two years. The performance and relative size of each pension fund is shown in Exhibit 4.

Exhibit 4

Annual investment returns and fund size 2017/18

The weighted average investment return for the SLPGS was just over 5 per cent in 2017/18.



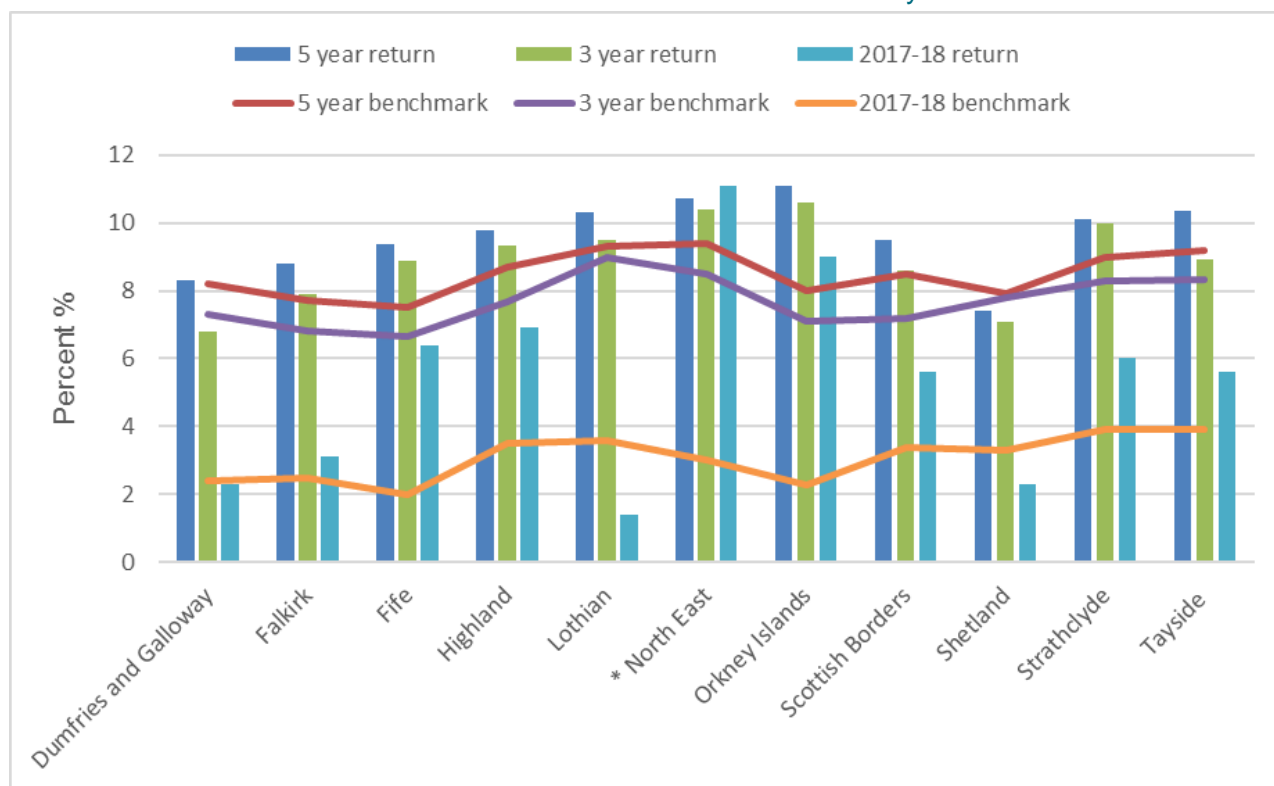
Source: Pension fund annual reports and accounts

10. Variability of investment performance between pension funds can reflect differences in the nature of assets which each fund holds, the way in which they are managed and the related risks. Another way of assessing the returns in each fund is to consider how the fund has compared against its benchmarks over 1 year, 3 years and 5 years. The benchmarks are set locally to reflect the nature of each investment mandate and the proportion of different mandates in the portfolio. Performance against each of the 11 funds benchmarks is shown in Exhibit 5.

Exhibit 5

Pensions fund performance against their benchmarks 2017/18

Investment returns for most funds were above benchmark over the 5 years to 31 March 2018.



* North East Scotland pension fund figures are on a gross basis

Source: Pension fund annual reports and accounts

11. Exhibit 5 identifies, for example, that in Lothian pension fund the return on investments in 2017/18 was 1.4 per cent, which was behind the benchmark of 3.6 per cent, however, the performance over the five and ten-year period to 31 March 2018 exceeded the benchmark by an average of 1.1 percentage points.

Investment strategies

Investment strategies are set by each fund and indicate the nature and extent of investments the fund should hold

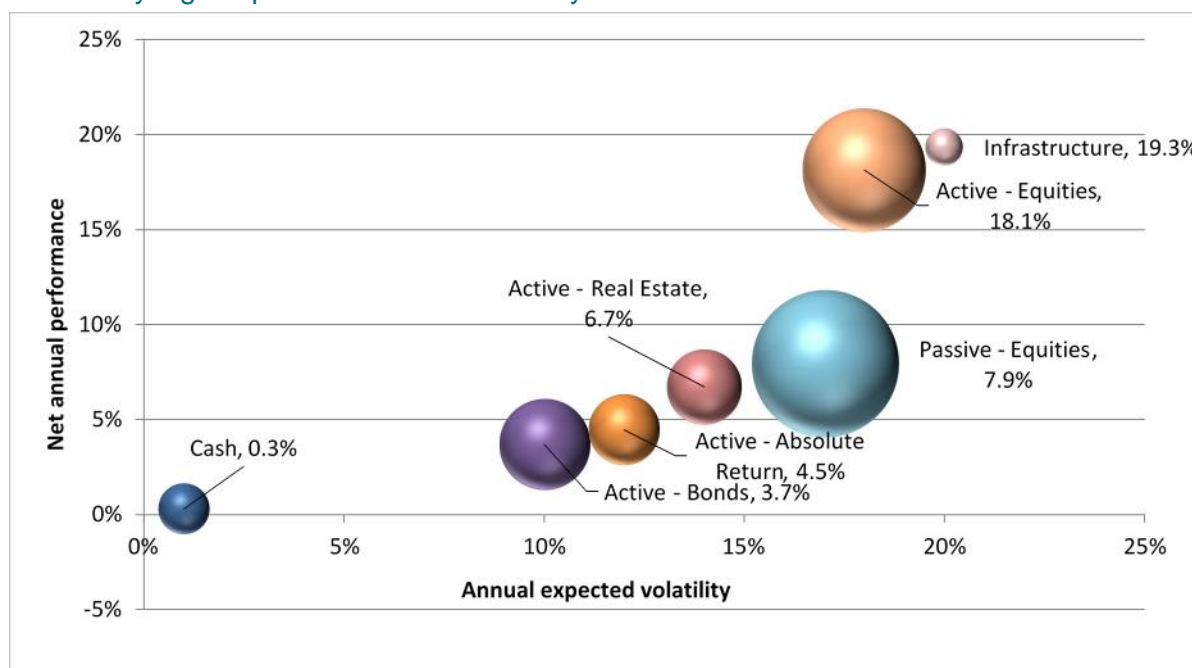
12. Investment strategies are set locally by each of the pension funds, although they have to comply with a common regulatory framework. Pension funds appoint independent professional advisors to help them with their investment strategies. Some funds use external firms for direct investment advice to pensions committees and boards. Some funds have investment panels that employ specialist advisers before recommendations are made to the pensions committee/boards. In 2017/18, Fife Pension Fund joined with Lothian and Falkirk in a collaborative arrangement for investment governance which includes a joint investment strategy panel advising all of these funds.

13. Investment strategies should take account of the current funding and cash-flow position of the fund and reflect the investment outlook to achieve the returns necessary to maintain employer contributions. Seeking higher returns typically exposes pension funds to higher risk.
14. Exhibit 6 demonstrates the different investments and their relative size and returns at Fife pension fund. The fund has 11 investment mandates, managed by nine fund managers. Cash balances form a relatively small working capital balance and achieve very low returns. Infrastructure investments earned high returns but are relatively modest in size. Equities - both active and passive mandates - form the majority of the invested assets. Passive equity investments earned much lower rates of return than active mandates, but they also have lower fees. Investments that earned the higher rates of return were also considered to be the most volatile (riskier).

Exhibit 6

Asset allocations, performance and volatility – Fife Pension Fund as at 31 March 2018

Passive equities were the largest category of investment delivering relatively high returns but with a relatively high exposure to market volatility.



Source: Fife pension fund annual audit report

Pension funds have been reviewing their investment strategies

15. Some funds identified that they have reviewed their investment strategies. This is due to factors such as the maturity of the pension fund, the overall funding position and investment advisers' outlook on markets (particularly in connection with EU withdrawal):
 - One fund identified that "the primary consideration was the impact of the EU withdrawal on movement in investments and risk".

- At Scottish Borders Pension Fund, the auditor noted that the fund is "... to diversify away from equity assets into income generating inflation-linked assets that are more resilient to the volatility of the equities markets. Increasing investment in infrastructure, which is not as tied to global events... management are aware of the currency fluctuation risk and are working with their investment consultant to determine ways to mitigate that risk".
 - Strathclyde Pension Fund noted that it had begun "the implementation of a revised strategic target model... to hold less equity and move to more short-term and long-term enhanced yield assets... such as UK and overseas property. The fund has reduced equity holdings by £2 billion from 68.6 per cent of assets... to 56.7 per cent... to de-risk the investment portfolio at a time where there is some increasing uncertainty in global markets."
16. Funds are also reporting that the actual investment portfolio is not consistent with their investment strategies. Increases in the value of equities has meant that some funds are holding more of their total value in equities ('overweight in equities') compared to their investment strategies:
- Fife Pension Fund auditor reported that 62 per cent of the fund's investments are in equities, that the fund has not rebalanced its mandates since last year, remains overweight in equities (against a target of 55 per cent) and underweight in bonds.
 - The auditor of Falkirk Pension Fund identified that "the future projected strategic allocation of investments, outlined in the fund's statement of investment principles, shows a significant divestment from the current allocation".

Investment costs

Investment costs are becoming more transparent

17. In recent years there has been increased interest in the investment costs incurred by the SLGPS, with a drive for more transparency from investment managers about the fees and charges they make. Ensuring that investment management expenses are reasonable can be one way for pension funds to increase returns without increasing risk.
18. However, full transparency is still to be achieved. The auditor at Tayside Pension Fund identifies that "the fund has incurred £1.7 million of investment transaction costs, which it has capitalised as part of the cost of the investments rather than including within investment management expenses."
19. Investment management expenses have increased in 2017/18. The main reason for this increase in expense is the growth in equity values, but there are other reasons:
- Fife Pension Fund reported a high initial cost of the infrastructure mandate, which carries out private equity-type investments. It levied performance fees of £1.7 million and made two new investments with one-off fees of £1.6 million.
 - Scottish Borders Pension Fund auditor noted that "there has been significant... investment management expenses of... £8.2 million. This is largely because of one-off

transaction costs associated with investment in long-lease property, which is seen as a key part of the investment strategy. (Their adviser was)... confident this cost will be recouped through investment performance."

Governance

Committees and boards

Pension committees and pension boards oversee the funds

20. From 1 April 2015 all pension funds were required to introduce local pension boards in line with the Public Service Pensions Act 2013. This is the third year of operation of the Pensions Board. The Pensions Board usually meet concurrently with the Pensions Committee. The remit of the Pensions Board is to support the Pension Committee to comply with regulations and the requirements of the Pensions Regulator. In some councils, the responsibility for pension fund matters is split between committees.
21. Division of pension responsibilities to two committees may restrict the information available to some responsible for governance. In Fife, the oversight of pension fund governance and risk management remain in the remit of Fife Council's Standards and Audit Committee. Weaknesses in pension fund governance and management arrangements are reported to the Standards and Audit Committee, but not routinely to the Superannuation Fund and Pensions Sub-Committee or the Pensions Board. The two committees share the same convenor, so this helps to ensure that key issues are brought to the attention of both.

Some pension funds have introduced investment panels

22. To assist and advise the pension committee and board on investments strategy and performance, some pension funds have introduced advisory panels. This helps officers call on wider investment knowledge and expertise. It also introduces a governance process which sits between the investment advisor and the committee, reducing the burden on committees and on council officers to consider the detail of investment proposals/decisions. Strathclyde Pension Fund's Investment Advisory Panel (the IAP) comprises "investment officers from the fund, representatives from Hymans Robertson (as the fund's actuary and investment consultant). The panel also includes three independent expert advisors. The IAP supports the Pension Fund Committee and is responsible for developing investment strategy and monitoring investment performance."
23. At Lothian Pension Fund, the pensions committee has delegated responsibility for investment strategy to the executive director of resource who takes advice from an Investment Strategy Panel made up of the chief executive of the fund, chief investment officer and two external independent investment consultants.

Collaboration

Lothian, Falkirk and Fife pension funds are collaborating on investment advice

24. Lothian, Falkirk and Fife pension funds have set up a joint working arrangement which includes a joint Investment Strategy Panel. The role of this panel will be to advise the chief

financial officers of each administering authority on the implementation of investment strategy. Over the last year, Lothian collaborated with Falkirk on seven infrastructure investments.

25. The Scottish Borders Pension Fund also noted that it "continues to invest in other assets classes such as long-lease property, private credit and infrastructure, by partnering with Lothian Pension Fund."

Other issues

In 2017/18 Tayside undertook a repatriation exercise

26. As noted in the introduction to this report, apart from the main 11 funds, there are a few other funds managed by councils. These include Lothian Buses Pension Fund and Scottish Homes Pension Fund, for example. These funds are distinct from the main funds. They are often closed to new members and, as mature funds, have funding and investment strategies that are very different to the main funds.
27. At Tayside Pension Fund, following legal, actuarial and investment opinion and full employer consultation, the Pensions Sub-committee approved the repatriation of assets and liabilities of the Tayside Transport Fund back to the main fund. This was intended to provide the single employer, Xplore Dundee, with a guaranteed future contribution rate and to provide administrative efficiencies and value for money. The expectation is that repatriation would reduce custodial and actuarial fees, investment and management costs. The repatriation took place on 30 June 2018 and resulted in the transfer of £71 million of transport fund net asset values into the main fund which had a net asset valuation of £3.5 billion at that date.

Cessations can lead to additional financial pressures

28. Auditors have been reporting that a number of employers have indicated they want to leave, or have left, pension funds in 2017-18. These cessation events can lead to additional contributions from those employers and sometimes decisions on the recoverability of cessation debts. Cessation payments at Lothian Pension Fund were £1.4 million in 2017/18 and it has long-term debtors of £1.5 million associated with cessation.
29. At 31 March 2018, the North East Pension Fund recognised that there were three employers who had exited from the Fund where payment of the termination fee may not be recovered in full.

There were some reported issues with employer returns

30. Employers are required to submit year-end contribution returns and compliance returns usually by the May after each financial year-end. This is an important control over the accuracy of pension contributions received and recorded in the pensions systems and is of increased importance following the introduction of Career Average Revalued Earnings (CARE) schemes: as the member benefit statement requires actual salary data from all employers.

31. All year-end contribution returns relating to 2017/18 have been received by funds. One auditor identified issues with the lateness of contribution returns, with more auditors identifying issues with employer compliance returns.

Administration

Changes affecting funds

There have been many changes affecting the administration of schemes

32. SLGPS pension funds have faced significant administration challenges in recent years. We have identified the effect of auto-enrolment and the increase in membership at [paragraph 7](#), but there have been other changes.
33. Revised Local Government Pension Scheme regulations came into effect on 1 June 2018. The changes to the regulations aim to consolidate amendments since April 2015 and include:
 - LGPS members can elect to take early payment of their pension from age 55, with an actuarial reduction. They will not require consent from their employing body.
 - There is increased flexibility for administering authorities when employers exit the pension scheme. Exit credit can be provided to exiting employers if appropriate.
 - There are changes to additional voluntary contributions following the introduction of freedom and choice in pensions by the UK Government, which permits payment from age 55 as a lump sum.
34. New data regulations (GDPR) covering data protection came into force on 25 May 2018. Auditors reported that pension funds' preparations for this had been completed as planned.
35. In May 2017, several health boards across NHS Scotland were affected by the Wannacry global ransomware attack. In response to this, the Scottish Government launched 'A Cyber Resilience Strategy for Scotland: Public Sector Action Plan, 2017/18'. The action plan outlines various requirements that public bodies should take forward. It includes an action for public bodies to achieve a Cyber Essentials Plus certification by the end of October 2018. There is a need to consider whether the pensions' systems supplier meets Cyber Essentials standards. We recommend the fund encourages its suppliers to adopt the Cyber Essentials standard.
36. The auditor at Fife Pension Fund noted the loss of five experienced staff members from the administration team and issues with reconciliations and recording of non-routine transactions. Borders Council implemented a new financial system, Business World, in April 2017 and undertook a subsequent restructuring of the finance function. The auditor noted that "this has placed a significant burden on key team members at certain times."

Outlook

SLGPS structural review


The Scottish Scheme Advisory Board (SSAB) is currently consulting on the future structure of the SLGPS

37. In 2017 the SSAB reported to the Scottish Minister on options for the future structure of the SLGPS. The report referred to the potential economies of scale and cost savings available in relation to the administration and investment activity of pension funds, highlighting the likely impact of different options on local governance and oversight. The report included four options for consideration:
- retain the current structure with 11 funds
 - promote cooperation in investing and administration between the 11 funds
 - pool investments between 11 funds
 - merge the 11 funds into one or more funds.
38. Early in 2018 the Scottish Minister requested that the SSAB consult more widely on these options and in June 2018 a consultation was launched, with a decision on the future course of action in 2019.

Local government in Scotland
Supplement 2
Financial overview
2017/18



Scottish Local Government Pension Scheme

This report is available in PDF and RTF formats,
along with a podcast summary at:
www.audit-scotland.gov.uk 

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/MAR19/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE 1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Approve the additional posts of 3 x Senior Pensions Officer and 1 x Assistant Pensions Officer (set out in 3.9.3);
- 2.2 Consider and approve the NESPF Data Quality Improvement Plan; and
- 2.3 Note the updates to Scheme policy documents as part of the annual review (set out in 3.9.5)

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/fundgovernance.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
Strategic Infrastructure Priorities And The Scottish Local Government Pension Scheme Report*

Separate Reports, provided

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

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

3.6 **ACCOUNTING**

3.6.1 *Budget/Forecast 2018/19 Report
Statement of Accounts 2018/19 – Action Plan*

Separate Reports, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **LGPS Regulations Update**

3.7.2 The Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2019 are out for consultation until 11th March 2019.

3.7.3 The Amendment Regulations propose to introduce a number of minor changes at the request of stakeholders as well as correct referencing errors contained within the LGPS 2018 Regulations which were implemented on 1 June 2018. They will also ensure that provisions contained within the Local Government Pension Scheme (Transitional Provisions and Savings)(Scotland) Regulations 2014 continue to have effect in the 2018 scheme.

3.7.4 **GMP Equalisation & Indexation Project**

Separate Report, provided

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

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

3.9.2 **Pension Fund Staffing Update**

3.9.2.1 Two Assistant Pensions Officers were successfully recruited and commenced employment within the team in early January. With a third new start joining in early February, this means the technical team is finally now fully staffed. As part of the Fund's resource and succession planning, these new recruits will all receive appropriate training to allow them to provide support across each of the six pensions teams.

3.9.2.2 The Assistant Pensions Officer – ERT post was advertised internally in both December and again in January, but unfortunately neither advert attracted any applicants. A request will now be submitted to the Establishment Control Board (ECB) to seek approval to move to external advertisement.

3.9.2.3 Internal advertisement of the Pensions Officer-Training & Development post was approved by the ECB in mid-January and went live on 13 February.

3.9.3 **Staff Structure Review**

3.9.3.1 The Pension Fund went through a major review of its internal structure during 2015/16 implementing the six specific areas you see today, along with the staffing structures within those sections.

3.9.3.2 Following internal discussions with the team a number of areas have been identified as requiring minor adjustments and some additional resources to not only address the stress being levied on these services but will also future proof the Fund, providing further succession planning, increased governance assurance and deliver efficiencies over the long term.

3.9.3.3 The Fund is seeking to add four additional posts at an estimated cost of £165,000 per annum, the additional costs will be confirmed once approval has been provided and the new posts have been evaluated. This will be provided via a full business case report and consultation with the appropriate groups.

3.9.3.4 There are two posts within the Investment Team, providing additional administrative support and senior support to the Fund. As the Fund has grown considerably over the last couple of years in both value and complexity it is vital we put in place additional resources to continue to deliver sufficient monitoring and governance for the assets of the Fund, increasing in-house capabilities while considering longer term succession planning.

- 3.9.3.5 Similarly to the Investment Team and for the reasons stated above, we have identified the requirement for additional senior support in the Accounting and Governance Teams.
- 3.9.3.6 Having the appropriate structure and resources in place has proven to not only deliver the quality of service expected but just as importantly, deliver extensive efficiencies which can be seen via the Employer Relationship, Technical, Benefits and Governance Teams, driving those efficiencies through digital solutions such as I-Connect, Member Self Service and Altair.
- 3.9.3.7 Adding resources to the Investment and Accounting Teams will also afford these teams the ability to drive efficiencies through increased in-house capabilities and improved governance of investment relationships and accounting opportunities through digital transformation.
- 3.9.3.8 The Establishment of the Pension Fund will increase from 38 to 42 full-time posts.

Appendix II, Proposed Staffing Structure

3.9.4 Pension Fund Accommodation

- 3.9.4.1 The Pension Fund has been in discussions with Facilities at the Council for some time regarding the opportunity to relocate the Pension Fund to more suitable accommodation, either internally or externally.
- 3.9.4.2 The Fund expressed a preference to relocate due to increasing numbers of staff and the requirement for a more secure environment. Facilities also expressed an interest in relocating the Fund to utilise the space the Fund currently occupies for further customer service teams.
- 3.9.4.3 Unfortunately no suitable space has been identified internally and with increasing staff numbers and the Fund's desire for suitable space within which to operate, the Fund would like to seek accommodation external to Council facilities.
- 3.9.4.4 The Fund will report to Committee in due course on any suitable opportunities, providing full cost details and implications.

3.9.5 Document Updates

- 3.9.5.1 The following documents have been introduced or updated and are available to view in the secure members area of the website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>

New:

- NESPF Data Quality Improvement Plan

Annual review:

- Conflicts of Interest Policy
- Corporate Governance & SRI Policy
- Employer Engagement Policy
- Governance Compliance Statement
- Appointment Process for the Local Pension Board
- Overpayments of Pension Policy

3.9.5.2 Details of the changes to the above documents can be found in *Appendix III*.

3.9.6 Pensions Dashboard

Fund Officers submitted a response to the government consultation on the proposed Pensions Dashboard ahead of the deadline on 28th January. The idea behind the Dashboard is to provide an online service which allows people to see information from multiple pensions, all in one place.

Further information on the consultation can be found at <https://www.gov.uk/government/consultations/pensions-dashboards-feasibility-report-and-consultation>

3.9.7 Annual Governance Review

Review of NESPF compliance with the Public Service Pensions Act 2013 and the Pensions Regulator Code of Practice 14.

Separate report, provided

3.9.8 Fraud, Whistleblowing and Breaches of Bribery Act

There have been no cases during the year 2018/19.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Firstbus Proposal Update

Following the Committee meeting in November, Fund Officers have been engaging with Firstbus and Strathclyde Pension Fund in respect of the merger/buy-in proposal. Further discussions have taken place with our internal and external legal advisors and the Scheme actuary to allow Officers to take a full report to Committee in June.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations 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 (February 2019)

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.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 4 Report 2018/19
Appendix II, Proposed Staffing Structure
Appendix III, Document Review
Appendix IV, Copy of Risk Register (February 2019)

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Pension Administration Strategy



Quarterly Reporting | December 2018

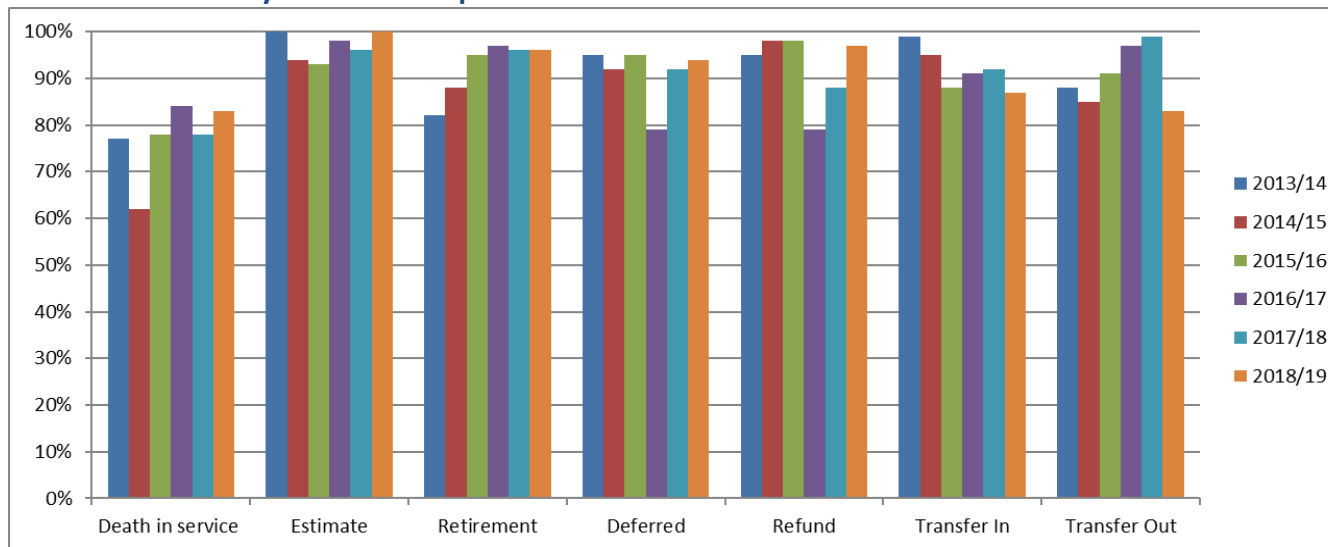
1. NESPF performance to 31 December

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	24	20	83%
Notification of retirement estimate	10 days	701	701	100%
Notification of retirement benefits	10 days	1412	1351	96%
Notification of deferred benefits	10 days	1139	1072	94%
Notification of refund	10 days	1037	1004	97%
Notification of transfer in value	10 days	82	71	87%
Notification of transfer out value	10 days	350	292	83%

1.2 Previous years comparison



2. Employer performance to 31 December

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 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

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 (719,446)

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)	3502
Amendments (address, personal details, hours and absence)	21693
Leavers (exit and opt out)	3102
Contributions (employee, employer and additional)	232032
Salary	230067
Cumulative CARE pay	223467
Works address	5583

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 December 2018)

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	Extract File												
Scottish Water	Extract File												
Scottish Fire and Rescue Service	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												
Archway	Online Return												
City Moves Dance Agency	Online Return												
Alcohol & Drugs Action	Online Return												

Data Quality Improvement Plan 2018/20

1. Introduction

The quality of data held by Pension Funds across the UK has become a hot topic over the last few years due to the concerns of Fund actuaries over the recent triennial valuations for the Local Government Pension Scheme (LGPS) as well as the Pensions Regulator (tPR) putting much greater emphasis on the requirement for all Funds to hold accurate and up-to-date information on members.

Traditionally data held by the Fund was checked on an annual basis prior to members annual benefit statements being issued, with additional checks being carried out prior to providing data to the scheme actuary for the triennial valuation. Members records were also checked thoroughly prior to calculation following an event date (leaver, retirement, divorce, transfer or death.)

Over the last 5 years the NESPF have migrated towards receiving member and contribution information from participating employers on a monthly basis. This has had a huge impact on the quality of member data held by the Fund. The systems now in place, ensure member data is received in a timely manner and is provided in a valid and accurate format. This has not only improved the data held but will continue to ensure that the data remains at a high quality in the future.

Many LGPS Funds across the UK are currently making the switch from annual to monthly returns and the fact that the NESPF have already made this switch and are currently receiving over 99% of data monthly has reaped tremendous rewards for the Fund. The 2017 valuation carried out by the scheme actuary was completed in record time and the number of queries received from the actuary on the data provided was considerably less than in previous valuations. The scheme actuary, Mercer, have provided positive commentary on the quality of data provided allowing the Fund to be confident in the accuracy of the valuation results.

With the possibility of the valuation process being moved to a four-yearly requirement the emphasis will be on the Fund to ensure accuracy of data held so that monitoring of membership profiles etc can be carried out in the inter-valuation period.

In addition, the NESPF have been actively working on the requirement to reconcile Guaranteed Minimum Pensions held ahead of the 2019 HMRC deadline. This huge exercise has taken up staff time and Fund resources for the last three years, but the proactive approach has ensured that we are in a positive position as the deadline gets closer.

TPR Code of Practice 14 requires that Funds carry out a review of their data at least annually. This review should include checks for accuracy and completeness. To meet these requirements the following data improvement plan has been implemented to address any issues identified during the measurement of NESPF data quality.

2. NESPF Objectives

1. To maintain the accuracy of members records to ensure that benefits held and paid are correct
2. To meet the regulatory requirements of pension administration including the Pension Regulator Code of Practice 14
3. To provide comfort to the administering authority and participating employers in the accuracy of the actuarial results based on the quality of the data provided
4. To ease the administrative burden of incomplete or inaccurate records.

3. Data Types

Data held by a Fund can be split into two different categories for measurement of quality:

1. **Common Data:** These data items are prescribed by tPR guidance and are the identifying fields for members
2. **Scheme Specific Data (Conditional Data):** These fields are relevant to the calculation of member benefits and there is currently no prescribed list of scheme specific data fields for the LGPS.

4. Measuring Data Quality

Following the triennial valuation as at 31 March 2017 the NESPF scheme actuary, Mercer, provided a report on the data held by the NESPF using their Data Analysis Tool (DAT). The data used is from the universal data extract (UDE) that is provided to scheme actuaries from the pension administration system. The UDE has been developed in conjunction with all actuaries of the LGPS and provides full member data for the purpose of calculating the liabilities of the Fund.

The DAT report highlights potential issues with member records on both a whole Fund level and individual employer basis. This is done by raising flags based on a traffic light system using the following percentages:

If the number of flags is below this level, classify as green	5%
Otherwise if the number of flags is below this level, classify as amber	19.9%

If the number of flags is above this level, classify as red

20%

This exercise was repeated on data held as at 31 March 2018 with the report showing significant improvement for Scheme Specific Data. DAT reports for both years are available from the NESPF Employer Relationship Team.

The Fund acknowledges that the UDE is limited to providing data relevant for valuation however a report (TPRDATA) was created to provide and assess the missing Common Data items.

The Local Government Association (LGA) are in discussions with tPR, local authorities and stakeholders to formulate a standardised basis for scoring Scheme Specific Data tests going forward and once this information is available NESPF will consider how best to deliver the new requirements.

5. Data measured by NESPF

Common Data	Scheme Specific Data
NI Number (includes TN numbers which are classed as missing data)	Active members with zero actual pay
Surname	Active members with missing or invalid member contribution rate
Forenames/initials	Active members with inconsistency between member status and exit data
Sex	Deferred members with no date of leaving
Date of birth	Deferred members with zero pension
Date started pensionable service	Deferred members with inconsistency between member status and exit data
Retirement date	Deferred members with GMP expected based on service
Membership status	Undecided leavers with zero pension
Last status event	Undecided leavers with inconsistency between member status and exit data
Address (includes Gone Away which are classed as missing data)	Pensioner members with no retirement date
Postcode	Pensioner members with zero pension
	Pensioner members with GMP expected based on service
	Dependant members with zero pension

6. Data Score

In 2018 Common and Scheme Specific Data scores were required for the first time to be included in tPR scheme return.

Data Type	2017	2018	Target
Common Data	97%	97%	100%
Scheme Specific Data	85%	94%	100%

The percentages are calculated by comparing the total amount of fails/flags against the total membership:

- In 2017 the total membership of 60,798 consisted of active, deferred and pensioner members
- In 2018 the total membership also included dependants and undecided leavers raising the total membership to 67,685.

The biggest contributing factor to the significant improvement in Scheme Specific Data has been the ongoing reconciliation of guaranteed minimum pension (GMP) values with HMRC as part of an ongoing exercise described in the Data Quality Improvement Plan:

- Deferred members with no GMP on the system but where recorded service suggests there is potential liability reduced from 673 to 537
- Pensioner members with no GMP on the system but where recorded service suggests there is potential liability reduced from 5,892 to 2,175.

DATA QUALITY IMPROVEMENT PLAN

Objective	Data Type	Action	Timetable	Financial & Resource Implications
Address Tracing* for gone away deferred, pensioner and frozen leaver members	Common	Tracing exercise with ATMOS Ltd was carried out for all members with a 'gone away' indicator. The results are used to complete an exercise within the department to ensure that any addresses provided are accurate before updating member records	November 2018 – May 2019	Financial - Estimated cost of tracing exercise £1,623 Resource – Administration staff to be utilised

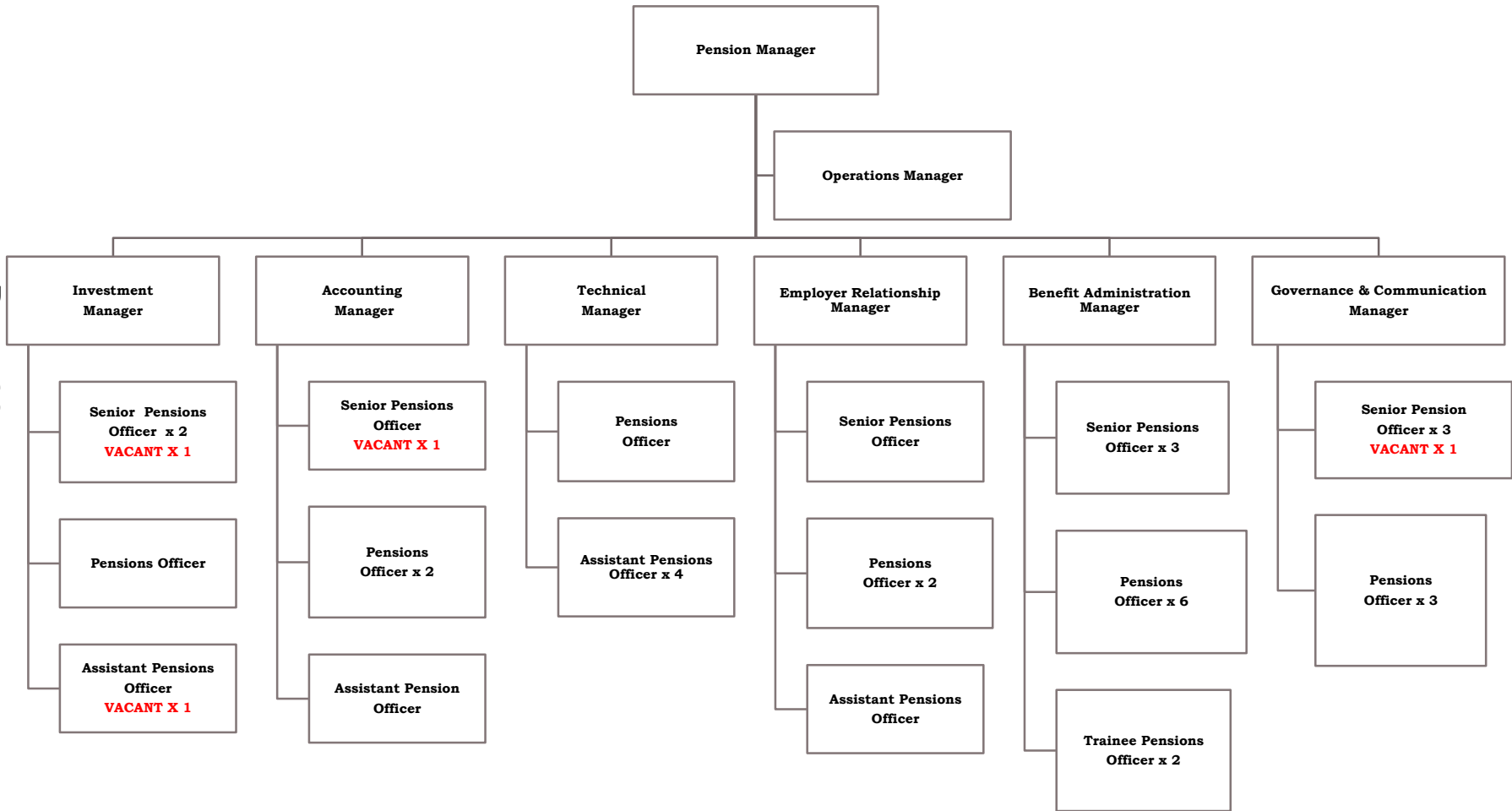
Monthly Information from Employers	Common & Scheme Specific	Continue to promote i-Connect as the method of employers providing data. Improve reconciliation process to ensure data is of the highest quality	Ongoing	Financial – None (part of existing contract) Resource – ERT
General Data Cleanse and Quality Measurement	Common and Scheme Specific	The NESPF administration system provider, Heywoods, offers a data quality tool that can be run against all data held on our system and will comply with the TPR requirements for scheme specific data once this is known. The tool can be used by Funds to carry out in depth data cleanse exercises and can also be used to measure data quality for the annual scheme return	June 2019 – March 2020	Financial - One off exercise £7,725 or as a 3-year exercise £15,450 Resource – Benefits, ERT and admin staff to be utilised. Aspects of the cleanse being prioritised ahead of the valuation or the effect on members
Undecided Leavers – review of how status 2 members are managed and processed to reduce numbers on the system below 1000	Scheme Specific	Exercise to identify, monitor and prioritise undecided leavers who have not been processed in a reasonable time frame. Concerted effort to reduce the number of members prior to valuation (as at 31 March 2020). Controls to be put in place for future i.e. deadlines, etc	December 2018 – March 2020	Financial – None Resource – Benefits and ERT staff to be utilised
GMP Reconciliation - following the cessation of 'contracting out' there is a requirement for all Funds to carry out a GMP reconciliation for Active, Deferred and Pensioner members	Scheme Specific	Exercise undertaken in-house by NESPF	Full reconciliation to be completed by March 2019	Financial - None Resource – Benefits & Technical Staff
AVC Reconciliation	Scheme Specific	Reconcile AVC contracts held on the administration system Altair with information held by Prudential and Standard Life	October 2018 – March 2019	Financial – none Resources – ERT

**In September 2018 a new procurement framework went live on the National LGPS Frameworks website for Member Data Services that provides Address Tracing & Correction Services and Mortality Screening Services, this is another option for NESPF to consider in the future.*

Claire Mullen – Employer Relationship Manager – January 2019 – Version 1.1

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North East Scotland Pension Fund Structure



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Document Name		Revisions
1.	Data Improvement Plan	<ul style="list-style-type: none"> • New • Sets out NESPF data improvement plan 2018-2020
2.	Conflicts of Interest Policy	<ul style="list-style-type: none"> • Minor corrections for consistency
3.	Corporate Governance & SRI Policy	<ul style="list-style-type: none"> • Minor corrections for consistency, update of Fund values at 31/03/18
4.	Employer Engagement Policy	<ul style="list-style-type: none"> • Removal of references to Termination and Covenant Policy as these are now incorporated within the main Funding Strategy Statement, minor styling changes. Confirmation that Policy is tailored to range of employers.
5.	Governance Compliance Statement	<ul style="list-style-type: none"> • Minor updates following ACC governance review in 2018 e.g. revised Terms of Reference, new LGPS 2018 regulations and new reporting on voting practices.
6.	Appointment Process of the Local Pension Board	<ul style="list-style-type: none"> • Styling changes to bring in line with other documents, minor additions e.g. provision of log in details post appointment.
7.	Overpayment of Pension Policy	<ul style="list-style-type: none"> • Styling changes to bring in line with other documents. Minor amendments for consistency, amended wording in dependent pension example to be clearer.

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

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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 February 2019

Catastophi c	9, 18	1, 6, 16, 21				
Critical		4, 19, 20	8, 15, 25	14, 24		
Marginal	17	2, 5, 11, 13, 27, 29	7, 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 2019)
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	↔	Ongoing - Business Continuity Plan implemented for loss/disruption to Altair (October 2018)
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	2	8	↓	Ongoing - recruited several long term vacant posts but others still 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 FSM

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 2019)
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	2	4	↓	Ongoing - report to Committee (March 2019)
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. Admin to Pay to be implemented in 2019	2	3	6	↔	Ongoing - regular reporting to Committee in place
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 world 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 2018
Accounting								
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	3	2	6	↔	Ongoing - Annual Accounts signed off Sept 2018
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 controls and procedures for management of data.	4	2	8	↔	Ongoing - revised policies and procedures implemented from May 2018 for GDPR
22	Failure of the Fund's administration system, including outages, hardware and software failures and cyber attack	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location. Business Continuity Plan in place.	2	3	6	↔	Quarterly report is provided to Pension Fund Manager on any hosted system errors/resolutions. See 5 above.
23	Failure to track member status and trace information	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS) and access to national 'Tell Us Once' service	2	3	6	↔	Ongoing
Employer Relationship								
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Covenant Assessment & Monitoring Policy (within FSS)	3	4	12	↔	Ongoing
25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Covenant Assessment & Monitoring 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 Covenant Assessment & Monitoring 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 in 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 records; data incomplete or inaccurate	Incorrect pension payments made, incorrect assessment of actuarial liabilities	All employers required to submit monthly data which is reconciled by the ERT	2	2	4	↔	Quarterly PAS reporting to Committee. Data Improvement Plan to Committee meeting (March 2019).

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	STRATEGIC INFRASTRUCTURE PRIORITIES AND THE SCOTTISH LOCAL GOVERNMENT PENSION SCHEME
REPORT NUMBER	PC/MAR19/INFRA
DIRECTOR	STEVE WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	1.2

1. PURPOSE OF REPORT

1.1 At its meeting of 29 November 2018, the Committee agreed to instruct the Chief Officer – Finance to explore how the North East Scotland Pension Fund could invest locally in the North East, including, but not confined to, the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan, with a report back to the Pensions Committee of 15 March 2019.

1.2 This report addresses that instruction.

2. RECOMMENDATION

2.1 That the Committee instruct the Chief Officer – Finance to explore the opportunities for a strategic partnership between the Council, other stakeholders and the North East Scotland Pension Fund (NESPF) for the purposes of supporting local infrastructure investment, and to report on the feasibility of this within three committee cycles.

3. BACKGROUND

3.1 With ageing infrastructure, increasing demand and new innovations investment in infrastructure throughout the UK is in high demand, with public and private sector joining forces to deliver on expectations across national and local plans.

3.2 It is no different locally with investment sought in Aberdeen’s strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and the City Centre Masterplan.

- 3.3 In investment terms 'infrastructure' is a broad asset class.

The definition of Infrastructure

'The basic facilities, services and installations needed for the functioning of a community or society, such as transportation and communications systems, water and power lines and public institutions including schools, post offices and prisons'

Infrastructure Sectors;

Transport	– roads, airports and ports.
Utilities	– water, electricity and gas grids
Telecommunications	– fibre and broadcast towers
Oil & Gas	– oil storage and pipelines
Social	– hospitals, schools and prisons
Renewable Energy	– wind, solar, hydro and biomass

- 3.4 In general the Government is responsible for providing infrastructure services to the community, Government however may discharge its responsibility directly or outsource to the private sector. In addition, the private sector may provide infrastructure services if market conditions are right.
- 3.5 While responsibility rests with Government, infrastructure services can be paid for in different ways, for example from general tax revenues or under 'user pay' arrangements.

UK National Infrastructure Plan

- 3.6 The UK Government regularly publish a pipeline of future infrastructure projects and projected investment by the public and private sector.
- 3.7 The latest National Infrastructure Plan pipeline was published by the Infrastructure and Projects Authority and HM Treasury in November 2018.
- 3.8 The infrastructure pipeline provides a bottom-up assessment of planned investment in infrastructure, across both public and private sectors. The pipeline annual spending figures are expected to average around £61 billion p.a. over the next 10 years. Of this, nearly half is expected to be funded by the private sector, predominantly in the energy and utilities.

Infrastructure investment and it challenges

- 3.9 Infrastructure's economic characteristics can lead to attractive investment opportunities but not all display the same characteristics.
- 3.10 Providing essential services by infrastructure assets requires government/community involvement and as such;

- Incorporates an explicit or implied cap on returns, resulting in greater emphasis on initial investment assessment, robust valuation and ongoing management.
 - Requires responsible and informed long term investing and effective governance.
- 3.11 Whilst infrastructure investments can display lower volatility they are not immune to economic cycles.
- 3.12 Private investment in infrastructure assets is relatively immature and as such there is no readily available access route for non-specialist investors. Also, the regulatory and/or contractual complexity that tends to accompany such investments also acts as a high barrier to entry for non-specialist investors.
- 3.13 Mitigating some of the challenges can be achieved by taking significant care and judgement to match opportunities to risk/return requirements. Selecting an access route that delivers an outcome in line with expectations, delivering on not only return but governance.

Infrastructure and the Scottish Local Government Pension Scheme

- 3.14 While there are a few success stories when it comes to the Local Government Pension Scheme (LGPS) investing in infrastructure and local infrastructure there are still many challenges and barriers to overcome.
- 3.15 These challenges and barriers are not only external but also internal when trying to access these assets.

Areas of consideration;

- What type of investment is it
 - Risk profile
 - Return/yield expectations
 - Structure of the investment opportunity
 - Is it regulatory compliant for the LGPS to invest in
 - Governance
 - Resources
 - Reputational risk
- 3.16 Whilst challenges exist there have been some successes as mentioned earlier, for example Greater Manchester has successfully invested in local infrastructure for many years along with Strathclyde Pension Fund which has had some success in their local area. See background papers referred to in section 9. An extract from the Greater Manchester Annual Report states:

“This year saw a number of significant new acquisitions by the Greater Manchester Property Venture Fund (GMPVF), including the Soapworks on the site of the former Colgate Palmolive factory in Salford adjacent to the Manchester Ship Canal, and a large industrial park at Broadfield, Heywood Rochdale. The GMPVF also sold its holding in the Globe Park Industrial Estate in Rochdale, which had been successfully redeveloped to provide

38,000 square feet of industrial space across 17 units. We're also a partner in the £800 million project to develop Airport City on land with the Enterprise Zone next to Manchester Airport, and are supporting the construction of a number of new residential and offices developments across Greater Manchester through a variety of joint ventures, partnerships and finance opportunities, including Matrix Homes, Urban Splash, Select Property Group and Renaker."

- 3.17 These examples have been achieved through having greater resources, governance structures and appetite from all stakeholders, and importantly identifying opportunities structured in a manner that the LGPS can access.
- 3.18 There are however some legal restrictions. The NESPF had reviewed the option to invest in the Aberdeen City Council Bond. Following due diligence and legal advice the Pension Fund was prevented from participating due to the Pensions Act 1995 Section 40 which restricts employer-related investments.
- 3.19 Employer-related investments relate to *(a) shares or other securities issued by the employer or by any person who is connected with, or an associate of, the employer, (b) land which is occupied or used by, or subject to a lease in favour of, the employer or any such person, (c) property (other than land) which is used for the purposes of any business carried on by the employer or any such person, (d) loans to the employer or any such person, and (e) other prescribed investments,*
- 3.20 The law is therefore clear that the NESPF cannot invest in the capital programme of Aberdeen City as it would be an employer-related investment.

Conclusion

- 3.21 To continue to review the strategic infrastructure priorities in the City, Region and the wider North East, the NESPF is limited in relation to funding that it might be able to invest due to employer-related investment restrictions. That said a relationship around the subject could be developed between the NESPF, the Council and other stakeholders. The NESPF could explore the investment opportunities available in the wider infrastructure priorities identified in the Regional Economic Strategy, City Region Deal, the City Centre Masterplan and the wider North East, specifically how a strategic partnership with the NESPF could be formed to support the future development of the strategic infrastructure priorities.
- 3.22 This could bring skills and knowledge of infrastructure and property assets, access to a range of specialist advisors and other investors / fund managers.

4. FINANCIAL IMPLICATIONS

- 4.1 If a decision were taken to explore the opportunities for a strategic partnership with the NESPF then advice would have to be sought and officer time would be required to undertake the work involved. With appropriate prioritisation the

work could be included within existing budget constraints, that is the capacity of staff employed by the Council.

4.2 If specialist advice was required then the Council may have to ask for external advice and there is no budget immediately available for this.

4.3 If the NESPF were to incur any costs these would be met by the Pension Fund.

5. LEGAL IMPLICATIONS

5.1 Legal advice was sought in relation to NESPF investing in the Aberdeen City Council bond issue as mentioned in the report. There may be other legal implications that would have to be explored if a strategic partnership was progressed which may also require external advice. These would be reported at the appropriate time.

6. MANAGEMENT OF RISK

6.1 There are no issues arising directly from this report, however the management of risk is a vital component of the governance that would need to be considered and put in place if a strategic partnership were to be progressed. The implications would be reported at the appropriate time.

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.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

Links to Greater Manchester and Strathclyde's Annual Report and Accounts.

<https://www.gmpf.org.uk/documents/annualreport/2018.pdf>

<http://www.spfo.org.uk/CHttpHandler.ashx?id=42886&p=0>

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	STATEMENT OF ACCOUNTS 2018/19 – ACTION PLAN
REPORT NUMBER	PC/MAR19/ACCOUNTS
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE 1.1 & 1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with high level information and key dates in relation to the 2018/19 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors.

2. RECOMMENDATION

- 2.1 That the Committee note the contents of the report

3. BACKGROUND

- 3.1 The Statement of Accounts 2018/19 will summarise the Pension Fund's transactions for the period 1 April to 31 March and its financial position at the year-end 31 March 2019. It will be prepared in accordance with the Internal Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Copy of Practice (SeRCOP). There are no changes to either of the codes in 2018/19 which will have any significant impact on the statement of accounts.
- 3.2 There are a number of key dates and these are summarised as follows:

31 March 2019	End of Financial Year 2018/19
14 June 2019	Pensions Committee
17 June 2019	Deadline for giving notice to the public of the right to inspect and object to Accounts
30 June 2019	Statutory deadline for submission of Draft Statement of Accounts to the Controller of Audit

July 2019	Advertising and Inspection of Accounts
31 July 2019	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
13 September 2019	Pensions Committee
30 September 2019	Deadline for submission of Audited Statement of Accounts to the Controller of Audit
31 October 2019	Deadline for submission of the Audited WGA to the Scottish Government
6 December 2019	Pensions Committee

3.3 14 June 2019

The Pensions Committee will receive the Draft Statement of Accounts 2018/19, including the Annual Report for overall scrutiny.

3.4 July 2019

This is the period within which the Council must give public notice of the rights of interested parties to inspect and object to its accounts. There are statutory requirements currently under The Local Authority Accounts (Scotland) Regulations 2014 which define the notice period, the inspection period, deadline for submission of an objections and the information which must be made available for inspection.

3.5 13 September 2019

The Pensions Committee will receive Audit Scotland's combined ISA260 and 'Report to those charged with the governance of the 2018/19 audit' for debate and consideration, together with the Audited Statement of Accounts 2018/19 for signing.

4. **FINANCIAL IMPLICATIONS**

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

5. **LEGAL IMPLICATIONS**

- 5.1 There is a statutory requirement for the Council to produce both a draft and audited Statement of Accounts within certain timescales and to a high standard. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

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.

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle by demonstrating 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
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	BUDGET/FORECAST & PROJECTED SPEND 2018/19
REPORT NUMBER	PC/MAR19/BUD
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MICHAEL SCROGGIE
TERMS OF REFERENCE	PENSIONS COMMITTEE 1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2018/19 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend for 2018/19;
- 2.2 Note the update on Pension Fund Staff Costs and staffing vacancies; and
- 2.3 Note the update on the work undertaken by the NESPF Accounting team and the Global Custodian resulting in the clearance of a processing backlog.

3. BACKGROUND/MAIN ISSUES

3.1 BUDGET/FORECAST AND PROJECTED SPEND 2018/19 (APPENDIX I)

- 3.1.1 Appendix I shows the NESPF Budget 2018/19. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF Budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.
- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.

- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.4 A potential underspend has been identified for the Administrative and Investment Staff Costs. This is largely associated with staffing vacancies for the majority of the year.
- 3.1.5 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with several investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.
- 3.1.6 The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer accounts for indirect limited partnership fees.
- 3.1.7 Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other investment related expenses (e.g. investment advice and litigation, etc.) are included within the section 'Oversight & Governance Expenses'.
- 3.1.8 The NESPF Accounting team has worked together with the newly appointed Global Custodian the Hongkong and Shanghai Banking Corporation (HSBC) regarding the reporting and accounting of the Pension Funds' Investments. The aim is to ensure that the Custodian's reporting most closely fits the accounting requirements of the Pension Fund. Thanks to this co-operative approach by both parties, the processing backlog has now since been cleared. A 'Business As Usual (BAU)' stance is now in operation for the remaining part of the year 2018/19.

3.2 GOVERNANCE

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the 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

7.1 This report does not impact either the Local Outcome Improvement Plan or the Target Operating Model.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2017/18) and Fund Governance Policy Statement.

10. APPENDICES

Appendix I, Budget/Forecast and Projected Spend 2018/19

11. REPORT AUTHOR CONTACT DETAILS

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Appendix I – 2018/19 BUDGET/FORECAST AND PROJECTED SPEND

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

	Notes	Full Year Budget 2018/19 £'000	Budget to 31/12/18 £'000	Actual Spend to 31/12/18 £'000	Accrual to 31/12/18 £'000	Amended Spend to 31/12/18 £'000	Over or (Under) to 31/12/18 £'000	Proj Annual Spend 2018/19 £'000	Proj Over or (Under) Spend 2018/19 £'000
Administrative Staff Costs	1	1,281	961	498	268	766	(195)	1,056	(225)
Support Services Inc IT	2	659	494	393	113	506	12	563	(96)
Printing & Publications		23	17	16	3	19	2	22	(1)
Administration Expenses Total		1,963	1,472	907	384	1,291	(181)	1,641	(322)

Note (Spend Variance \pm 5%):

1. Under spend – New posts some of which recently filled and some yet to be filled.
2. Under spend – GMP Reconciliation being undertaken in-house. Web design project being delayed until 2019/20.

Appendix I – 2018/19 BUDGET/FORECAST AND PROJECTED SPEND (continued)

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

	Notes	Full Year Budget 2018/19 £'000	Budget to 31/12/18 £'000	Actual Spend to 31/12/18 £'000	Accrual to 31/12/18 £'000	Amended Spend to 31/12/18 £'000	Over or (Under) to 31/12/18 £'000	Proj Annual Spend 2018/19 £'000	Proj Over or (Under) Spend 2018/19 £'000
Investment Staff Costs	1	189	142	68	42	110	(32)	148	(41)
Pension Fund Committee	2	11	8	4	4	8	0	18	7
Pension Board	3	4	3	1	0	1	(2)	5	1
External Audit Fee		40	30	0	30	30	0	40	0
Internal Audit Fee		10	7	0	8	8	1	10	0
Actuarial Fees	4	112	84	132	30	162	78	250	138
General Expenses	5	106	80	105	4	109	29	158	52
Oversight & Governance Expenses Total		472	354	310	118	428	74	629	157

Note (Spend Variance \pm 5%):

1. Under spend – new post yet to be filled.
2. Over spend – Level of spend for the training event in London will largely depend upon the level of attendance, flight, hotel and subsistence costs, which has yet to be invoiced by Aberdeen City Council.
3. Over spend – see Note 2.
4. Over spend – Demographic exercise in advance of the next valuation, new IT system 'Pharoe', Speaker Fee, Universal Data Extract Charges, legislative changes and advice/monitoring re Brexit.
5. Over spend – Increased usage of investment and legal advice, i.e. KPMG and Brodies.

Appendix I – 2018/19 BUDGET/FORECAST AND PROJECTED SPEND (continued)

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

	Notes	Full Year Forecast 2018/19	Forecast to 31/12/18	Actual Spend to 31/12/18	Accrual to 31/12/18	Amended Spend to 31/12/18	Over or (Under) to 31/12/18	Proj Annual Spend 2018/19	Proj Over or (Under) Spend 2018/19
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Management		12,097	9,073	2,988	5,488	8,476	(597)	11,620	(477)
Performance Fees		5,536	4,152	(3,804)	7,956	4,152	0	5,536	0
Direct Property Expenses	1	250	187	126	0	126	(61)	190	(60)
Transaction Costs	2	2,000	1,500	854	163	1,017	(483)	1,357	(643)
Custody Fees		145	109	69	35	104	(5)	146	1
Investment Management Expenses Total		20,028	15,021	233	13,642	13,875	(1,146)	18,849	(1,179)

Note (Spend ± 5%):

1. The Forecast for 2018/19 is based upon the Fund Manager's estimation for the year. The most significant movement is the projected level of 'Shortfall on Services', which includes Void Rates and Service Charge Costs. These costs can fluctuate as tenants change throughout the year.
2. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an underspend.

2(a). Transaction Costs are reported by the Custodian (HSBC).

Analysis of Transaction Costs for the period 1 April 2018 to 31 December 2018:

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	265,985.38	8,160.71	558,868.22	833,014.31
Pooled – Unit Trust	0	41,032.66	0	41,032.66
Private Equity	0	143,849.66	0	143,849.66
Grand Total (£)	265,985.38	193,043.03	558,868.22	1,017,896.63

Important to Note:

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

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS
REPORT NUMBER	PC/MAR19/GOV
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MAIRI SUTTIE
TERMS OF REFERENCE	4.1 and 4.2

1. PURPOSE OF REPORT

- 1.1 To provide members with a review of the North East Scotland Pension Fund's (the 'Fund') compliance with the Public Service Pensions Act 2013 and the Pension Regulator ('tPR') requirements relating to the Fund during the financial year 2018/19.

2. RECOMMENDATION

- 2.1 That the Committee note the assurance provided in the report

3. BACKGROUND

GOVERNANCE FRAMEWORK REVIEW

- 3.1 A review of the Fund's governance framework review is conducted on an annual basis. The purpose of the review is to assess current practices and procedures; ensuring the Fund has in place a robust governance framework and complies with legislation and best practice guidance.
- 3.2 In terms of Scheme compliance with legislation such as the LGPS (Scotland) Regulations, the PSPA 2013 and tPR requirements (as set out in Code of Practice 14 Governance and Administration of Public Sector Pension Schemes) a review is carried out on a six monthly basis by Fund officers with annual reporting to the Pensions Committee.

Pension Board

- 3.3 The NESPF Pension Board is made up of equal numbers of member (4) and employer (4) representatives as follows:
- 1 x Aberdeen City Council
 - 1 x Aberdeenshire Council

- 1 x The Moray Council
- 1 x Scheduled/Admitted bodies
- 1 x Unison
- 1 x Unite
- 1 x GMB
- 1 x UCATT

3.4 The role of the local pension board is to assist the Scheme Manager to:

- Ensure effective and efficient governance and administration of the Local Government Pension Scheme (LGPS); and
- Ensure compliance with LGPS Regulations and other relevant legislation, together with any requirements imposed by tPR

3.5 The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision making body. In so doing, the Pension Board is helping to manage the reputational risk of the Fund, and of the administering authority, which responds to the Pension Regulator's expanded regulatory role.

Meeting Attendance

3.6 During 2018/19 the Pension Board met formally (and concurrently with the Pensions Committee) on:

15 June 2018 (Pension Board only)
 22 June 2018
 14 September 2018
 30 November 2018
 15 March 2019

3.7 During 2018/19 there was an overall 81% attendance rate at meetings (up to 30 November 2018). There continues to be active participation at meetings and a willingness to undertake training. Both demonstrate the strong commitment of Board members to the ongoing effectiveness of the NESPF Pension Board.

3.8 The table below details meeting attendance during 2018/19 to date:

	15/06/18	22/06/18	14/09/18	30/11/18	Individual
Cllr McKelvie	✓	✓	✓	✓	100%
Cllr Cowe			✓	✓	100%
Cllr Allan			✓	✓	100%
Morag Lawrence	✓		✓		50%
Alan Walker	✓	✓	✓	✓	100%
Kevin Masson	✓	✓			50%
Ian Black	✓		✓		50%
Stephen Clunes	✓	✓			
Liam Knox			✓	✓	100%

Notes:

* Changes in the administration at The Moray Council during June 2018 meant that Councillor Cowe's position on the Pension Board was not re-confirmed until July 2018.

Councillor Allan was not appointed to her position on the Pension Board until full Council met in July 2018.

Steven Clunes stepped down from the Pension Board to be replaced by Liam Knox in September 2018.

Costs of Operation 2018/19

3.9 The costs and expenses of the Pension Board are met as part of the administration costs of the Fund. The costs are principally travel related expenses to attend meetings and training events. The Pension Board continues to carry out its role in a cost effective manner, mindful of delivering value for money.

3.10 The table below details costs of operation for 2018/19 (to date):

Travel Costs/Expenses*	£2,187.36
Catering	<u>£161.10</u>

Total **£2,348.46**

*including loss of earnings

Training Attendance 2018/19

3.11 It is a statutory requirement under Schedule 4 of the PSPA 2013 that members of local pension boards have 'knowledge and understanding' of pensions law and are 'conversant' with Scheme regulations and Fund documents. The issue of training is approached carefully by both the administering authority and individual Board members.

3.12 The Board meets annually in June to review their annual report and agree a training plan for the forthcoming year. This provides an opportunity for any issues around attendance to be addressed or gaps in training knowledge to be discussed.

3.13 During 2018/19 Pension Board members have continued to demonstrate a commitment to developing their 'knowledge and understanding' by attending training events. Training events on offer during the year cover a range of key areas, with particular focus on investment strategy and Scheme governance.

3.14 Fund officers maintain a training register to allow attendance to be monitored on an ongoing basis.

3.15 The table below details training attendance for 2018/19 to date:

Name	10/09/2018	14/09/2018	23/10/2018	10/01/2019	Total
Cllr McKelvie		✓	✓		2
Cllr Cowe		✓	✓		2
Cllr Allan		✓			1
Morag Lawrence		✓	✓	✓	3
Alan Walker	✓	✓	✓	✓	4
Kevin Masson	✓				1
Ian Black		✓	✓		2
Steven Clunes		✓			
Liam Knox				✓	1

3.16 Under current arrangements Board members are expected to carry out an annual personal assessment of their knowledge and understanding.

3.2 COMPLIANCE REVIEW

3.2.1 A compliance review is carried out by the Fund on a six monthly basis, with annual reporting to the Pensions Committee.

Summary of the main findings:

3.2.2 Again the review found that the key internal controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively, with the latest compliance review taking place in December 2018. A review using the tPR Scheme Assessment Tool confirms there are no areas for concern.

3.2.3 Work continues to take place within the Fund to ensure it meets legislative and tPR requirements.

Data Protection Review

3.2.4 The new General Data Protection Regulation and Data Protection Act 2018 were implemented in early 2018. A project team was put together to review existing policies and practices. This resulted in the following improvements during the year:

- Creation of a new Data Protection Policy
- Creation of a new Systems Access Policy
- Creation of a new internal procedure for staff covering personal data breaches
- Changes to Member Self Service including a consent box and increased functionality in terms of document publishing
- Amendments to member forms and internal practices e.g. secure email
- Update to the Website Privacy Notice

Compliance with the key principles of the GDPR and individual rights will form part of our ongoing compliance review process.

Scheme Data/Member Tracing

- 3.2.5 Record keeping is a vital part of running the Fund and failure to maintain complete and accurate records places it at risk of failing to meet legal obligations. As such, Fund officers are committed to continuing to maintain, and improve upon, the high-quality member data we hold. A Data Improvement Plan will be finalised and taken to Committee in March 2019 to ensure we are able to continue to adhere to legislative and tPR record keeping requirements.

Elected Member and Board Knowledge and Understanding

- 3.2.6 In the summer of 2018 Hymans Robertson conducted the first ever LGPS Confidence Assessment. The results affirmed that committee and local pension board members do feel largely confident in their knowledge and understanding on all topics assessed. However, one clear take away from the survey was that respondents were noticeably more confident on topics which have traditionally been given more time on committee agendas e.g. investments. Although not surprising, members should be aiming for the same level of confidence on all areas under their responsibility.
- 3.2.7 At present Elected and Board members are expected to undertake an annual self-assessment of their knowledge and skills. In addition, the Scheme encourages completion of the Pensions Regulators Toolkit as part of the training package on offer.
- 3.2.8 Fund Officers have identified this as an area for potential improvement. As part of the annual Training Policy review, we intend to conduct a review of current knowledge and skill levels, which will allow us to address any training deficits going forward and ensure we continue to evidence sufficient knowledge and skills in line with the CIPFA framework.
- 3.2.9 In addition, the Training Policy sets out an expectation that Committee and Board members commit to at least 2 days training per year. We currently record, monitor and report attendance at meetings and training events, but the Policy will be revised to allow the Fund to address poor attendance levels in a consistent and fair manner. We propose to take a revised Training Policy to the Committee in June 2019 for approval.
- 3.2.10 Lastly the procurement and development of a new NESPF website with vastly improved functionality over the existing site, will give Fund Officers the opportunity to seek improvements to the online training materials and tools on offer to Committee and Board members.

GOING FORWARD

Scheme structure review outcome

3.2.11 With the outcome of the SAB LGPS structure review currently unknown following the end of the consultation period in December 2018, there is a potential for significant changes to Scheme governance going forward, especially if the Scottish Government decide to opt for one of the more radical options i.e. pooling or merging the Funds.

3.2.12 Elected Members remain committed to delivering a well run and well governed Scheme. The Pension Board will continue to assist and constructively challenge Officers to deliver effective management and administration within their existing remit.

4. FINANCIAL IMPLICATIONS

4.1 Good governance is a crucial element of effective public services. It leads to good management, good performance and good stewardship of public money.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications arising from the recommendation 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.

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.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Training Policy (for Committee & Board)
Terms of Reference – Pensions Committee (revised March 2018)
Terms of Reference – Pension Board

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland **PENSION FUND**

The logo for North East Scotland Pension Fund features the text "North East Scotland" in a blue sans-serif font 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 then downwards.

Training Policy

April 2018

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Document	Training Policy
Draft/Review Date	28/02/2018
Approval Date	22/06/2018
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**:

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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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PENSIONS COMMITTEE – TERMS OF REFERENCE

PURPOSE OF COMMITTEE

To discharge all the functions and responsibilities relating the Council's role as administering authority for the North East Scotland Pension Fund (NESPF) including:-

1. overseeing the administration of the Local Government Pension Scheme (LGPS) in accordance with the LGPS (Scotland) Regulations 2014 and other relevant regulations,
2. managing the investment of the NESPF in accordance with the LGPS (Management and Investment of Funds)(Scotland) Regulations 2010 (as amended);
3. receiving regular training to enable the Committee members to make effective decisions under the LGPS Regulations, other relevant legislation and to make decisions in compliance with the Pensions Regulator Code of Practice; and
4. working alongside the Fund's Local Pension Board, considering any pension compliance matters raised.

Where reference is made to 'the Fund', this refers to the Main Fund (the North East Scotland Pension Fund) and the Transport Fund (the Aberdeen City Council Transport Fund).

POWERS OF COMMITTEE

1. Risk Management

The Committee will:

- 1.1 ensure effective risk management of the Fund;
- 1.2 set the investment objective and strategy in light of the Funds liabilities and appoint or remove Fund Managers or new vehicles in furtherance of the strategy; and
- 1.3 ensure that an effective system of internal financial control is maintained.

2. Internal and External Audit

The Committee will:

- 2.1 approve the annual audit plans; and
- 2.2 consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.

3. Annual Report and Accounts

The Committee will:

- 3.1 review and approve the annual report and accounting statement.

4. Legal Obligations

The Committee will ensure:

- 4.1 compliance with the Local Government Pension Scheme (Scotland) Regulations as amended and with all other legislation governing the administration of the Fund; and
- 4.2 adherence to the principles set out in the Pension Regulator's Code of Practice.

5. Scrutiny

The Committee will:

- 5.1 monitor the performance of Fund Managers; and
- 5.2 determine applications for Admitted Body status.

JOINT WORKING WITH OTHER COUNCIL COMMITTEES:

The Committee, through its lead officers, will regularly consider key issues arising through other committees, in particular the Resources Management and Staff Governance Committees.

JOINT WORKING WITH NON COUNCIL BODIES:

The Committee, through its lead officers, will work jointly with the Fund's Investment Consultant and Actuary in the management of the Fund and with external contacts such as the provider of the pensions IT programme.

Executive Lead: Director of Resources

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

5.3 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.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	15 MARCH 2019
REPORT TITLE	GUARANTEED MINIMUM PENSION RECONCILIATION UPDATE
REPORT NUMBER	PC/MAR19/GMP
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	GARY GRAY
TERMS OF REFERENCE	1.1 AND 4.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to update the Committee on the reconciliation of Guaranteed Minimum Pension (GMP) values held by NESPF and HM Revenues and Customs (HMRC).

2. RECOMMENDATION

- 2.1 That the Committee note the outcome of the GMP reconciliation project and the decision of the Fund to not recover any overpayments of pension.

3. BACKGROUND

- 3.1 Between the periods of 6 April 1978 to 5 April 1997 the minimum level of benefit an occupational pension scheme had to provide was known as a Guaranteed Minimum Pension (GMP). When contracting-out ended on 5 April 2016 as a result of the introduction of a single tier State Pension scheme HMRC no longer tracked contracted-out rights or issued data to pension schemes. The comparison of data between HMRC and pension schemes is known as the GMP Reconciliation.

Reconciliation

- 3.2 NESPF commenced GMP reconciliation in August 2015 and has received 4 data files from HMRC which resulted in the Fund raising 3,852 queries prior to 31 October 2018 deadline. HMRC are scheduled to provide a final data file to all schemes on 31 March 2019 and have committed to answering all queries by this date.
- 3.3 Currently 35,347 actives, deferred and pension members GMP values held on Altair, the pension administration system, have been reconciled with HMRC in

accordance with guidance issued by HM Treasury. Completion of this exercise ensures that existing pensions paid by NESPF are correct and future pension benefits will be calculated using a reconciled amount.

Rectification

- 3.4 Where a pension scheme does not hold details of a member's GMP or holds an incorrect amount then there will be an error on the annual indexation applied in the first year the GMP is applied which will then be compounded every year thereafter. The final stage of the reconciliation, known as the GMP rectification, is to resolve any under/overpayments that have been identified during the exercise.
- 3.5 Scottish Ministers have decided that where an incorrect GMP value has led to an underpayment of pension this will be corrected going forward with any arrears being paid to the pensioner. The total value of underpayments identified during the current exercise amounts to £24,800.
- 3.6 A previous GMP reconciliation was undertaken in 2008/09 and for overpayments of pension the Scottish Ministers chose to allow the pension in payment to remain unadjusted going forward for affected pensioners. This was achieved by legislation that provided for a new Scheme award known as an Increased Pension Entitlement (IPE) which reflected the GMP related overpayment.
- 3.7 Scottish Ministers have decided that a similar approach should be taken for overpayments that arise from the current reconciliation exercise and previous legislation has been amended in draft, The Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2018. These regulations were due to be laid in February 2019 however the Scottish Public Pensions Agency (SPPA) have advised that pressures on the legislative system, caused by work due to BREXIT, have resulted in them being 'put on hold'. They are expected to come into force later in 2019.

Overpayments

- 3.8 The total value of overpayments identified during the current exercise amounts to £61,842.
- 3.9 The previous GMP reconciliation (in 2008/09) identified 252 overpayments and at that time it was agreed that overpayments accrued up to the point of identification should be written off across all public service schemes.
- 3.10 For the current GMP reconciliation SPPA have advised that the decision to recover overpayments rests with the scheme and NESPF have adopted the same approach as other Scottish Funds not to recover any overpayments identified.
- 3.11 All members with a GMP overpayment will receive a letter advising them of their Increased Pension Entitlement award and that the overpayment identified will not be recovered.

4. FINANCIAL IMPLICATIONS

4.1 The amounts calculated to date in respect of under and overpayments are set out above in 3.5 and 3.8. However further reconciliation is still due to take place which will increase final non-recovered amounts, further updates on this will be provided to Committee.

5. LEGAL IMPLICATIONS

5.1 There are no direct legal implications 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.

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.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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

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