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

Pension Board:- 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, 21 November 2018

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 30 NOVEMBER 2018 at 10.30 am**.

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

DETERMINATION OF URGENT BUSINESS

1 There are no items of urgent business at this time

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST

3 Members are requested to intimate any declarations of interest (Pages 3 - 4)

MINUTES OF PREVIOUS MEETINGS

4 Minute of Previous Meeting of 14 September 2018 (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

5 Committee Business Planner (Pages 11 - 12)

FINANCE, PERFORMANCE, RISK AND SERVICE WIDE ISSUES

6 Budget Forecast and Annual Spend (Pages 13 - 20)

7 Update on Annual Benefit Statements (Pages 21 - 24)

GENERAL BUSINESS

8 Local Government in Scotland: Financial Overview 2017/18 - Verbal update by Rachel Browne, External Audit

9 Strategy (Pages 25 - 106)

EXEMPT BUSINESS - NOT FOR PUBLICATION

10 Procurement of New NESPF Website (Pages 107 - 112)

11 Asset and Investment Manager Performance Report - to follow

12 Investment Strategy Update - to follow

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

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

I declare an interest in item (x) for the following reasons ……………
For example, I know the applicant / I am a member of the Board of X / I am employed by…
and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

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

OR

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

(a) a devolved public body as defined in Schedule 3 to the Act;

(b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;

(c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or

(d) a body being a company:-
i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

OR

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

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 14 September 2018. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Alan Donnelly, the Depute Provost; and Councillors Bell, Cooke, Delaney and MacGregor (Pensions Committee); and Councillor Alistair McKelvie, Chairperson; Ms M Lawrence, Vice Chairperson; Councillors Allan and Cowe; and Mr I Black, 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 Gillian Woolman, Assistant Director, 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.

WELCOME

1. The Convener welcomed Mr Liam Knox, the new UCATT member on the Pension Board and Mr Jonathan Belford, who had recently taken up post as the new Chief Officer – Finance.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following items of business, which contained exempt informatiuon as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – item 10 (Asset and Investment Manager Performance Report).

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 item 10, so as to avoid disclosure of exempt information of the class described in paragraph 6.

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

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING

4. The Committee had before it the minute of its previous meeting of 22 June 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:-
(i) to note that there would be an additional report on the November agenda in respect of the Procurement of a new NESPF website; and
(ii) to otherwise note the planner.

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

EXTERNAL AUDIT ANNUAL AUDIT REPORT 2017/2018 - REPORT BY EXTERNAL AUDIT

6. The Committee had before it a report by the External Auditor on the 2017/18 Annual Audit of the North East Scotland Pension Fund. The report noted that auditors were required to report on specific matters arising from the audit of the financial statements to those charged with governance of a body, prior to the financial statements being approved and certified. The report presented the draft annual report on the 2017/18 audit.

The key messages from the audit were that in the opinion of External Audit, the North East Scotland Pension Fund's financial statements gave a true and fair view and were properly prepared. The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and had been properly prepared. The Fund had effective arrangements in place for financial management, including the comprehensive reporting of investment performance. The report advised that the fund's investment return performance in comparison to other Scottish Local Government Pension Scheme funds had improved in 2017/18 compared to the previous year, with a move from second lowest to second highest performer.

The 2017 triennial funding valuation had assessed the Main Fund as 107% funded, which was an increase of 13% from the 2014 valuation. Council employer contribution rates were maintained for 2018-2021 at 2017/18 levels. Other employer contributions rates ranged from 11% to 33.8%.

The 2017 triennial funding valuation assessed the Transport Fund as 94% funded, an increase of 1% from the 2014 valuation. Employer contributions were to remain at the current level for 2018-2021, but with an additional £1.5 million payment per annum to reduce the deficit. Pension contributions for the Main Fund continued to exceed benefits payable, however the report noted that this was likely to change in the coming years.

The audit had found that effective governance arrangements were in place to support scrutiny of decisions made by the Pensions Committee and decisions were transparent, with committee papers and detailed minutes available on the Aberdeen City Council website. The performance of the Fund was subject to regular review and scrutiny by the Committee.

The Fund did not have any recommendations for improvement.

The Committee heard in detail from Ms Woolman in respect of the report following which Members asked a number of questions. In respect of a query relating to the figures for investment performance and the potential difference with the figure in a later report, it was clarified that the five year figure was an annualised figure, and officers advised that they could make this clearer in future reports.

The Committee resolved:-
(i) to thank Ms Woolman and her team for the clear and informative presentation and report; and
(ii) to note the audit report.

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

CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS - PC/SEPT18/ACC

7. With reference to article 7 of the minute of its previous meeting, the Committee had before it the Audited Annual Report and Accounts for the North East Scotland

Pension Fund and the Aberdeen City Council Transport Fund for consideration and signing.

The report recommended:-
that Committee –
(a) consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
(b) instruct the Chief Officer – Finance as the Local Government (Scotland) Act 1973 Section 95 Officer to sign the accounts on behalf of the Funds.

The Committee resolved:-
to approve the recommendations.

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

BUDGET FORECAST AND ANNUAL SPEND - PC/SEPT18/BUD

8. With reference to article 8 of the minute of its meeting of 16 March 2018, the Committee had before it a report by the Director of Resources which provided details of the Management Expenses Budget / Forecast and Projected Spend 2018/19 for the North East Scotland Pension Fund (NESPF).

The report recommended:-
that Committee approve the NESPF Management Expenses Budget / Forecast 2018/19, as set out in Appendix 1 to the report.

The Committee resolved:-
to approve the recommendation.

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

STRATEGY - PC/SEPT18/STRAT

9. With reference to article 8 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report contained information in respect of an update to the Local Government Pension Scheme Regulations; the issuing of the annual benefit statements; an update on the Pension Fund staffing situation; information on the annual administration forum event held on 4 July 2018; and the year end/valuation process update.

The report also provided detail on the consultation in respect of the Scottish Local Government Pension Scheme structure review; set out the four possible options that had been included in the consultation; and sought agreement from the Committee on a response to be submitted in respect of the consultation.

Members heard from Ms Colliss who talked through the various consultation options and spoke of the merits or otherwise of the options. She explained that at a meeting earlier that week with the other Local Authority Pension Funds in Scotland, 10 of the Funds had been agreement that the preference was to remain as 11 separate Funds, noting that collaboration between the Funds would still be undertaken wherever possible. It was noted that the pooling in England and Wales had incurred higher costs and the process was also taking longer than anticipated. Ms Colliss advised that the Pensions Team would prepare a draft response to the consultation based on the feedback from Members and this would be presented to the Committee and Board in November, prior to being submitted.

The report recommended:-
that Committee note the four proposed options in respect of the Scottish Local Government Pension Scheme Structure Review and agree a response to be submitted by the Chief Officer – Finance on behalf of the Fund and stakeholders (item 3.9.7 in the report refers).

The Committee resolved:-
to instruct officers to prepare a draft response to the consultation in respect of the Scottish Local Government Pension Scheme Structure Review which set out the preference for keeping the status quo (11 separate Funds).

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

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/SEPT18/AIMPR

10. With reference to article 11 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 the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 June 2018.

Further to the discussion at previous meetings in respect of environmental, social and governance (ESG) matters and responsible investment, the report contained information on both the Local Authority Pension Fund Forum and ESG. Members heard from Mr Buntain in respect of the report.

The report recommended that the Committee note the report.

The Committee resolved:-
to note the report.

The Board resolved:-
to note the decision of the Committee.
- **COUNCILLOR M. TAUQEER MALIK, Convener**

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.

	A	B	C	D	E	F	G	H	I
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			**30 November 2018**						
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	1.2		
5	Scottish Local Government Pension Scheme Structure Review	Pensions Cttee 140918 - to instruct officers to prepare a draft response to the consultation in respect of the Scottish Local Government Pension Scheme Structure Review which set out the preference for keeping the status quo.	Included in Strategy report	Laura Colliss	Finance	Resources	1.2		
6	Procurement of a new NESPF Website	To agree funding for the provision of a new NESPF website		Gary Gray	Finance	Resources	1.2		
7	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		
8	Investment Strategy Update	To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF		Graham Buntain	Finance	Resources	1.2		
9	Update on Annual Benefit Statements	To present the final outcome in respect of the provision of the annual benefit statements to the Fund's active and deferred members		Mairi Suttie	Finance	Resources	Purpose 1		
10	Local Government in Scotland: Financial Overview 2017/18 - LG Pension Funds Supplement	To present the LG Pension Funds Supplement	Verbal update to be provided at meeting	Rachel Browne	External Audit	External Audit	2.2		
11	Budget Forecast & Annual Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
12			**15 March 2019**						
13	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		
14	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
15	Investment Strategy Update	To provide an update on the Fund's investment strategy and set out any recommendations in respect of the NESPF		Graham Buntain	Finance	Resources	1.2		

	A	B	C	D	E	F	G	H	I
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**
16	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
17	Governance Arrangements (Internal Audit)	To present the outcome of the audit to Committee		David Hughes	Governance	Governance	2.2		
18	Corporate Governance	To provide an update on the Corporate Governance activities (including LAPFF) of the Pension Fund		Graham Buntain	Finance	Resources	4.1		
19	Internal Audit Plan 2019/20	To present the internal audit plan 2019/20		David Hughes	Governance	Governance	2.1		
20	External Audit Annual Audit Plan 2018/19	To present the external audit plan 2018/19		Rachel Browne	External Audit	External Audit	2.1		
21	Governance Review	To provide an annual review of governance arrangements		Mairi Suttie	Finance	Resources	4.1 and 4.2		
22	Statement of Accounts	To provide high level information and key dates in relation to the 2018/19 Statement of Accounts		Laura Colliss	Finance	Resources	1.3		
23			**April 2019 Onwards**						
24	Internal Audit Annual Report	To present the annual report to Committee	Apr-19	David Hughes	Governance	Governance	2.1		
25	Annual Committee Effectiveness Report	To present the annual effectiveness report for the Committee.	Jun-19	Steph Dunsmuir	Governance	Governance	GD 7.4		
26	External Audit Annual Audit Report 2018/19	To present the external audit annual audit report	Sep-19	Rachel Browne	External Audit	External Audit	2.1		
27		**AD HOC REPORTS (CYCLE DEPENDENT ON REQUIREMENT TO REPORT)**							
28	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		

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	30 NOVEMBER 2018
REPORT TITLE	BUDGET/FORECAST & PROJECTED SPEND 2018/19
REPORT NUMBER	PC/NOV18/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 ongoing work with the NESPF Accounting team and the Global Custodian and its impact upon the reporting of Investment Management Expenses.

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.

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 is working 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. As a result, only a limited amount of data to date has been captured by the Council's financial ledger system. For the purposes of this report, this adds to the difficulty of forecasting with any degree of accuracy. However, steady progress is being made with the above approach and the Pension Fund believes that this will be advantageous 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
Privacy 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

Michael Scroggie
Accounting Manager
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01224 264178

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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	Budget to 30/09/18	Actual Spend to 30/09/18	Accrual to 30/09/18	Amended Spend to 30/09/18	Over or (Under) to 30/09/18	Proj Annual Spend 2018/19	Proj Over or (Under) Spend 2018/19
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Administrative Staff Costs	1	1,281	641	252	248	500	(141)	1,012	(269)
Support Services Inc IT		659	329	385	79	464	135	652	(7)
Printing & Publications		23	12	15	2	17	5	22	(1)
Administration Expenses Total		**1,963**	**982**	**652**	**329**	**981**	**(1)**	**1,686**	**(277)**

Note (Spend Variance ± 5%):

1. Under spend – New posts yet to be filled.

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	Budget to 30/09/18	Actual Spend to 30/09/18	Accrual to 30/09/18	Amended Spend to 30/09/18	Over or (Under) to 30/09/18	Proj Annual Spend 2018/19	Proj Over or (Under) Spend 2018/19
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Staff Costs	1	189	95	37	34	71	(24)	148	(41)
Pension Fund Committee	2	11	5	2	5	7	2	15	4
Pension Board	3	4	2	0	0	0	(2)	5	1
External Audit Fee		40	20	0	20	20	0	40	0
Internal Audit Fee		10	5	0	5	5	0	10	0
Actuarial Fees		112	56	46	13	59	3	114	2
General Expenses	4	106	53	75	34	109	56	143	37
Oversight & Governance Expenses Total		**472**	**236**	**160**	**111**	**271**	**35**	**475**	**3**

Note (Spend Variance ± 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.

3. Over spend – see Note 2.

4. 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 30/09/18	Actual Spend to 30/09/18	Accrual to 30/09/18	Amended Spend to 30/09/18	Over or (Under) to 30/09/18	Proj Annual Spend 2018/19	Proj Over or (Under) Spend 2018/19
		£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Investment Management		12,097	6,049	(1,036)	7,084	6,048	(1)	12,096	(1)
Performance Fees		5.536	2,768	(4,892)	7,660	2,768	0	5,536	0
Direct Property Expenses	1	250	125	68	28	96	(29)	192	(58)
Transaction Costs	2	2,000	1,000	204	800	1,004	4	2,004	4
Custody Fees		145	72	0	84	84	12	146	1
Investment Management Expenses Total		**20,028**	**10,014**	**(5,656)**	**15,656**	**10,000**	**(14)**	**19,974**	**(54)**

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.

Apart from the above, a largely neutral position has been projected for the Investment Management Expenses. However, this is mainly due to insufficient data being available at the time of the production of this report to project with any degree of accuracy.

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

Analysis of Transaction Costs for the period 1 April 2018 to 30 June 2018:

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	67,371.60	685.61	208,138.79	276,196.00
Grand Total (£)	**67,371.60**	**685.61**	**208,138.79**	**276,196.00**

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	30 NOVEMBER 2018
REPORT TITLE	UPDATE ON ANNUAL BENEFIT STATEMENTS
REPORT NUMBER	PC/NOV18/ABS
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE 4.1 & 4.2

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

2.1 That the Committee note the contents of the report.

3. BACKGROUND

3.1 Under regulation 84 of the Local Government Pension Scheme (Scotland) Regulations 2018, the Fund must produce Annual Benefit Statements (ABSs) within five months following each Scheme Year End (31 August) and in accordance with section 14 of the Public Service Pensions Act 2013. This statutory deadline was imposed for the first time in 2014/15.

3.2 Any failure to comply with the statutory deadline to issue ABSs in accordance with the requirements of the PSPA 2013 must be evaluated as to whether it constitutes a breach of material significance that must be reported to the Pensions Regulator.

3.3 To comply with this, the NESPF has its own Breaches of Law Policy Statement and accompanying Breaches Register. Those with a duty to report can refer to both the Policy and Register for support when evaluating whether to report or not.

Deferred Statements

3.4 Deferred ABSs moved online for the first time in 2017/18 as part of the Fund's move away from traditional paper communication to a more digital approach. In preparation for this move and to comply with Disclosure Requirements, two separate letters were issued to members; those not already registered for the online 'My Pension' service received a letter containing an 'activation code' to allow them to sign up, and those already registered received a letter advising them their statements were ready to be viewed online. A notification was also placed on the NESPF website. Online statements were generated against all 17,115 deferred records on the administration system.

3.5 Deferred members retain the ability to 'opt in' to continue to receive paper statements should they wish to do so.

3.6 Following the ABS process in 2016/17, Officers undertook a tracing exercise to obtain current addresses for 1,317 deferred members who had been marked as 'gone away' on *Altair* (benefit administration system). Officers worked through the results of the tracing exercise during the year in preparation for ABS 17/18 and going forward regular tracing exercises will be carried out for deferred members, as part of the wider Data Improvement Plan, to further reduce 'gone away's' and ensure the Fund can continue to meet statutory duties.

Active Statements

3.7 As at 31 August 2018 24,521 paper benefit statements had been issued to active members.

3.8 In terms of active statements 99.81% (99.76% 2016/17) compliance has been achieved for 2017/18 which is just shy of the 100% target. We have identified issues in the outstanding member records (79 in total) which prevented a benefit statement being generated by the *Altair* system. These issues will be addressed by officers in preparation for the 2018/19 year with the aim of improving overall performance.

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

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

3.11 Following the successful roll out of electronic ABSs to deferred members, a communication was included in this year's active member ABSs to advise that their statements will also move online from 2018/19.

4. FINANCIAL IMPLICATIONS

4.1 The failure to issue each active and deferred member with an ABS by the statutory deadline opens the Fund up to financial penalties by the Pensions Regulator. However there are no costs to report in this case.

5. LEGAL IMPLICATIONS

5.1 Under regulation 84 of the LGPS (Scotland) Regulations 2018, the Fund is under a statutory obligation to issue each active and deferred scheme member with a Benefit Statement by 31 August each year.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the ‘governance’ design principle 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
Privacy 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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Agenda Item 9

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	30 NOVEMBER 2018
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/NOV18/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 submission of the response to the Scheme Advisory Board formal consultation on the LGPS (Scotland) Structure Review, as set out in Appendix II (item 3.9.2);

2.2 approve the travel for one appointed Advisory Committee Officer to attend the following:-
- Partners Group, Singapore, March 2019
- RCP, Chicago, June 2019
- Harbourvest, Boston, December 2019

(item 3.9.4); and

2.3 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 Pension Scheme (Scotland) Regulations 2018 (item 3.10).

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*
Investment Strategy Update Report

Separate Report, provided

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

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

3.6 **ACCOUNTING**

3.6.1 Budget/Forecast 2018/19 Report

Separate Report, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Annual Benefit Statements**

Separate report, provided

3.8 TECHNICAL

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.8.2 **NESPF Website Proposal**

Separate Report, provided

3.9 GOVERNANCE

3.9.1 **Scheme Advisory Board**

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

3.9.2 **Scheme Structure Review Update**

Following September's Pensions Committee, a formal response to the SAB consultation has been drafted by Officers as instructed which sets out preference to retain the status quo, along with greater co-operation and collaboration.

Appendix II, Draft Consultation Response

3.9.3 **Pension Fund Staffing Update**

Following successful interviews, the positions of Senior Pensions Officer - Training & Development and Pensions Officer - Employer Relationship have now been filled. Both candidates were internal appointments which demonstrates that the current staff design is delivering in terms of succession planning but now means that their previous positions will need to be backfilled. Interviews are also scheduled to take place shortly to recruit two Assistant Pensions Officer and a Trainee Pensions Officer-Benefit Administration.

3.9.4 **Overseas Travel**

3.9.4.1 With the Pension Fund's increasing allocation to alternatives which usually come in the form of Funds/Fund of Funds there is a requirement for greater due diligence and scrutiny given the nature of these investments being privately owned. Following the Funds continued commitment to the likes of Harbourvest and RCP, overseas travel has been previously authorised and will be required going forward as these companies continue to be global investors, globally headquartered and have global clients.

3.9.4.2 The vast majority of private investment funds have limited partner advisory committees, these committees are composed of representatives of the limited partners, usually significant institutional limited partners/clients, dealing with a number of issues regarding conflicts, investment restrictions, general oversight and using the committee as a sounding board for other matters.

3.9.4.3 As stated due to the increased allocation from the Pension Fund to alternatives, depending on the level of commitment the Fund will request or be invited to accept a position on the Advisory Committees, the Fund also has positions on the SL Capital, Capital Dynamics, and the Scottish Loan Fund/Maven Advisory Committees.

3.9.4.4 Advisory Committees are Officer led and by invitation/request only, managers seek to appoint Officers from their clients that have significant experience within the industry to ensure meaningful scrutiny and challenge.

3.9.4.5 Officers and elected members have clear statutory responsibilities for the management and investment of the Pension Fund, part of those responsibilities is to monitor and review external manager's performance. This is usually achieved by means of regular reporting, presentations to Officers/Members and attending client conferences.

3.9.4.6 The Advisory Committee is additional to the above and provides the Pension Fund with greater access to the Manger and the management of those investments and access to the General Partners (underlying assets). Given the increased value of commitments within this asset class this type of forum strengthens the governance arrangements for the Fund together with the fund manager.

3.9.4.7 Officers recommend the approval for overseas travel to the following Advisory Committees:

1. **Partners Group, Singapore, March 2019**
2. **RCP, Chicago, June 2019**
3. **Harbourvest, Boston, December 2019**

3.9.4.8 Approval is requested for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer Substitute) to attend.

3.9.4.9 Most travel costs are covered by the individual fund managers, these Committees are perceived to be of great value by the fund managers providing additional governance and transparency, some are also rotated to the UK to deliver a balance to all global clients.

3.9.5 **Document Updates**

The following new draft document has been created and is available to view in the secure members area of the website at http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx

- Business Continuity Plan

3.10 **<u>EMPLOYER RELATIONSHIP</u>**

3.10.1 **Funding Strategy Statement Update**

3.10.2 The Local Government Pension Scheme (Scotland) Regulations effective from 1 June 2018 allow for payment of a calculated surplus to employers exiting the Fund upon a termination event.

3.10.3 This change addresses an imbalance which existed in previous regulations, whereby employers exiting the Fund were required to meet any deficit requirements but no allowance was given to refunding surplus.

3.10.4 The Fund has a robust Termination Policy imbedded within the Funding Strategy Statement which determines how liabilities are calculated for exiting employers. Following the regulation changes, the Fund now needs to specify how it treats a surplus situation, in particular where a Scheme employer has agreed to act as guarantor for an admission body. The FSS 2018 has been drafted in conjunction with the Scheme actuary.

3.10.5 In accordance with the Scheme regulations a full consultation with all participating employers was carried out from 28 September to 19 October 2018 to invite comments on the new FSS 2018. Only four participating employers requested further clarification or provided feedback during the consultation process. No changes have been recommended following the consultation.

Appendix III, Draft Funding Strategy Statement

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 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.

Appendix IV, Copy of Risk Register (November 2018)

7. OUTCOMES

Design Principles of Target Operating Model	
	Impact of Report
Governance	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 3 Report 2018/19
Appendix II, Draft Consultation Response
Appendix III, Draft Funding Strategy Statement
Appendix IV, Copy of Risk Register (November 2018)

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland
PENSION FUND

Pension Administration Strategy

Quarterly Reporting |September 2018

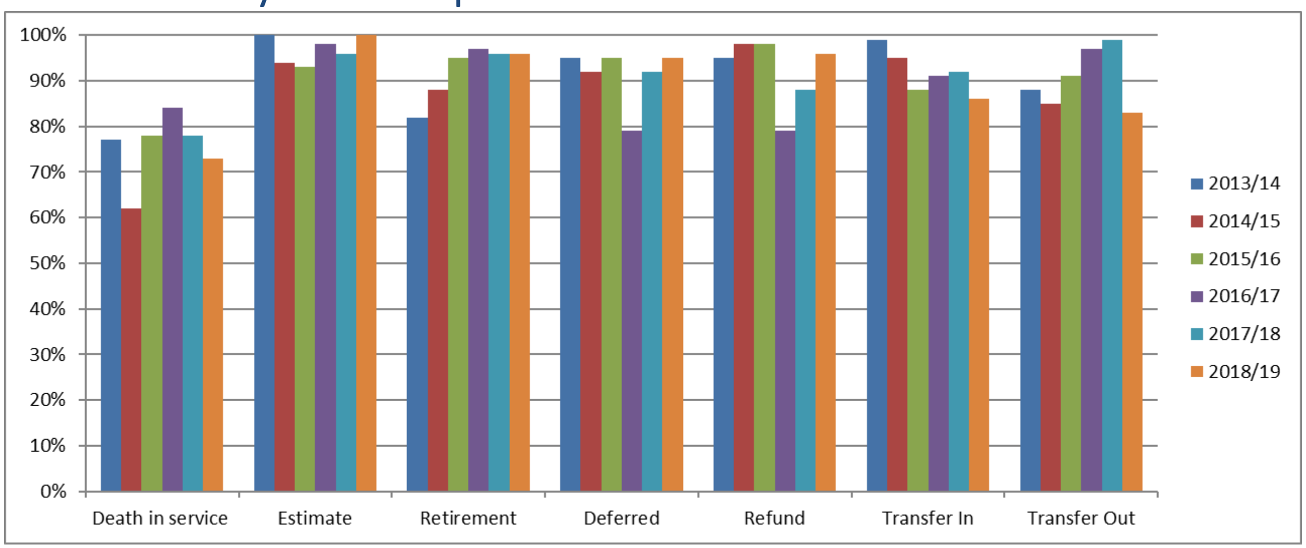
1. NESPF performance to 30 September

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	6	4	78%
Notification of retirement estimate	10 days	248	248	100%
Notification of retirement benefits	10 days	479	469	96%
Notification of deferred benefits	10 days	348	336	97%
Notification of refund	10 days	440	430	98%
Notification of transfer in value	10 days	33	30	91%
Notification of transfer out value	10 days	117	90	80%

1.2 Previous years comparison



2. Employer performance to 30 September

2.1 Policy on discretions received (85%)

Each Scheme emloyer 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 (477,406)

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)	2313
Amendments (address, personal details, hours and absence)	14828
Leavers (exit and opt out)	2116
Contributions (employee, employer and additional)	154389
Salary	152051
Cumulative CARE pay	148542
Works address	3167

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 September 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												
Aberdeen International Youth Festival	Online Return												
Archway	Online Return												
City Moves Dance Agency	Online Return												

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

Review of the Structure of the Scottish Local Government Pension Scheme

CONSULTATION RESPONSE FORM

Instructions
Responses in this form should be drafted in conjunction with the accompanying consultation report. To respond, please complete the **respondent details** and as many of the **consultation questions** your organisation wishes to complete and return the form via email to the Pensions Institute at consultation@pensions-intitute.org no later than **Friday, 7 December 2018**.

This consultation is being conducted in electronic form only, so **responses must be emailed**; hard copy posted or delivered responses cannot be received. Any queries about the consultation should be addressed to Matthew Roy, Fellow, Pensions Institute at matthew.roy@pensions-institute.org.

RESPONDENT DETAILS

Name of responding organisation(s) Please list the full name of each organisation participating in this response.	**Organisation type** Is your organisation an administering authority, employer, or employee group? Please record for each responding organisation.
Aberdeen City Council	**Administering Authority**

Authors Please list any people that wish to be recorded as authors of this response, including name, job title and organisation.	**Consent** Please confirm each author consents to their information being retained for analysing the consultation responses by writing 'confirm' by their name.
Laura Colliss, Pensions Manager, North East Scotland Pension Fund	**Confirm**
Jonathan Belford, Chief Officer-Finance, Aberdeen City Council	**Confirm**

Date
Please date the response.

30/11/2018

Covering information
If you wish to include covering information with your response, please include the text here. The text can wrap onto additional pages if needed.

The North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are administered on behalf of Aberdeen City Council. Scheme employers within the Main Fund are made up of the 3 Councils – Aberdeen City, Aberdeenshire and The Moray Council along with around 50 other admitted/scheduled bodies with links to Local Government.

As at 31 March 2018 the main fund was valued at £4.1 billion and the Transport Fund at £100m. The 2017 tri-ennial valuation assessed the Main Fund as being 107% funded and the Transport Fund as 94% funded, both increases from the 2014 valuation (13% and 1% respectively). The main employer group (Councils) pay a contribution rate of 19.3% (of pensionable payroll). This rate will remain stable until at least 2021.

The administering authority's long term goal is for the Fund to achieve a 100% solvency level over a reasonable period of time and then maintain sufficient assets in order to pay all benefits as they fall due. Following the outcome of the 2017 tri-ennial valuation, the Pensions Committee agreed a revised Investment Strategy to de-risk and lock in recent gains. Included within the revised strategy is a 10% allocation to infrastructure – a £100m investment was made in early 2018 and the Fund is currently seeking further infrastructure opportunities.

As a long term investor, NESPF takes its duty to engage on environmental, social and governance (ESG) issues very seriously, and works with others to effect change. In support of this the Fund is a member of the Local Authority Pension Fund Forum, with one of our Pensions Committee members sitting on the LAPFF Executive Committee. We are also signatories to the UN Principles of Responsible Investment and the Carbon Disclosure Project.

2015 saw the successful restructuring of the NESPF pensions section into 6 distinct teams: investment, accounting, governance, employer relationship, technical and benefit administration. This progressive change introduced 2 new teams; employer relationship and governance, to allow the Fund to address areas of increasing significance and allow it to continue to provide a high quality service to members and stakeholders, within the ever increasing complexity of the LGPS regulatory regime. One of the outstanding success stories, delivered by the new employer relationship team, has been the move to receipt of monthly employer data files. This has led to significant improvements across the Fund but can be seen in particular in our strong quarterly Pension Administration Strategy (PAS) performance figures.

NESPF has been nominated for multiple national awards, most recently winning ‘Public Sector Scheme of the Year’ at the Professional Pension Scheme Awards. The Fund was judged against several criteria including investment management, communication, governance, innovation and administration and the win recognises the achievements made in improving our service to members and employers.

The consultation questions follow.

CONSULTATION QUESTIONS

Question 1: Retain the current structure with 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *How well informed do you feel about the investment costs in your fund? What information do you rely on to specify and measure these?*
- *How well does the current system manage investment costs?*
- *How would you improve the measurement and management of investment costs in the current system?*

NESPF believes that our investments are well managed, we continue to review and negotiate fee savings as part of our ongoing investment strategy, with Asset and Investment Manager Performance reported to our Pensions Committee and Pension Board quarterly for scrutiny.

A continuing move towards greater transparency and consistency in investment fees e.g. through the adoption of the LGPS Transparency Code and between the LGPS Funds, could see significant improvement in the measurement and management of investment costs.

Governance:

- *How well informed do you feel about the governance of your fund? What information do you rely on to measure this?*

Governance information on the NESPF can be found on our website at http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx

The current governance structure complies with the requirements introduced in the Public Service Pensions Act 2013. The Pensions Committee and Board sit jointly on a quarterly basis which allows for greater scrutiny of decisions. Strong attendance at both meetings and training events, in addition to strong engagement demonstrates our commitment to good governance.

Committee report packs, detailed minutes as well as the Pension Board Annual Report are all published on our website to ensure full transparency around governance and scrutiny of decision taking.

- *How well is the current system governed?*

The SLGPS continues to be under intense scrutiny to ensure it remains sustainable in the long term, while at the same time ensuring it is efficiently run, cost effective and clearly accountable to its members and stakeholders.

In our opinion, the current system is working extremely well. However we acknowledge that the governance review carried out by KPMG (on behalf of the

Scottish Public Pensions Agency) identified small areas for potential further improvement to be addressed.

- *How would you improve governance of the current system?*

As above.

- *How important is it to maintain a local connection with respect to oversight and strategy?*

We believe it is vital to ensure a local connection with respect to oversight and strategy. This local accountability would be lost with centralisation to the significant detriment of both members and stakeholders.

How would you determine if the benefits of a local connection in governance outweigh the benefits of scale?

Benefit of scale can not be guaranteed/value unknown therefore can not outweigh the known benefits of a local connection.

c) Operating risks:

- *How well informed do feel about the operating risks of your fund? What information do you rely on to specify and measure these?*

NESPF operates a Risk Register – this is reviewed by the Pensions Committee on a quarterly basis. The Fund operates robust risk management controls, risk awareness is embedded into the investment management process and features in the training for those with responsibility for administering the Funds.

- *How well are operating risks managed in the current system?*

As above

- *How would you improve the measurement and management of operating risks in the current system?*

Continue to ensure those charged with governance of the Fund have sufficient knowledge to be able to effectively consider and challenge operating risks.

d) Infrastructure:

- *How well informed do you feel about your fund's investments in infrastructure? What information do you rely on?*

NESPF has, to date, invested £100m in global infrastructure and will continue to seek further opportunities. Details are published in the Committee papers on the Fund website http://www.nespf.org.uk/TheFund/Governance/Committee.aspx

- *How do you rate the current system's ability to invest in infrastructure?*

As above

- *How would you increase investment in infrastructure in the current system?*

Support structure needs to be put in place to facilitate greater infrastructure investment/opportunities. Danger of focusing on one particular investment type at cost of fiduciary duty of Funds.

e) Do you have any additional comments about this option?

Funding levels across the Scottish Fund's were all extremely positive as at the latest tri-ennial valuation (31 March 2017) with many of the Funds reporting funding levels very close to or indeed over 100%.

The Pension Funds across Scotland are frequent industry award winners, recognising their strength and commitment to successful delivery of the SLPGS.

Nevertheless, we acknowledge there is scope for improvement, with the main key areas being highlighted within the SAB consultation report e.g. duplication in external costs, requirement for greater transparency and reporting etc and these have the potential to result in quicker wins. Based on the information provided, there remains a strong and clear argument, which we will aim to set out, in favour of incremental rather than radical change to the SLPGS.

Question 2: Promote cooperation in investing and administration between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think promoting agreements between funds would have on investment costs?*

There would likely be some cost saving from joint arrangements.

- *What would be the positive impacts?*

As above, however we recognise it would be more beneficial/advantageous for the smaller Funds who could benefit from resources of the larger Funds.

- *What would be the negative impacts?*

No negatives

b) Governance:

- *What impact do you think promoting agreements between funds would have on governance?*

No significant impact

- *What would be the positive impacts?*

Reduction in governance, immediate cost savings from joint projects/procurement

- *What would be the negative impacts?*

No negatives

c) Operating risks:

- *What impact do you think promoting agreements between funds would have on operating risks?*

No significant impact

- What would be the positive impacts?

Benefits to risk management

- *What would be the negative impacts?*

No negatives

d) Infrastructure:

- *What impact do you think promoting agreements between funds would have on funds' ability to invest in infrastructure?*

Potential for cost reductions and could provide support for some of the smaller Funds to increase their infrastructure investment.

- *What would be the positive impacts?*

As above

- *What would be the negative impacts?*

No real negatives although may be challenges with governance

e) Do you have any additional comments about this option?

Further support should be provided to Funds to help increase/promote collaboration and improve efficiency.

NESPF are already taking part in joint procurement exercises through our administering authority (e.g. for external legal services) as well as using the national LGPS frameworks – collaborative procurement/frameworks should continue to be progressed as a proven means of ensuring cost efficiency savings.

The Lothian model and current collaborative projects between Scottish Funds demonstrate that increased collaboration can be achieved voluntarily and the real benefits that can be achieved under the current status quo structure.

NESPF have long been participating members of the CLASS (Computerised Local Authority Superannuation System) group which was formed to allow public sector pension schemes to work together with a single software provider to ensure LGPS requirements are delivered with development cost shared amongst the group. CLASS is a successful public/private partnership that benefits from regular collaboration amongst the 11 Scottish Funds. Along with Strathclyde Pension Fund, NESPF has assumed an active role on the Testing Working Party, one of several collaborative working parties within CLASS, which focuses on testing system development delivered in software releases. Officers remain committed to engaging and supporting further participation in these, and similar, beneficial CLASS activities.

In the last year NESPF have also welcomed a number of calls and visits from other LGPS Funds, the Civil Service and HSC BSO Northern Ireland, with whom we've willingly shared our knowledge and experience in respect of the Funds structure, how we work and what we've achieved over the last 5 years by working together with our employers.

Question 3: Pool investments between the 11 funds

The text can wrap onto additional pages.

a) Cost of investing:

- *What impact do you think pooling investments between funds would have on the cost of investing?*

NESPF have already benefitted from reduced investment management fee's (through economies of scale) as a direct result of the pooling across the English & Welsh LGPS Funds. It is unlikely in our opinion that any further significant cost savings could be achieved in the long term to justify the complexity and immediate costs of pooling the Scottish Funds.

In addition, there is no clear evidence of where the tipping point is to achieve economies of scale, therefore pooling does not guarantee any 'real' benefits.

- *What would be the positive impacts?*

As per the SAB report every 0.01% reduction in fees = c£3.5m, however as stated above we do not feel NESPF would benefit from any significant cost savings from pooling.

- *What would be the negative impacts?*

Timely, resource intensive and costly to set up, with no guarantee of cost savings.

- *If asset pooling were possible, under what circumstances should a fund consider joining an asset pool?*

Any pooling should be undertaken on a voluntary basis by Funds

- *Under which circumstances should the SLGPS consider directing funds to pool?*

As above

b) Governance:

- *What impact do you think pooling investments between funds would have on governance?*

Increased complexity and challenges

- *What would be the positive impacts?*

No positives

- *What would be the negative impacts?*

As above

c) Operating risks:

- *What impact do you think pooling investments between funds would have on operating risks?*

Significantly greater operating risks

- *What would be the positive impacts?*

No positives

- *What would be the negative impacts?*

Bespoke employer strategies would be far harder to deliver in a pooled environment.

Far greater risk associated with larger scale investments (types/locations) in pursuit of growth.

d) Infrastructure:

- *What impact do you think pooling investments between funds would have on funds' ability to invest in infrastructure?*

Potential for greater diversification opportunities through economy of scale.

- *What would be the positive impacts?*

As above

- *What would be the negative impacts?*

May prevent individual authorities from pursuing investment strategies most appropriate for them.

Do you have any additional comments about this option?

Long term sustainability of the SLPGS is not about investment costs alone. The SLGPS make up is somewhat different to the E&W LGPS. The SLPGS is made up of only 11 Funds with the largest Fund by far making up approx. 50% therefore following E&W down the pooling route is not necessarily the best option for Scottish Funds i.e. potential cost savings if any would not be to such a scale and therefore would not justify such a radical shift, when all evidence to date shows the current Scottish Model is working very successfully.

Cost savings could instead be made through development of internal resources leading to greater in-house investment management and reduction in external fund manager fees to support sustainability in the long term.

Question 4: Merge the funds into one or more new funds

The text can wrap onto additional pages.

Cost of investing:

- *What impact do you think mergers between funds would have on the cost of investing?*

See answer under pooling

- *What would be the positive impacts?*

As above – no clear wins for NESPF

- *What would be the negative impacts?*

Loss of local accountability – ability to determine asset allocation, investment strategy at a local level.

Higher salary costs in terms of recruiting and retaining more experienced individuals to manage larger scale investment funds.

Significant costs, time and resources of merging and sheer complexity of implementing.

- *If merging were possible, under what circumstances should a fund consider a merger?*

Mergers should only be considered on a voluntary basis.

- *Under what circumstances should the SLGPS consider directing funds to merge?*

As above – merging should not be prescriptive.

Governance:

- *What impact do you think mergers between funds would have on governance?*

Impact is difficult to anticipate given lack of clarity on what final model would look like.

- *What would be the positive impacts?*

Potential for streamlining of governance and reduction in duplication – however this would come at the cost of loss of local accountability.

- *What would be the negative impacts?*

Loss of local government accountability which would have a detrimental impact on members and stakeholders, as currently members of the Pensions Committee are locally elected Councillors.

Strong possibility that larger Funds would struggle administratively, thereby failing to meet statutory functions as well as suffer from lack of local knowledge should merged

Fund(s) be centralised. NESPF has invested considerable time and resources (by setting up a dedicated employer relationship team) developing relationships with our employers and the results of this hard work can be seen through the high quality data we receive monthly, strong administrative performance, an ongoing understanding of individual funding/covenant issues, training provision etc.

Difficulty in selecting host authority – associated costs/challenges and risks of redesigning scheme infrastructure to support.

Operating risks:

- *What impact do you think mergers between funds would have on operating risks?*

Economies of scale would mean greater risk, with much bigger investment decisions requiring increasingly complex governance and higher scrutiny levels.

- *What would be the positive impacts?*

Potentially stronger voice for stakeholders

Reduced key man risk in particular for smaller SLGPS Funds.

- *What would be the negative impacts?*

Complexity – time, resources and getting right expertise to see any benefit in the long term would be extremely challenging. Such a radical change in structure and way of operating poses an extremely high operating risk in the pursuit of unknown cost savings.

Infrastructure:

- *What impact do you think mergers between funds would have on funds' ability to invest in infrastructure?*

NESPF already has 10% allocation to infrastructure.

Possible economies of scale may open up further investment opportunities but conversely may also close down other smaller opportunities leading Funds to invest in more riskier/less familiar opportunities. Either way need to be 'good' investments for the Fund (fiduciary duty would be first consideration) and there would likely need to be a wider supporting strategy in place (like in the Australian model).

- What would be the positive impacts?

As above

- *What would be the negative impacts?*

Ultimately the long term objective of the Fund is to achieve a rate of return on investments to allow the Fund to meet the liabilities of members. An overriding focus on infrastructure is limiting, risky and could go against the Funds ultimate fiduciary duty to employers and members.

Do you have any additional comments about this option?

Ultimately dismantling a system that is working well as demonstrated by extremely positive funding levels at 2017 valuation.

Day to day administration is already extremely complex, with multiple sets of regulations to apply, and merging the Funds opens up likelihood of risk of errors/omissions e.g. incorrect payments and reputational risk. Although there is the likelihood of a more consistent administration service for members and employers, this does not ultimately mean they will receive a better service. There are far simpler ways to achieve this through collaboration and co-operation across the 11 Funds to develop a more consistent approach.

Potential redundancies for in-house pensions teams which may be significantly detrimental depending on age and service profiles of staff leaving.

Potential loss of local Pension Fund Offices would mean members would no longer have option to meet/discuss pensions issues in person – growth in digital communication means the importance of face to face communication can often be underestimated.

Large numbers of employers in the merged fund(s)– would lead to disconnect between employer and scheme.

Question 5: Preferred and additional options

The text can wrap onto additional pages.

a) Which option does your organisation prefer? Please explain your preference.

North East Scotland Pension Fund wishes to retain the status quo, but with greater collaboration and co-operation with other Funds. As such, we are happy to assume a lead role in any future projects to facilitate this.

b) What other options should be considered for the future structure of the LGPS?

Other solutions are available currently which would result in medium term cost savings. Further investigation should be given to Lothian Model – which would see greater in-house investment management and the reduction of external fund manager fees.

c) What would be the advantages and disadvantages of these other option for funds' investment costs, governance, operating risks and ability to invest in infrastructure?

As above

d) Are there any other comments you would like to make?

We feel that the story of the SLPGS is one of considerable success and we see no reason why long term sustainability, as the primary focus, can not be achieved by smaller incremental changes by greater collaboration and co-operation across the 11 Scottish Funds.

The consultation questions end.

FUNDING STRATEGY STATEMENT

NORTH EAST SCOTLAND PENSION FUND

NOVEMBER 2018

Aberdeen City Council

This Funding Strategy Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund (the "Fund"), in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the North East Scotland Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Aberdeen City Council). The Funding Strategy adopted by the North East Scotland Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the North East Scotland Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the North East Scotland Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve and maintain a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective is considered on an employer specific level also.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure its "solvency" and "long term cost efficiency" of the Local Government Pension Scheme (Scotland) (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 107% at the valuation date i.e. the assets of the Fund are greater than the liabilities, the surplus can potentially be used to reduce ongoing contribution requirements. However, the funding position at individual employer level will vary and for some employers a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund / surplus run off in respect of each employer will be expressed as a percentage of pensionable pay and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to pay above the minimum contribution certified if they wish. Employers may also elect to make prepayments of deficit contributions which could result in a cash saving over the valuation certificate period. For employers in surplus this will be removed at a rate which depends on the circumstances of each employer. This will depend on the financial covenant and if the employer may potentially exit the Fund in the near future. In some cases this may mean the employer pays the primary contribution rate unadjusted.

The objective is to achieve 100% solvency over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the total contributions at a similar level from the preceding valuation. Full details are set out in this FSS.

The period for recovering any deficit will vary by employer and this is covered in further detail in Appendix B.

Where there is an increase in contributions required at this valuation the employer will be able to step-up their contributions over a period of 3 years, with effect from 1 April 2018.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets based on the long term strategy set out in its Statement of Investment Principles (SIP). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities and future service ("Primary") contribution rates is 1.75% per annum.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply an adjusted discount rate to reflect the termination assumptions for that employer if it were to exit the Fund to protect the Fund as a whole. Such cases will be determined by the Section 95 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet its obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in Appendix D to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in Appendix C. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or Scottish Government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to a minimum risk basis and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer following certification by the Actuary. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a **guarantor** who would subsume the liabilities the policy is that any deficit or surplus would normally be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

CONTENTS

APPENDICES

1
INTRODUCTION

The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) ("the 2018 Regulations"), the Local Government Pension Scheme (Transitional) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the North East Scotland Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the SIP.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits earned by contributing members up to 1 April 2015 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2

PURPOSE OF FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers’ liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, exit credits, costs, charges and expenses as defined in the 2018 Regulations and , the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended).

4

RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an SIP, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/SIP as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5
SOLVENCY FUNDING TARGET

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Recovery Plans are set out in **Appendix B**. This covers the recovery of deficits and the run off of any surplus assets over liabilities where applicable.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2018 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2017 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan where deficits remain unless there is compelling reason to do so.

- Subject to consideration of affordability, where a deficit exists, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to pay above the minimum contributions if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Recovery Plan in **Appendix B**).

- Where an employer is in surplus this will be run off over a period determined by the Administering Authority on the advice of the Actuary. This will depend on the nature of employer, allowing for the financial covenant strength and reasonable affordability of contributions. The objective is to maintain stability of total contributions at this and future valuations.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a percentage of pensionable payroll over 2018/21 in respect of an employer's surplus or deficit

    For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2021 based on the results of the 2020 actuarial valuation.

- Where increases (or decreases) in employer contributions are required from 1 April 2018, following completion of the 2017 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2018/19 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances:

  The policy for employers who have a guarantor participating in the Fund:

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor but in circumstances where an exiting employer is expected to still be responsible for the termination position, an exit payment/exit credit may be payable from/to the exiting employer

This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer following cessation (despite any other agreements that may be in place).

The policy for employers who do not have a guarantor participating in the Fund:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority has can vary the treatment on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. The termination policy is summarised set out in Appendix C

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Such cases will be determined by the Section 95 Officer and notified to the Committee. The employer will also be notified.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by capital payments into the Fund as determined on the advice of the Actuary.

7

LINK TO INVESTMENT POLICY AND THE STATEMENT OF INVESTMENT PRINCIPLES (SIP)

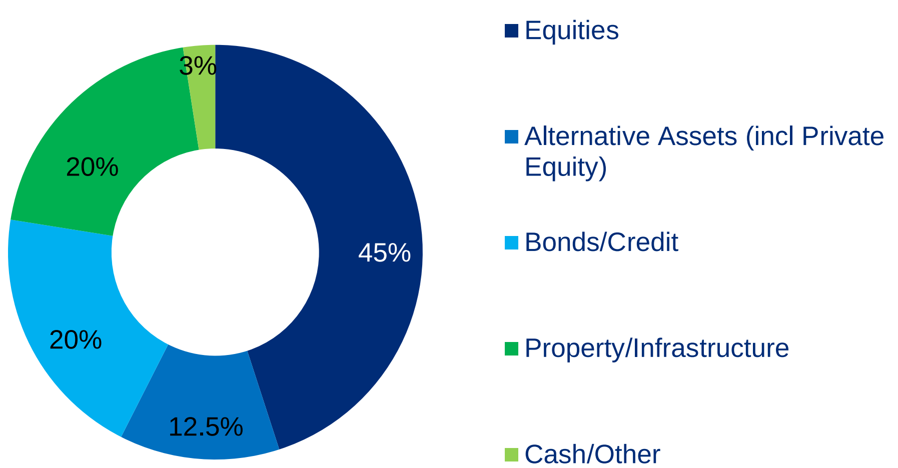
The results of the 2017 valuation show the liabilities to be 107% covered by the current assets.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which attempts to match the liabilities and represents the minimum risk investment position. Such a portfolio would consist mainly of a mixture of long-term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the minimum risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. In this event the value of the liabilities would have increased substantially and the funding level would have reduced correspondingly to 67%. Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The proposed long-term investment strategy is:



Subject to fair market pricing, the Fund is currently looking to implement protection against potential falls in the equity markets via the use of derivatives ("Equity Protection"). The aim of the protection is to provide further stability (or even a reduction) in employer contributions (all other things equal) in the event of a significant equity market fall (although it is recognised that it will not protect the Fund in totality).

As documented in the SIP, the investment strategy and return expectations set out above equate to an overall best estimate average expected return of 1.75% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements**. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members to make their views known to the Fund and to participate in the decision-making process. The first draft of this FSS was consulted on prior to 31 March 2018 with a further consultation taking place following the publication of the 2018 Regulations and the introduction of exit credits. The revisions to the FSS have been incorporated into this draft and the updated draft was finalised following the Committee meeting on 30 November 2018.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk. Nevertheless, where an employer defaults on its liabilities the risk in some cases may be borne by the whole Fund, so to that extent all Fund employers have joint and several liabilities to the Fund.

9

MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.
- there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET AND THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Statement of Investment Principles (SIP). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation date has been derived based on an assumed return of 1.75% per annum above CPI inflation i.e. a real return of 1.75% per annum equating to a total discount rate of 4.15% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Fund's accrued liabilities.

A reduction of 1.0% per annum due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index has been made.

Salary increases

In relation to benefits earned prior to 1 April 2015, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. The allowance for short term pay restraint, where applicable, is a salary increase assumption of 1.0% or 2.4% per annum for the period up to 2020.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older whereas for existing ill health retirees we assume this is at an age 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity ‘improvement’ year on year in the future in line with the CMI projections with a long-term improvement trend of 1.75% per annum for males and 1.5% per annum for females.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (this is the same assumption as at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2017 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.4% p.a.
Investment return/Discount Rate	4.15% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases*	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

*Short term salary increases may also apply

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table	Improvements (M / F)	Adjustment (M / F)
Current pensioners:			
Normal health	S2PA	CMI_2015 [1.75%] / [1.5%]	103% / 98%
Ill-health	S2PA	CMI_2015 [1.75%] / [1.5%]	Normal health +3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.75%] / [1.5%]	129% / 113%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.75%] / [1.5%]	125% / 114%
Current active / deferred:			
Active normal health	S2PA	CMI_2015 [1.75%] / [1.5%]	100% / 90%
Active ill-health	S2PA	CMI_2015 [1.75%] / [1.5%]	Normal health +4 years
Deferred	S2PA	CMI_2015 [1.75%] / [1.5%]	128% / 104%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.75%] / [1.5%]	107% / 104%

	Male life expectancy	Female life expectancy
Actives	25.5	27.8
Deferreds	23.4	26.6
Pensioners	22.6	24.8

All life expectancies are normal health "cohort" expectancies from age 65 in 2017 and non-pensioners' current age assumed to be 45.

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER RECOVERY PLANS

If the assets of an Employer are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall. For Employers with assets greater than their liabilities, the surplus can be run off to reduce ongoing contribution requirements.

Deficit contributions paid to the Fund by each employer will be expressed as a percentage of pensionable pay and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund. Where an employer is in surplus the period over which it will be run off will depend on the type of employer, its financial covenant strength and the objective of maintaining stability of contributions for future valuations in light of the market outlook.

Recovery periods to remove deficit will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select higher contributions if they wish, including the option of prepaying deficit contributions in one lump sum either on annual basis or a one-off payment.

The determination of the recovery periods is summarised in the table below:

Category	Average Period	Derivation
Scheme Employers	23 years	Determined by ensuring overall contributions are reasonably stable relative to the current funding plan allowing for any affordability constraints.
Open Admitted Bodies	Minimum of 16 years and the remaining contract period	Determined by ensuring overall contributions are reasonably stable relative to the current funding plan allowing for any affordability constraints.
Closed Employers	Minimum of 3 years, the remaining contract period and the future working lifetime of the membership	Determined by ensuring overall contributions are reasonably stable relative to the current funding plan allowing for any affordability constraints.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:

- The size of the funding shortfall / surplus;
- The business plans of the employer;
- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit or remove any surplus over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected levels from the preceding valuation.

Other factors affecting the Employer Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period or a quicker surplus run off being acceptable to the Administering Authority. Employers in a deficit position will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence- based affordable level of contributions for the organisation for the three years 2018/2021. Any application of this option is at the ultimate discretion of the Section 95 Officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - ADMISSION AND TERMINATION POLICY

INTRODUCTION

This document details the North East Scotland Pension Fund's (NESPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers NESPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the NESPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the NESPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

ENTRY TO THE FUND

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS (Scotland) Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;

- If the admitted body has an expected limited lifespan of participation in the Fund;

- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the Regulations.

ADMITTED BODIES PROVIDING A SERVICE

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities on default. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the NESPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NESPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

An exception to the above policy applies if the guarantor is not a participating employer within the NESPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NESPF the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

PRE-FUNDING FOR TERMINATION

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis.

For any employing bodies funding on such a minimum risk strategy a notional investment strategy will be assumed as a match to the liabilities. In particular the employing body's notional asset share of the Fund will be credited with an investment return in line with the minimum risk funding assumptions adopted rather than the actual investment return generated by the actual asset portfolio of the entire Fund. The Fund reserves the right to modify this approach in any case where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

EXITING THE FUND

TERMINATION OF AN EMPLOYER'S PARTICIPATION

When an employing body terminates for any reason, employees may transfer to another employer, either within the Fund or elsewhere. If this is not the case the employees will retain pension rights within the Fund i.e. either deferred benefits or immediate retirement benefits.

In addition to any liabilities for current employees the Fund will also retain liability for payment of benefits to former employees, i.e. to existing deferred and pensioner members except where there is a complete transfer of responsibility to another Fund with a different Administering Authority.
In the event that unfunded liabilities arise that cannot be recovered from the employing body, these will normally fall to be met by the Fund as a whole (i.e. all employers) unless there is a guarantor or successor body within the Fund.

The NESPF's general policy is that a termination assessment will be made based on a minimum risk funding basis, unless the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities (including those for former employees). This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

The policy for employers who have a **guarantor** participating in the Fund:

If the employing body has a guarantor within the Fund or a successor body exists to take over the employing body's liabilities, the NESPF's policy is that the valuation funding basis will be used for the termination assessment unless the guarantor informs the NESPF otherwise.
The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor. (For Admission bodies, this process is sometimes known as the "novation" of the admission agreement where a successor body exists to take over the employing body's liabilities; this may (if agreed by the successor body) constitute a complete amalgamation of the assets and liabilities). In circumstances where an exiting employer is expected to still be responsible for the termination position, an exit payment/exit credit may be payable from/to the exiting employer. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer within (despite any other agreements that may be in place).

The policy for employers who do not have a **guarantor** participating in the Fund:

A termination assessment will be made based on a minimum risk funding basis. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated).

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process.

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority can vary the treatment on a case by case basis of its sole discretion if circumstances warrant it based on the advice of the actuary.

It is possible under certain circumstances that an employer can apply to transfer all assets and current and former members' benefits to another LGPS Fund in Scotland. In these cases no termination assessment is required as there will no longer be any orphan liabilities in the NESPF. Therefore, a separate assessment of the assets to be transferred will be required.

FUTURE TERMINATIONS

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

The Fund's standard policy is to recover termination deficits (including interest and expenses) as a one off payment. However, at the discretion of the Administering Authority, the deficit can be recovered over an agreed period as certified by the Actuary. This period will depend on the Administering Authority's view on the covenant of the outgoing employer.

MINIMUM RISK TERMINATION BASIS

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2017) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Least risk assumptions	**31 March 2017**
Discount Rate	1.6% p.a.
CPI price inflation	2.4% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

All demographic assumptions will be the same as those adopted for the 2017 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2% p.a. from 1.75% for males and 1.5% for females used in the 2017 valuation for ongoing funding and contribution purposes.

APPENDIX D – COVENANT ASSESSMENT AND MONITORING POLICY

INTRODUCTION

This document sets out the Fund's approach to Employer risk management and in particular in respect of those bodies in the Fund defined as 'admission bodies'. This document supports the Fund's Employer Engagement Strategy

1.1 ADMISSION BODIES

Under the Local Government Pension Scheme (LGPS) (Scotland) Regulations, certain employers are allowed to participate in the North East Scotland Pension Fund (the Fund) if they satisfy the relevant criteria. These are known as admission bodies. An admission body is required to have an 'admission agreement' with the Fund. In conjunction with the regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

In line with Schedule 2 of the Regulations, All new admission bodies are required to carry out, to the satisfaction of the administering authority, an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

The admission body is required to enter into a bond to cover this risk but, where it is not possible for the admission body to enter into a bond then a guarantee can be obtained from another entity provided certain conditions are met.

It is acceptable for the original transferring employer to instruct in writing to the Administering Authority that they should waive the requirement for a bond/indemnity and/or other guarantee on the basis of the guarantee provided by the original scheme employer under the Regulations. The Administering Authority will consider if this is acceptable depending on the covenant of the original scheme employer.

1.2 EMPLOYER COVENANT

An employer's covenant underpins its legal obligation and ability to fund the Scheme now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Scheme is exposed, including underfunding, longevity, investment and market forces.

An Assessment of employer covenant focuses on determining the following:

- Type of body and its origins.
- Nature and enforceability of legal agreements.
- Whether there is a bond in place and the level of the bond.
- Whether a more accelerated recovery plan should be enforced.
- Whether there is an option to call in contingent assets.
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

2 RISK

2.1 DEFINITION OF RISK

Risk can be defined as the combination of the probability of an event and its consequences. In this instance, the probability centres around participation in the Fund coming to an end or being prematurely terminated and if employees are not transferred to another employer, pension rights will be retained within the Fund in respect of the outgoing employer. These pension rights, deferred benefits, immediate retirement benefits or existing pensions in payment form the employer's liabilities. In the event that liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the original Scheme employer where they are acting as a guarantor, or the Fund as a whole where there is no guarantor in the Fund. Therefore, the consequence is that the Fund is exposed to risk where employers are unable to meet their liabilities and there is no cover provided by a guarantor.

Risk management includes identifying and assessing risks (the 'inherent risks') and responding to them.

Response to risk, which is initiated within the organisation, is through management of risk and may involve one or more of the following:

- Tolerating risk.
- Treating risk in an appropriate way to constrain the risk to an acceptable level.
- Transferring the risk.
- Terminating the activity giving rise to the risk.

The level of risk remaining after a review is that which has been accepted (the 'residual risk") and is the exposure in respect of that risk, and should be acceptable and justifiable.

2.2 IDENTIFYING RISK

The North East Scotland Pension Fund (the Fund) is exposed to a number of risks associated with admission bodies and other employers. In order to mitigate these risks, it is necessary to identify them and prescribe them certain levels so as to ascertain which are deemed tolerable and those that need to be addressed.

Broadly speaking the key risks specific to the Fund are as follows:

Financial - Market fluctuations, investment returns and pay/price inflation.

Demographic - Increased longevity and the cost of early retirements/death-in-service.

Regulatory - Changes to regulations and changes to national pension requirements and/or HMRC rules.

Governance - Administering authority unaware of structural changes in employer's membership, administering authority not advised of an employer closing to new entrants, and an employer ceasing to exist with insufficient funding or adequacy of a bond. In addition lack of quality data from the employer can impact of the risk profile.

Employers - Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

Clearly some of the risks identified are beyond the control of the Fund and, therefore, it is important to target those where it does have influence when mitigating risk. With this in mind, the focus of this document will be in the areas of governance and employers' activities or actions, but consideration should also be given to the cost of early retirements (including in ill health) and death in service and the potential for the transfer of such risk through appropriate insurance whether externally or internally within the Fund.

2.3 LEVELS OF RISK

The levels of risk facing the Fund can be generally classified as lower, medium and higher risk as illustrated below:

Participating Employers

Lower Risk	**Medium Risk**	**Higher Risk**
Local Authorities	Bodies which are part of a group or pooled bodies which share unfunded costs on default	Admission bodies with no guarantors and a significant deficit
Bodies with local authority guarantor	Admission bodies with small deficit or surplus of assets over liabilities	Bodies with potentially limited life span and in deficit
Bodies with long-term funding from local or central government		No active members or is closed with a significant deficit
		Relies on voluntary or charitable source of income with significant deficit

A key aspect of the risk categorisation will be the level of deficit in the Fund. This will be monitored as noted below.

The Fund will consider whether further banding of risk is required for employers and in certain cases it may be full assessment of potential risk is needed on a bespoke basis.

In addition in the context of those employers providing a guarantee to the Fund for certain employer liabilities (typically Local Authorities) the risk would be re-categorised ignoring the guarantee. This will be to show the guarantors the level of exposure in terms of their existing guarantees.

2.4 NATURE OF RISK

The principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its regular pension contributions and/or its liabilities upon termination. A deficit upon termination of an admission agreement might arise in the following scenarios:

a) Non-payment of contributions to the Fund by an employer prior to closure

b) Premature termination of a contract where market values are depressed relative to the liabilities in respect of an admission body, assessed on consistent assumptions to those adopted in the previous actuarial valuation.

c) The reality is less favourable than the assumptions used in setting contribution rates for that employer – for instance, lower than expected investment returns, higher than expected rates of early retirement or excessive pay increases.

d) Additional liabilities created as a result of the body closing, in particular the possible payment of immediate retirement benefits to all those eligible at that time.

e) A pre-existing deficit in the Fund (past service liability).

f) A change from open to closed status.

3 ASSESSMENT OF RISK

3.1 RISK CRITERIA

The Pensions Regulator has set out prescribed guidelines detailing the assessment criteria upon which an employer should be reviewed:

- Nature and prospects of the employer’s industry.
- Employer’s competitive position and relative size.
- Management ability and track record.
- Financial policy of the employer.
- Profitability, capital structure, cashflow and financial flexibility.
- Employer’s credit rating.
- Position of the economy as a whole.

CIPFA also include information on how covenant and risk should be considered in their guidance Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme.

Not all of the above would be applicable to assessing employer risk within the North East Scotland Pension Fund rather a balanced approach to consideration of the above criteria would be made, with further consideration given to the following:

The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow.

The relative priority placed on the pension scheme compared to corporate finances.

An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

3.2 RISK PARAMETERS

For the North East Scotland Pension Fund, the risk a particular employer represents will be quantified using a five pronged approach, governed by the assessment criteria or triggers outlined below. Where one or more of these triggers is engaged, such employers will be subject to a more detailed review by the Fund. These criteria, when analysed in conjunction with the strength of the employer covenant (Section 5), will provide the basis for the framework upon which risk will be continually assessed and employer stability monitored.

1. Employer with less than five active members
2. Employer where significant member movements are imminent
3. Employer with a known participation length of 18 months or less
4. Employer with a known deficit of a significant level, relative to size of its financial metrics
5. Employer with a funding level identified at the last review of less than [80%] or a deficit greater than [£0.5m]

4 MONITORING/SCREENING OF THE EMPLOYER COVENANT

4.1 ASSESSING THE EMPLOYER COVENANT

The employer covenant should be assessed objectively and the ability of employers or guarantors to meet their obligations should be viewed in the context of the Fund's exposure to risk and volatility, while preserving the interests of other employers within the Fund. The monitoring of covenant strength by itself does not strengthen the Fund's security; however, it does enable the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach with a view to reminding employers of their obligations and managing their expectations. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, the proposal is for a number of fundamental financial metrics to be appraised to develop an overview of the employer's stability. These financial metrics center around the following:

- Does the employer have a guarantor within the Fund or employer structure?
- The employer's funding source and length (if known).
- The employer's cashflow forecast, ideally over the next three to five years.
- If the employer has any contingent assets which can be used by the Fund to provide security.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted sensitively to gather as much information as possible. Focus will be placed on the continual monitoring of employers with a proactive rather than reactive view to mitigating risk.

An overview of the framework upon which an employer's covenant will be monitored is detailed in the diagram overleaf (4.4). It is considered that this will provide the basis for actions to be taken and ultimately the management of risk, covered in the next section.

4.2 FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. There will be instances where known 'events' or individual employer circumstances are to be taken into consideration, and they will be incorporated into the monitoring framework.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus. In such cases a more in depth analysis will be carried out taking into consideration all of the financial metrics and extenuating circumstances.

Separately the funding position will be monitored in conjunction with the Actuary to consider the potential exposure of the Fund in light of the covenant strength.

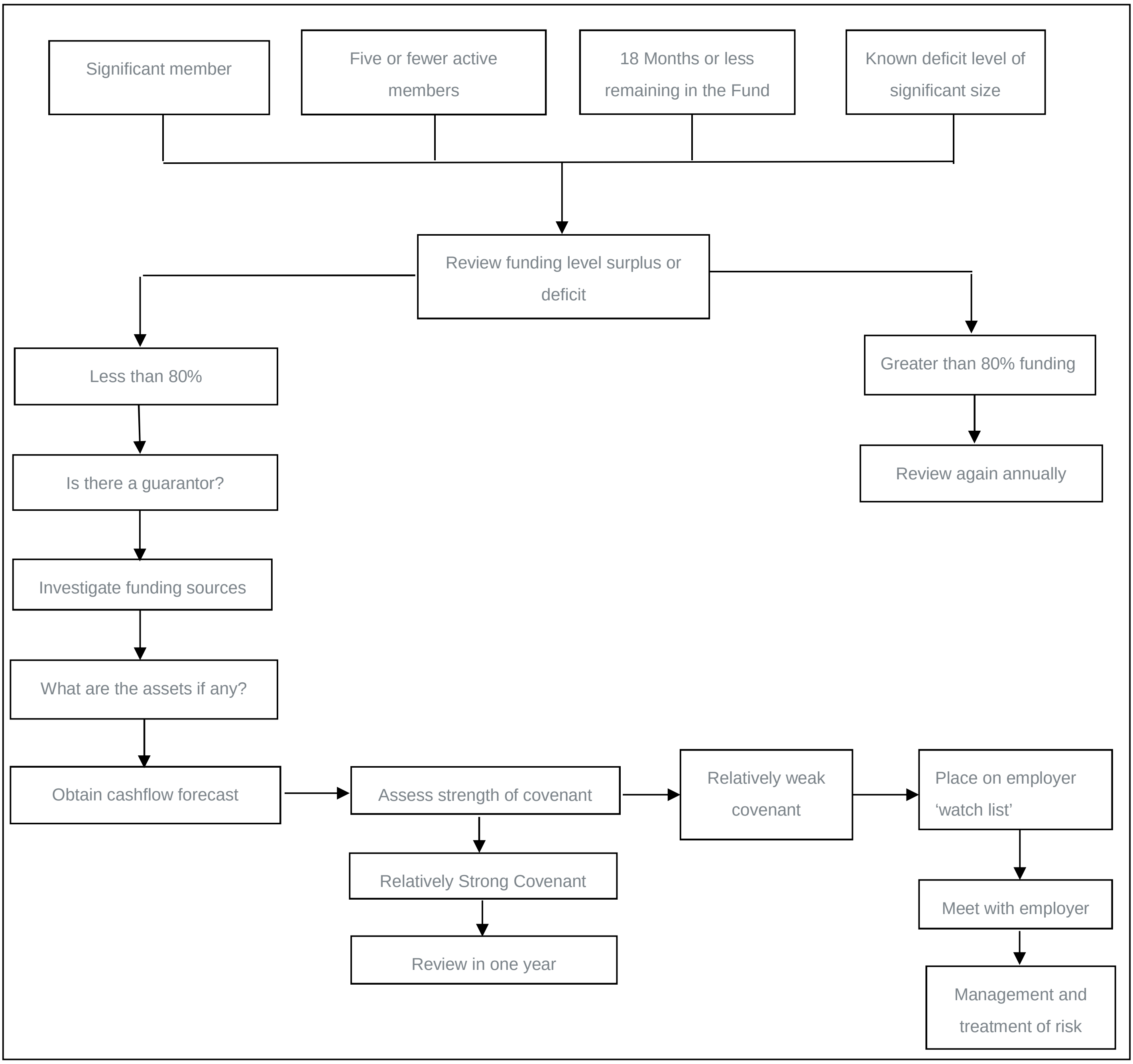
4.3 EMPLOYER MEETINGS

As a basis for the monitoring of employers within the Fund, meetings are to be scheduled with those organisations where there is a particular concern over strength of their covenant, accrual of liabilities and future funding levels. Priority will be given to those employers requiring a more detailed review and the aim would be for meetings to be scheduled every six months for such organisations. In addition, it will also be necessary to arrange meetings with employers where there is a need to gain an understanding of their financial position with a view to assisting the monitoring process.

It is recognised that meetings will be tailored to each employer's needs, in conjunction with the Fund's assessment of that organisation; however, it is anticipated that the payment of pension liabilities on termination will feature heavily in these discussions.

There may also be a requirement for such organisations to draft a payment proposal for the Fund's consideration, along with a projection of future cash flows and income/expenditure.

4.4 GUIDE TOWARDS MONITORING OF THE EMPLOYER COVENANT



5 MANAGEMENT OF RISK

5.1 OVERVIEW

The focus of the Fund's risk management is the identification and treatment of the risks. It will be a continuous and evolving process which runs throughout the Fund's strategy. This management of risk is not a linear process; rather it is the balancing of a number of interwoven elements which interact with each other and which have to be in balance with each other if the management is to be effective.

5.2 INITIAL STEPS

For new bodies seeking admission to the Fund, the Pension Fund will conduct an audit to review the financial strength of the organisation, based on their accounts and other key criteria (scored out of 100).

- Regulation requires that relevant admission agreements must contain a provision requiring all bodies to undertake an assessment of the level of risk posed to the Fund in the event that the service contract terminates prematurely as a result of the organisation's insolvency, winding up or liquidation. Such assessments must take into account actuarial advice and must be carried out to the satisfaction of the relevant administering authority.
- In respect of outsourcing bodies, the North East Scotland Pension Fund (the Fund) will send out a risk assessment form to be completed by the outsourcing body at their expense. In order for a risk assessment to be conducted by the Fund actuary, the Scheme employer will need to provide a standard data file of the transferring staff to include names, national insurance numbers and details of current salary.
- For admission bodies, upon receipt of the results of the risk assessment, which will include a calculation of the employer contribution rate, details of the contracted arrangement between the Scheme employer and organisation will be clarified. The Scheme employer will be required to confirm the responsibility for pension costs and any other contractual arrangements which may affect the participation and also whether a bond or separate guarantee is required. If there is a limit on the amount that should be reclaimed directly from the outgoing employer due to contractual arrangements then the Scheme employer must notify the Fund in writing that this needs to be taken into account. Any residual deficit (or surplus) will revert to the Scheme employer.
- On termination of the admission agreement, any contributions due will first be reclaimed from the organisation. If the organisation defaults on any payments then the bond (if a bond is in place) would be called on. Any outstanding monies or residual surplus would then be dealt with as per Appendix C.

The Fund will require confirmation of a suitable guarantor or indemnity for any admission body applications (see comments in 5.3 below).

5.3 BOND/GUARANTEE

In the event that an organisation becomes insolvent, it is unlikely to be able to meet its funding obligations to the Fund. Allowing organisations to become an admission body, therefore, creates an element of risk for the Fund, for other employers participating in the Fund and, in particular, for any outsourcing employing body.

If a risk assessment identifies a material level of risk, for an admission body, the administering authority will require the organisation to provide an indemnity or bond to protect against the identified risk or alternatively a separate guarantee.

Outsourcing employing bodies should regularly review the level of risk relating to an admission agreement, and require the admission body to put in place a revised bond or indemnity as appropriate.

The bond is the third party legal instrument required in respect of an organisation's admission to the LGPS (together with the service contract and the admission agreement). Organisations should consider employer rate and/or cost of bonds when making tender. Therefore, it is ideal these increased costs are considered early in contract/tender discussions.

Where a bond has been requested by the parent body or administering authority there will be a defined amount and timescale set. It is, therefore, important for the Fund to document the expiry date of such bonds and to monitor these closely. Bond information will be reviewed annually or when an expiry date is approaching. The aim would be to inform parent bodies where an expiry date is imminent to allow them to consider whether a revised bond is required. In cases where a revised bond is not required or cannot be obtained, it will be emphasised to the parent body that the potential for liability exists as ultimate guarantor.

As an alternative to a bond, the Fund will allow the organisation in question to set up an alternative guarantee or contingent assets e.g. an escrow account to which the Fund has direct claim upon in the event of insolvency or default, for the equivalent of the bond amount calculated by the Fund actuary. The Fund will require satisfactory evidence of such an alternative particularly on the understanding that it can only be closed or terminated via mutual consent. More detail is set out in 5.5 below.

5.4 SHORTENED RECOVERY PERIOD

The Fund actuary, in line with the Fund's Funding Strategy Statement (FSS), assumes a deficit recovery period based on the specifics of each employer group or individual employer. The Fund reserves the right to adjust this recovery period, where appropriate, dependent on the strength of an individual employer's covenant, its financial stability and future prospects.

In doing so, the Fund makes provision for any potential liability to be recouped over a shorter timescale, particularly where there is a risk the body in question may cease to exist. The shortening of the recovery period will of course increase the rates at which the employer must contribute and this needs to be weighed up in terms of its reasonable affordability vs impact on longer term covenant.

This involves a fine balancing act as it is not in the Fund's or guarantor's interest to impose an employer rate which is unaffordable and ultimately results in the premature cessation of that employer.

5.5 CONTINGENT ASSETS

Contingent assets are assets which exist upon the occurrence of one or more specified future events, at the behest of the Fund – for instance, the failure to achieve a specified funding level. They are not typically included as Scheme assets, for the purpose of assessing whether a scheme meets its funding objective, until they are transferred to the scheme. Examples of contingent assets include:

- a known guarantor, which agrees to cover all liabilities/, a proportion of those liabilities (or equally receive all surplus or proportion of surplus), arising upon termination (the contingent event). This can take place through the absorption of the assets and liabilities by the guarantor to form part of its own position or through the payment of a specified amount.
- security over other assets – for instance, property or securities, such that the asset is transferred to the Fund if the contingent event occurs.
- a letter of credit or a bond (see 5.3).
- sterling cash put aside in a bank account whereby some or all of the cash would be released to the Fund on the occurrence of the contingent event – for example, an escrow account.

The above list is not exhaustive and the Fund will consider alternatives as appropriate to each individual circumstance.

5.6 PHASED IMPLEMENTATION OF EMPLOYER CONTRIBUTION RATE

For certain bodies, the decision may be taken for the Fund's actuary to certify an employer rate lower than the target rate calculated for that particular body. This will usually involve the certified rate being set at the same level as that from the previous actuarial valuation and is with a view to providing that employer with a period of stability to alleviate short term cash funding issues. In such cases, the Fund will look for employers to increase their contributions on a phased basis, culminating in their reaching the Fund actuary's target rate at the end of an agreed period - typically a 3 year implementation period. The underpayment would be expected to be paid as soon as practical.

In order to calculate the annual increments applicable, the methodology will be based on the Fund actuary's target contributions, over the current contributions payable by the employer.

It will be stressed to employers that such rates still remain subject to change at the next triennial actuarial valuation and the approach will be taken on a case by case basis, including the treatment of the underpayment.

5.7 INFLATED EMPLOYER CONTRIBUTION RATE (RISK PREMIUM)

Consistent with the Funding Strategy Statement (FSS), the funding objective for triennial actuarial valuations is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay, on the appropriate assumptions applicable to that employer.

In practice, each new employer's position is assessed separately and their individual rates take into account the differing circumstances of each employer and the funding plan covered in the FSS.

It is an avenue open to the Fund that contributions for an admitted body, where there is a weak employer covenant and an associated concern, could be set relative to the funding target in excess of 100% of the liabilities. This higher target represents a "risk premium" against potential additional liabilities on failure of that admitted body. For example, the employer contributions could be based upon a funding target of 110% of projected accrued liabilities or set dependent upon the Fund's view towards each employer's risk.

6. TRANSFER OF RISK FOR OUTSOURCED BODIES

6.1 TRANSFER OF RISK

In order to preclude cross subsidy within the Fund between certain admitted bodies and other employers, the costs and financial effects of employers' participation in the Fund are separately identified ('separation basis'). One result of this approach is that the risks associated with a defined-benefit scheme promise in respect of the transferring staff, are transferred to the new employer. The costs relating to salary increases and early retirements also become the responsibility of the new employer. This allocation of risk to the new employer is very important to protect the position of other employers in the Fund, particularly the letting authority. There are ways in which risks can be shared with the original employer and new employer such as via the separate contractual arrangement. This can include fixing or limiting the contribution requirements on an ongoing or termination basis within certain parameters. Whilst not a direct party in these arrangements the Administering Authority would need to be notified of any such arrangements if these are to be taken into account at the termination of participation.

7. TREATMENT OF MATERIALISED RISK

7.1 OVERVIEW

The Fund recognises that there will be instances where, despite the monitoring of employer covenant and steps taken to both manage and transfer risk (where practical), this risk will nevertheless materialise. As identified previously, the principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its liabilities upon termination or otherwise. Therefore, a prescribed set of measures need to be agreed to respond to this eventuality, in order to minimise the impact on the Fund.

7.2 TERMINATION OF AN ADMISSION AGREEMENT

In the event of termination of an admission agreement, for any one of the reasons covered in section 2.4, it will be necessary for the Fund actuary to calculate the associated deficit on a least-risk or gilts basis (unless the liabilities are to be transferred to another employer in the Fund e.g. where another body is acting as a guarantor in which case typically the assumptions would be on an ongoing actuarial valuation basis). The organisation in question will be responsible for paying the actuary's fee for this work, and the Administering Authority reserves the right to include it in the termination assessment and final contribution due from the employer or recharge it directly from the employer. The Fund will emphasise to employers their responsibility for the position upon termination; however, in certain circumstances where an exit payment is required, it may not be possible for an organisation to pay the total termination deficit in one lump-sum. In this scenario, the Fund would request the organisation provides a payment plan for review and, if this is not satisfactory, consideration will be given to an independent financial and governance review (see 7.6).

Under the Regulations effective 1 April 2015 employers will automatically be deemed to terminate participation when the last active member leaves service.

7.3 CLOSED ADMISSION AGREEMENT WHERE NO ACTIVE MEMBERS REMAIN IN THE FUND

A closed admission agreement relates only to a fixed population of employees. In the case of an admission body, only those employees who transferred to the organisation from the outsourcing employing body can remain members of the LGPS through the admission agreement. Therefore, upon cessation of the last active member of a closed agreement, no further active members can be admitted and the approach for such cases would be the same as with 'Termination of an admission agreement' detailed in section 7.2.

7.4 OPEN ADMISSION AGREEMENT WHERE NO ACTIVE MEMBERS REMAIN IN THE FUND

An open admission agreement for an admission body potentially allows further employees of the organisation to become a member of the LGPS. In some cases however the employer may not propose employees do join.

As such, upon exit of the last active member from the Fund under an open agreement, it is entirely possible that a new active member might be admitted in the future. However, as a consequence of no active members remaining in the Fund, there will be no payroll upon which to base contributions. Therefore, it will be necessary for the Fund actuary to calculate an annual lump-sum amount equivalent to that organisation's target employer contribution rate, in order to address the associated liabilities. In order to protect the Fund's interests in such cases, the suggested approach would be for this calculation to be aligned to the strength of employer covenant, whereby the recovery period and consequently the size of such lump-sum payments would be tailored with this in consideration.

Under the proposed Regulations effective 1 April 2015 employers would automatically be deemed to terminate participation when the last active member leaves service. Such cases would be dealt with as per section 7.2.

All cases will be considered on their own merits and the Fund reserves the right to request full payment of the deficit assessed by the Fund Actuary. Set out below is a rule of thumb guide to the parameters that would be considered for a covenant based recovery period for an employer in deficit, where compliant with the parameters set out in the Funding Strategy Statement (FSS):

Weak employer covenant	A short recovery period (one or two valuation cycles i.e. 3-6 years) is preferable subject to contributions being reasonably affordable to the extent they do not impair the covenant.
Moderate employer covenant	As above but with perhaps 6-9 years being acceptable.
Strong employer covenant	As above but with perhaps 9-13 years being acceptable.

The covenant of the employer will be monitored on an ongoing basis as per section 4 above.

As with termination of an admission agreement, the costs of the Fund actuary's calculations will be the responsibility of the body in question. Agreement to the annual lump-sum payments will be required from the admitted body, in the same way that it would be sought in relation to ongoing employer rate contributions, calculated as part of the triennial actuarial valuation.

7.5 WINDING-UP, INSOLVENCY, OR CESSATION OF AN EMPLOYER

In the event an employer ceases to exist, the Fund would act as a creditor engaging with the administrator to recovery monies.

As part of the covenant assessment the Fund will consider the legal responsibility the employer has on termination in light of other legislation and priority order of other creditors.

7.6 INDEPENDENT FINANCIAL AND GOVERNANCE STANDING REVIEW BY THIRD PARTY AUDITOR

In addition to the Fund taking preventative steps towards risk and responding in the appropriate fashion to address materialising risk, it may be necessary for the Fund to appoint a third party agent to conduct an independent review.

This review would be centered upon the financial measures and wider robustness of the governance of the organisation, particularly with a view to instances of substandard management or negligent practice. The appraisal also provides the Fund with an external audit of the monitoring and risk aversion process employed, which is aimed at preserving the interests of all other participating employers and/or guarantor. The key objectives of this review will be to evaluate the financial standing and underlying governance arrangements, specifically:

- an assessment of the strength of the balance sheet and, based on this, drawing conclusions on the affordability of proposed termination payments. This element of the review will include, for example, structure/liquidity ratios; and
- a high-level evaluation of the body's overall governance structures and the adequacy of management's medium-term planning arrangements in addressing weaknesses and risks; and

- to develop an assessment methodology that can be applied to bodies in assessing their capability and capacity to manage and meet pension liabilities.

The above is not an exhaustive list of criteria that will be applied and each case will be considered on its own merits by the third party agent.

APPENDIX E - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2015, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Equity Protection: an insurance contract which provides protection against falls in equity markets. Depending on the pricing structure, this may be financed by giving up some of the upside potential in equity market gains.

Exit Credit: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund's objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility, members' contribution rates, benefit calculations and certain governance requirements.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund. At the valuation date this was equivalent to a discount rate of CPI less 0.8% p.a.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS (Scotland) Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery period: the target length of time over which the current deficit is intended to be paid off or the current surplus is intended to be refunded.

Recovery Plan: a strategy by which an employer will make up a funding deficit or run off surplus over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Secondary rate: the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Scottish Public Pensions Agency (SPPA) in connection with reviewing the 2017 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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North East Scotland
PENSION FUND

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 August 2018

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

Pension Fund Risk Register

No	Risk Description	Effect/Consequences	Current Controls	Current Risk Impact	Likelihood	Score	Risk Movement	Current Status/Progress
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 transparancy on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	2	4	**8**	↔	The Fund particpates in national benchmarking exercises and has internal measures which are reported to Committee
4	Failure of Pensions Committee and Pension Board to operate effectively	Failure to ensure effective joint working will result in non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	Annual review of Committee and Board, in consultation with both	3	2	**6**	↔	Annual Report to Committee and Board on effectiveness and training (March 2018)
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC	2	2	**4**	↔	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	3	**12**	↔	Ongoing - several vacant posts to be filled
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	2	3	**6**	↔	Information provided by FMS
Governance								

8	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding legislation	Audit criticism, legal challenge, reputational risk, financial loss/penalties	Six monthly compliance review and annual report to Committee	3	3	**9**		Ongoing - reported to Committee (March 2018)
9	Failure to comply with FOI requests	Audit criticism, legal challege, 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 Adminstration								
11	Requirement to complete GMP reconcilliation	Failure to ensure future member benefits are calculated correctly, audit critism and financial loss	Appointment of GMP Project Team	2	3	**6**		Ongoing
12	Fraud/Negligence	Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segreagation of duties for staff authorising/submitting lump sum payments. Admin to Pay to be implemented in 2018.	2	3	**6**		Ongoing - regular reporting to Committee in place.
13	Overpayments of pension benefits	Audit criticism, legal challege, reputational risk	Pension payments signed off by a SPO-Benefits, segreagation 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 challege, reputational risk, financial loss	Quarterly assessment of investment performance and funding updates, tri-ennial valuation and investment strategy review	3	4	**12**		Ongoing

15	Failure to monitor investment managers and assets	Audit criticism, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with managers	3	3	**9**	⟺	Ongoing
16	Failure of work stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	4	2	**8**	⟺	Ongoing - revised investment strategy to Committee (March 2018)
17	Negligence/fraud/default by investment managers	Financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	2	1	**2**	⟺	Ongoing
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	4	1	**4**	⟺	Ongong - 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 challege, reputational risk, financial penalties	Internal control and procedures for management of data, project group set up to implement GDPR & assess current processes.	4	2	**8**	⟺	Ongoing - revised policies and procedures implementated from May 2018 for GDPR
22	Failure of the Fund's administration system	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location	2	3	**6**	⟺	Quarterly report is provided to Pension Fund Manager on any hosted system errors/resolutions. See 5 above
23	Failure to carry out effective member tracing	Incorrect pension payments made, incorrect assesstment of actuarial liabilities	Tracing Service in place (ATMOS)	2	3	**6**	⟺	Ongoing
Employer Relationship								
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Employer Covenant Policy	3	4	**12**	⟺	Ongoing
25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Employer Covenant Policy and discretions	3	3	**9**	⟺	Ongoing

26	Employers leaving Scheme/closing to new members	Orphaned liabilites could fall to remaining employers	ERT to manage through Employer Covenant Policy	2	6	**12**	↔	Ongoing
27	Longevity	Increase in employer contribution rates	Actuarial valuation every 3 years which undertakes scheme specific analysis including review of life expectancy/mortality assumptions	2	2	4	↔	Ongoing - revised Investment Strategy and FSS to Committee following tri-ennial valuation (March 2018)
28	Employer contributions not received, collected or recorded accurately	Orphaned liabilites 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 March 2019 Committee

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Exempt information as described in paragraph(s) 8, 10 of Schedule 7A of the Local Government (Scotland) Act 1973.

Agenda Item 10

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