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

Pension Board:- Councillor McKelvie, Chair; Mr N Stirling, Vice Chair; Councillors Allan and Cowe; and Mr L Knox, Mrs M Lawrence and Mr A Walker.

Town House,
ABERDEEN, 21 September 2020

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in the **Council Chamber - Town House** on **TUESDAY, 29 SEPTEMBER 2020 at 10.30 am.**

Please note that due to COVID-19 restrictions, no press and public will be admitted to the meeting. The meeting will be webcast and can be viewed [here](#)

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST

- 3 Members are requested to intimate any declarations of interest (Pages 5 - 6)

MINUTES OF PREVIOUS MEETINGS

- 4 Minute of Previous Meeting of 20 March 2020 (Pages 7 - 12)

COMMITTEE BUSINESS PLANNER

- 5 Business Planner (Pages 13 - 16)

NOTICES OF MOTION

- 6 There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

- 7.1 Internal Audit Annual Report 2019/20 - IA/20/010 (Pages 17 - 22)

- 7.2 Pensions Investment Strategy & Performance - IA/AC2015 (Pages 23 - 40)

- 7.3 External Audit Annual Report 2019/20 (Pages 41 - 82)

ANNUAL REPORT AND ACCOUNTS

- 8.1 Consideration and Signing of Audited Annual Report and Accounts - PC/SEPT20/ARA (Pages 83 - 216)

GENERAL BUSINESS

- 9.1 Pensions Committee Annual Effectiveness Report - COM/20/117 (Pages 217 - 234)

- 9.2 Budget/Forecast 2020/21 - PC/SEPT20/BUD (Pages 235 - 240)

- 9.3 Strategy - PC/SEPT20/STRAT (Pages 241 - 306)

- 9.4 Training - PC/SEPT20/TRA (Pages 307 - 322)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 10.1 Procurement of Investment Management Consultancy Services - PC/SEPT20/CONS (Pages 323 - 326)

10.2 Asset and Investment Manager Performance Report - PC/SEPT/AIMPR
(Pages 327 - 358)

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

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DECLARATIONS OF INTEREST

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

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

For example, I know the applicant / I am a member of the Board of X / I am employed by...

and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

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

OR

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

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

OR

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

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

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 20 March 2020. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Mr L Knox, Vice Chairperson and Mrs M Lawrence (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; Colin Harvey, Senior Auditor, Internal Audit; and Gillian Woolman, Assistant Director, Audit Scotland (via telephone).

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.

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following item of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – item 11.1 (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 the above-mentioned item 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

2. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING

3. The Committee had before it the minute of its previous meeting of 29 November 2019.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

20 March 2020

BUSINESS PLANNER

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

The Committee resolved:-

to note the planner.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/MAR20/STRAT

5. With reference to article 6 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 (NESPF) and the Aberdeen City Council Transport Fund strategies.

The report provided an update on the First Bus merger/buy-in; the consultation from the Scottish Public Pensions Agency on changes to the valuation cycle; the Enhanced Administration to Payroll module into the Altair administration system test environment; the proposed launch of the new NESPF website in April / May 2020; training for Pension Fund staff; NESPF staffing and the current vacancies in the team; the Data Quality Improvement Plan; the annual document review; and finally that there had been no fraud, whistleblowing and breaches of the Bribery Act cases during 2019/20.

Appended to the report was the Pension Administration Strategy Quarterly Update for Quarter 3 2019/20; the Data Quality Improvement report update; and the risk register as at February 2020.

The report recommended:-

that Committee note the data quality scores reported to the Pensions Regulator and the update to the Data Quality Improvement Plan for reassurance.

The Committee resolved:-

- (i) to request that officers provide information to Members outwith the meeting by way of email on any implications for the option to suspend an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme (paragraph 3.7.1.1. refers);
- (ii) to suggest that a survey be undertaken of NESPF staff to ensure awareness of relevant policies;
- (ii) to request that officers circulate the Scottish Public Pensions Agency consultation response to Members by way of email outwith the meeting; and

PENSIONS COMMITTEE AND PENSION BOARD

20 March 2020

(iii) to otherwise approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT PLAN 2020/2021 - IA/19/008

6. The Committee had before it a report by the Chief Internal Auditor which sought approval of the Internal Audit plan for 2020/2021. The report advised that there would be an audit undertaken of the Pensions Payroll to provide assurance that the appropriate arrangements were in place to ensure the accuracy and appropriateness of payments made to scheme members.

The report recommended:-

that Committee approve the Internal Audit Plan for 2020/2021 as attached as Appendix 1 to the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

EXTERNAL AUDIT ANNUAL AUDIT PLAN 2020/2021

7. The Committee had before it a report by External Audit which set out the North East Scotland Pension Fund Annual Audit Plan 2019/20. The report highlighted key audit risks and the planned audit work in respect of these, and set out the 2019/20 reporting arrangements to the Committee.

The Committee heard from Ms Gillian Woolman, External Audit, on the main points from the report. Ms Woolman advised that the plan had been prepared before the current COVID-19 situation and that External Audit would work closely with officers in respect of any challenges and risks as a result. She noted that there could be a risk around the capability of organisations to prepare annual accounts and advised that the Auditor General had recently been involved in discussions with the Scottish Government in respect of this, and any audit and proposed dates in the plan would be flexible and pragmatic.

The Committee resolved:-

to note the report.

PENSIONS COMMITTEE AND PENSION BOARD
20 March 2020

The Board resolved:-

to note the decision of the Committee.

LOCAL GOVERNMENT PENSION SCHEME SUPPLEMENT TO THE LOCAL GOVERNMENT FINANCIAL OVERVIEW

8. The Committee had before it the Local Government in Scotland: Financial Overview 2018/19 - Local Government Pension Funds Supplement for information. Ms Woolman advised that the document was produced by a central team and although some of the information might be out of date, she hoped it was helpful for Members to show the context for the North East of Scotland Pension Fund and to provide a foundation to monitor local government performance in future.

The Committee resolved:-

to note the document.

The Board resolved:-

to note the decision of the Committee.

BUDGET FORECAST & PROJECTED SPEND 2019/20 - PC/MAR20/BUD

9. With reference to article 7 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided details of the management expenses budget/forecast and projected spend 2019/29 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that Committee note the update on the NESPF management expenses budget/forecast and project spend 2019/20 as attached to the report at Appendix 1.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

STATEMENT OF ACCOUNTS 2019/20 - ACTION PLAN - PC/MAR20/ACCOUNTS

10. The Committee had before it a report by the Director of Resources which set out high-level information and key dates in relation to the 2019/20 Statement of Accounts, including any linkages to the plans and timetables of the Council's External Auditors. The

PENSIONS COMMITTEE AND PENSION BOARD

20 March 2020

report noted that the draft Statement of Accounts 2019/20 would be reported to the Committee at its meeting in June.

The report recommended:-

that the Committee note the contents of the report for assurance.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

REVIEW OF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 AND PENSION REGULATOR REQUIREMENTS - PC/MAR20/GOV

11. The Committee had before it a report by the Director of Resources which provided a review of the North East Scotland Pension Fund's compliance with the Public Service Pensions Act 2013 and the Pensions Regulator requirements during the financial year 2019/20, including Pension Board membership and meeting attendance; training attendance; the costs of operation; Elected Member and Board knowledge and understanding; scheme record keeping; risk management; conflicts of interest; and reporting of breaches of law.

The report also advised that a working group had been established by the Scheme Advisory Board to scope out the next stages for considering the four options for the Scheme Review, however the timetable for the scoping work was currently unknown.

The report recommended:-

that Committee note the assurance provided in the report.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken under article 1 of this minute, the following item was considered with the press and public excluded from the meeting.

PENSIONS COMMITTEE AND PENSION BOARD
20 March 2020

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/MAR20/AIMPR**

12. With reference to article 9 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided an overview of the investment activity of both the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund for the three month period ending 31 December 2019.

Appended to the report was information in respect of the NESPF and environmental, social and governance matters and responsible investment.

Members heard from Mr Graham Buntain, Investment Manager, who highlighted particular points of interest in the report and provided a current update on the Fund position.

The report recommended:-

that Committee note the contents of the report.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

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

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	11 September 2020								
4	Draft NESPF Annual Report & Accounts	To present the draft annual accounts	Originally due June 2020	Laura Colliss	Finance	Resources	3.1	R	This item is included on the planner as it was expected at the June meeting which did not proceed. In order that there is an audit trail, it has been included and recommended for removal as it was approved instead at the Urgent Business Committee of 30 June 2020
5	Strategic Infrastructure Priorities and the Scottish Local Government Pensions Scheme	Pensions Committee 15/03/19 - To instruct the Chief Officer Finance to explore the opportunities for a strategic partnership between the Council, other stakeholders and the North East Scotland Pension Fund for the purposes of supporting local infrastructure investment and to report on the feasibility of this within <u>three committee cycles</u>	Originally due June 2020	Jonathan Belford	Finance	Resources	5.1	D	
6	Internal Audit Annual Report 2019/20	To present the Internal Audit Annual Report for 2019/20	Originally due June 2020	Colin Harvey	Internal Audit	Internal Audit	2.1		
7	Internal Audit - Pensions Investment Strategy & Performance	To present the Internal Audit report on the Pensions Investment Strategy		Colin Harvey	Internal Audit	Internal Audit	2.2		
8	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	1.4		
9	External Audit Annual Report 2019/20	To present the annual report		Rachel Browne	External Audit	External Audit	2.2		
10	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
11	Committee Effectiveness Annual Report	To consider the annual committee effectiveness report	Originally due June 2020	Jonathan Belford	Finance	Resources	GD 8.5		
12	Training Report	To provide details of the Training Plan 2020/2021 for the Pensions Committee and Pension Board of the NESPF	Originally due June 2020	Laura Colliss	Finance	Resources	4.1		
13	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	5.2		
14	Investment Management Consultancy Services	To seek approval for procurement		Laura Colliss	Finance	Resources	1.2		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
15									
16	11 December 2020								
17	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	1.4		
18	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
19	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	5.2		
20	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
21	26 March 2021								
22	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	1.4		
23	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
24	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
25	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
26	25 June 2021								
27	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	1.4		
28	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
29	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	5.2		
30	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
31	Internal Audit Annual Report 2020/21	To present the Internal Audit Annual Report for 2020/21		Colin Harvey	Internal Audit	Internal Audit	2.1		
32	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
33	17 September 2021								
34	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	1.4		
35	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
36	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	5.2		
37	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
38	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
39	External Audit Annual Audit Report 2020/21	To present the External Audit Annual Audit Report 2020/21		Rachel Browne	External Audit	External Audit	2.1		
40	10 December 2021								
41	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	1.4		
42	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
43	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	5.2		
44	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2019/20
REPORT NUMBER	IA/20/010
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2019/20.

2. RECOMMENDATIONS

That the Committee:

- 2.1 note the Annual Report for 2019/20;
- 2.2 note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 note that there has been no limitation to the scope of Internal Audit work during 2019/20; and
- 2.4 note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. BACKGROUND / MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.
- 3.2 The Internal Audit plan for 2019/20 was agreed by the Pensions Committee on 15 March 2019. The plan consisted of one audit although there were a number of audits undertaken in relation to Aberdeen City Council which contributed to Internal Audit's understanding of the NESPF framework of governance, risk management, and internal control arrangements.
- 3.3 It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Audit Report. This is supplemented by review of other relevant documentation, including Pension Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in

updating the Internal (and External) Audit plan(s).

- 3.4 Internal Audit's annual opinion is attached as Appendix A, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and internal control in the year to 31 March 2020.
- 3.5 The Public Sector Internal Audit Standards require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.
- 3.6 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2019/20, there have been no such limitations.
- 3.7 Internal Audit Standards require that Internal Audit implement a system to monitor the implementation of agreed recommendations by management arising from its reports. Appendix B to this report shows the progress that management has made with implementing such recommendations.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and

helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to consider Internal Audit’s annual report. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required.

9. APPENDICES

- 9.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2020.
- 9.2 Appendix B – Position with agreed recommendations included in NESPF Internal Audit reports.

10. REPORT AUTHOR DETAILS

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

Appendix A

Internal Audit Annual Report relating to the North East Scotland Pension Fund for the year ended 31 March 2020

As Chief Internal Auditor of the North East Scotland Pension Fund, I am pleased to present my annual statement on the adequacy and effectiveness of the NESPF's framework of governance, risk management and control for the year ended 31 March 2020. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the Annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2020.

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

Basis of Opinion

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

- The audit work completed by Internal Audit during the year to 31 March 2020;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the NESPF's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.

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

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

Sound internal controls

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

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

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

The Work of Internal Audit

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

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

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

**David Hughes,
Chief Internal Auditor,
North East Scotland Pension Fund
2 April 2020**

Appendix B

POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF

INTERNAL AUDIT REPORTS

AS AT 31 AUGUST 2020

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

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.07.20	Confirmed Implemented by Service	Not implemented by original due date	
AC1827	Pensions System	March 2018	7	7	6	1	1 Significant
The position with the overdue recommendation is as follows:							
Chief Officer	Recommendation	Grading / Due Date	Position				
Finance	The Service should ensure that secondary calculation checks are a system requirement (2.4.8)	Significant September 2018	<p>The Committee was advised on 14 June 2019 that the Service was in the process of implementing a new software solution but testing of this had been delayed by the system provider. As a result, this recommendation was due to be fully implemented by September 2019.</p> <p>The Service had advised Internal Audit that this would then be complete by the end of March 2020, however, due to Covid-19, implementation has been delayed. Testing was nearing completion just prior to lockdown and is (as at 15 July) about to re-commence with a provisional 'go live' date of 11 September 2020.</p>				

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Pensions Investment Strategy & Investment Performance Management
REPORT NUMBER	IA/AC2015
DIRECTOR	N/A
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Pensions Investment Strategy & Investment Performance Management.

2. RECOMMENDATIONS

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

3. BACKGROUND / MAIN ISSUES

- 3.1 Internal Audit has completed the attached report which relates to an audit of the Pension Fund's Investment Strategy and Investment Performance Management.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

- 6.1 The Internal Audit process considers risks involved in the areas subject to

review. Any risk implications identified through the Internal Audit process are as detailed in the attached appendix.

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Data Protection Impact Assessment	Not required.

9. APPENDICES

- 9.1 Internal Audit report AC1923 – Pension Governance.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

North East Scotland Pension Fund

**Investment Strategy &
Investment Performance Management**

Issued to:

Steven Whyte, Director of Resources
Fraser Bell, Chief Officer – Governance
Jonathan Belford, Chief Officer – Finance
Laura Colliss, Pensions Manager
External Audit

EXECUTIVE SUMMARY

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council

Transport Fund (ACCTF), jointly known as the Fund, are administered by Aberdeen City Council. The NESPF was valued at £4.5 billion at the end of the 2018/19 financial year, and ACCTF had assets valued at £105 million.

In order to maintain, and where appropriate increase, the value of the Fund's assets in order to meet future liabilities as they fall due, and maintain the level of contributions appropriately, the Fund has set an Investment Strategy. This sets out a strategic portfolio allocation (between different classes or types of asset e.g. equities, bonds, credit, infrastructure) which each investment decision should aim to bring the Fund closer to achieving.

The Fund employs an internal Investment Management team, and uses external Investment Fund Managers, expenses for the services and performance of which currently amount to around £20 million per annum.

The objective of this audit was to provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers.

The Service regularly reports to the Pensions Committee on the allocation between funds, and performance of investment managers against benchmarks. However, there is limited narrative within the formal reports to explain what is being done, and over what timeframe, to address variations between actual and strategic allocations.

Performance reporting could be improved by monitoring and reporting against clear overall targets for the Pension Fund, tailoring the content of funds' narrative to the Fund's needs, separating out different assets held by the same Fund Manager, and disclosing the cost of performance by presenting net as well as the current gross performance figures. The Service considers that the Committee should not be overburdened with operational detail, and has highlighted that moves within the industry to improve cost transparency will take time to implement, but it will consider Internal Audit's recommendations in respect of performance reporting at the next review of Committee reporting by the Pensions Committee in March 2021.

The Investment Policy sets out that Fund Managers' performance will be reviewed, discussed, and reported to Committee where underperformance is identified. There is no written procedure to set out how reviews should be carried out, and review activity and discussions are not documented. The Service does not intend to do so due to resource constraints.

Final investment proposals, and approval under delegated powers by the Chief Officer – Finance, are adequately documented, however the supporting options appraisal and selection processes leading up to this point are not. It is not therefore possible to obtain assurance that these decisions are being taken on the basis of all appropriate information. Substantial reliance is placed on individual officers to select and compare appropriate investments. There is no evidence of key controls including written procedures, segregation of duties, and declarations of interest. There were similar findings in respect of recording consideration of options for disinvestment. The Service has agreed to develop its processes during 2020.

At the time audit fieldwork took place the Fund was cashflow positive, and over 100% funded. Cash balances may be up to 2.5% of the value of the Fund, under the current Investment Strategy. The Service regularly monitors its cash balances, but does not consider it appropriate, necessary, or achievable to prepare and use cashflow forecasts. It will however set cash management principles to guide decision making in this respect.

Surplus cash may also not provide the best value return. The Service does not document its discussions and options in respect of cash deposits. The majority of cash balances are invested in the Aberdeen City Council's Loans Fund. The year-end accounts for 2018/19 show cash holdings with Aberdeen City Council of £107m / 2.4% of the Fund value at the time. The Service considers this the best returning solution providing the required liquidity, but has agreed to review its options for short term cash deposits, and to document its arrangements more clearly to demonstrate that they remain appropriate.

1. INTRODUCTION

- 1.1 The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF), jointly known as the Fund, are administered by Aberdeen City Council.
- 1.2 The NESPF was valued at £4.5 billion at the end of the 2018/19 financial year, and ACCTF had assets valued at £105 million.
- 1.3 The Funds are built up from contributions from both employees and employing bodies, together with interest, dividends, and rent from investments, out of which pensions and other benefits are paid. Employee contributions are fixed by statute while employer contributions are assessed every three years by an independent Actuary to determine the level of contributions necessary by employing bodies to ensure that the Funds are able to meet future benefits as they fall due.
- 1.4 In order to maintain, and where appropriate increase, the value of the Fund's assets in order to meet future liabilities as they fall due, and maintain the level of contributions appropriately, the Fund has set an Investment Strategy. This sets out a strategic portfolio allocation (between different classes or types of asset e.g. equities, bonds, credit, infrastructure) which each investment decision should aim to bring the Fund closer to achieving.
- 1.5 The Fund employs an internal Investment Management team, at a cost of around £200,000 per annum, and uses external Investment Fund Managers, expenses for the services and performance of which currently amount to around £20 million per annum. Fees vary depending on the type of investment, and performance as measured by the size and growth of assets allocated to a Manager as compared with relevant benchmarks. An Investment Management Consultancy has been appointed, and fees are payable where consultants are engaged to provide advice or conduct research.
- 1.6 The objective of this audit was to provide assurance over compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers. This involved review of procedures and documented practice in respect of management by the Service of a sample of investments.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Laura Colliss – Pensions Manager and Jonathan Belford – Chief Officer, Finance.

2. FINDINGS AND RECOMMENDATIONS

2.1 Investment Strategy

- 2.1.1 Although it is longer term than this, the Strategy is formally reviewed every three years in line with the Actuarial Valuation (next due as at March 2020). It was last reviewed in March 2018 (following the 2017 Valuation). The Strategy is agreed by the Committee, and consideration is given to it at each quarterly Committee meeting. The frequency and level of reviews is reasonable and appropriate.
- 2.1.2 The Strategy sets out the strategic allocation of funds ('strategic benchmark') between different asset classes / categories. The aims are to restore any Fund deficit position through investment returns and agreed contributions, and to provide a framework for identifying changes required over the coming period to continue and maintain the appropriate funding level – in order to meet the Fund's ongoing financial obligations in perpetuity.
- 2.1.3 The 2017 Valuation demonstrated that the funding level was 107%, and the strategy was therefore amended to protect this position – to de-risk and lock in gains, by reducing the growth asset allocation (equities), increasing income / protection (bonds and credit), and introducing a new Infrastructure allocation. Further movements in the strategic benchmark were set out up to 2027, 'if and when funding levels and market conditions allow'.
- 2.1.4 Whilst not explicitly referenced in the Strategy, the Statement of Investment Principles sets out that the Fund seeks to maintain a 100% solvency level, by achieving a return of CPI + 1.75% through adherence to the strategy benchmark allocation, with a mix of passive and active investment portfolios.
- 2.1.5 The 2018 Investment Strategy Review noted that movements towards the planned strategic allocation would be phased over time taking into account trigger points and market conditions. The trigger points were not set out in advance, and the periods over which they might be achieved were noted as indicative only.
- 2.1.6 Reports have been taken to the Committee in respect of alternative plans (though this is not reflected in a change to the Strategy), and investment opportunities, which will when implemented allow the Fund to move towards the strategic allocation for certain asset categories. The Service considers that setting a timescale for full compliance would be inappropriate as it depends on availability and timing of appropriate alternative investments to move into, and existing ones to move out of. For Funds there can be delays between agreeing to go ahead, and the funds actually being drawn down. Setting arbitrary targets could be counterproductive and not conducive to making sound investment decisions.
- 2.1.7 Compliance with the Strategy is monitored as part of the investment management reporting which goes to each Committee meeting. Whilst regular monitoring indicates activity and consideration of aspects of performance information, there is limited narrative in the financial update on compliance or otherwise with the Strategy, and progress towards achieving the planned allocation. More regular and consistent detail on movement towards the Strategy would provide more assurance to the Committee that management is taking appropriate action.

Recommendation

The Service should review reporting to demonstrate that management is taking appropriate action to move towards greater alignment with the Strategic allocation.

Service Response / Action

Agreed.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
March 2021	Pension Fund Manager	Significant within audited area

2.2 Investment Practice

- 2.2.1 The Pensions Committee terms of reference set out that its purposes include to set the investment objective and strategy in light of the Fund's liabilities and appoint or remove Fund Managers or new vehicles in furtherance of the strategy, and to monitor the performance of Fund Managers.
- 2.2.2 Powers delegated to Officers in 2018 provide the Chief Officer – Finance with the power to implement investment arrangements for the Fund in accordance with the Local Government Pension Regulations, including sourcing and appointment of investment fund managers within the approved Strategy. Therefore, only decisions anticipated by Officers to move beyond the approved Strategy require Committee approval. As there is no requirement to report back to Committee on changes to the portfolio, reliance is placed on Officers to ensure their decisions are aligned with the Strategy.
- 2.2.3 Investment decisions are based on available options which are aligned with the Investment Strategy – i.e. if the Fund is underweight in a particular category / asset allocation, the Service will give more consideration to available options within that category.
- 2.2.4 Where it is identified that new or revised investments are required to better align with the Strategy, the Investment Manager reviews and discusses the current and proposed strategic allocation with the Pensions Manager and Chief Officer – Finance at a summary level. Proposals, and agreement to proceed to shortlisting options, are not formally documented, though records are retained of the anticipated movement between asset classes – demonstrating the planned changes to the portfolio. The source and reasoning for changing the balance of investments are sufficiently detailed for a decision to be made on these, though no decision is recorded at this stage. However, the decision on how much to invest in any particular option is not clearly documented.
- 2.2.5 There is no documented options appraisal process. Investigation is undertaken into available options, based on the Investment Manager's professional judgement and market awareness – informed by the professional press, and networking with service providers. Options may also be selected from current or previous research conducted by the Fund's investment consultants, if considered by the Investment Manager to be sufficiently related and recent.
- 2.2.6 Options are shortlisted by the Investment Manager, and thereafter compared on key criteria. No evidence is retained of the shortlisting process, or the basis of assumptions and sources of data used in determining comparisons except where documented in investment sales material. Some supporting data was held for two out of three investments for which records were requested by Internal Audit. There is no record of this being shared with key decision makers as part of the governance process. For the third investment the Service considered that research by the Fund's investment consultants sufficiently made a case for selection of the preferred option, though the Fund Manager selected had not featured in the consultants' analysis completed over six months previously. There is no written protocol regarding obtaining advice. Advice is obtained where the Investment Manager considers it appropriate to do so. Obtaining advice could provide independent assurance over the option appraisal process, but will represent an additional cost and could potentially delay decision making pending research being carried out and reported.
- 2.2.7 Whilst the reasons for selecting one option over other shortlisted options can be deduced from the summary of criteria retained, there is no formal ranking of options according to the key criteria recorded, and therefore no objective assurance that the best option has been selected.

2.2.8 Although the Investment Manager has stated that the shortlisted options are discussed in detail with the Pensions Manager and Chief Officer – Finance, only the preferred option is put forward in an investment decision pack for approval. Although more than one officer is named in the report, there is no record of proposals having been approved by a second officer, prior to it being put forward for Chief Officer approval. The Chief Officer – Finance is not provided with a full options appraisal to inform their decision. Without this they are being asked to place full reliance on other Officers to have presented the best option.

2.2.9 Should a proposal which has been erroneously selected or deliberately misrepresented be presented for approval, it is unlikely that present controls would identify and address the error. Clear procedures and independent checks against objective evidenced data would provide more assurance of accuracy and reduce the risk of fraud.

Recommendation

The Service should document the processes involved in developing and taking forward investment proposals. This should include:

- Methods used for determining appropriate investment amounts
- Methods used for shortlisting potential investments
- Circumstances in which consultants use should be considered
- A clear options appraisal before finalising investment proposals
- A documented review and sign-off process prior to being submitted to the Chief Officer – Finance for approval.

Service Response / Action

Agreed.

Implementation Date

December 2020

Responsible Officer

Pension Fund Manager

Grading

Major at a Corporate Level

2.2.10 There is a conflicts of interest document, but with limited exceptions it only covered Committee and Board Members. Whilst such a document is reliant on self-declaration, it can serve to protect officers from allegations of bias, and inform decision makers to allow risk avoidance controls to be implemented.

Recommendation

The Service should ensure all Officers involved in preparing and reviewing investment proposals have completed declarations of interest.

Service Response / Action

Agreed.

Implementation Date

December 2020

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.2.11 The Service regularly monitors its 'cash' balances, as these are not generally contributing to asset growth in line with the Strategy. Where considered appropriate by the Service, cash balances may be temporarily invested by the Council's Treasury Management section. However, there is no regular cashflow forecasting. Day to day receipts and payments are largely in balance, meaning there are few anticipated changes in cash balances, except where changes to investments have been planned, or existing commitments are drawn down – which are generally at short notice, making planning and forecasting more difficult to complete accurately.

2.2.12 Although detailed cashflow forecasting may not currently be necessary, due to the current funding position, should this change a clear procedure would provide more assurance that the appropriate decisions were being made and approved at the correct level. There is a risk that without sufficient forecasts the Service may have to respond reactively rather than proactively to cash variances, which could incur additional cost. High-level forecasts reflecting key assumptions would provide some assurance that the risk has been given appropriate consideration.

Recommendation

The Service should develop proportionate cashflow forecasting procedures.

Service Response / Action

Cashflow forecasting is considered to be disproportionate to the Fund's requirements, however cash management principles will be set out, covering e.g.: the likely order of disinvestment; what happens when we sell in an unexpected or unplanned situation; and how we avoid unexpected transactions.

Implementation Date

December 2020

Responsible Officer

Pension Fund Manager

Grading

Important within audited area

2.2.13 Surplus cash, where held centrally and not with Investment Fund Managers, is normally 'invested' in the Council's Loans Fund by default, at the Bank of England base rate – which the Service considers to represent the best value option. There is no documented analysis of options in this regard. The year-end accounts for 2018/19 show cash holdings with Aberdeen City Council of £107m / 2.4% of the Fund value at the time. The Service has stated that this is within the 2.5% 'other' category (which is largely cash) within the strategic allocation.

2.2.14 The Service indicated its bank was selected by the Council (as part of its own set of accounts), and therefore it is likely to offer similar terms and interest direct as that paid by the Council. Although convenient, 'investing' funds with the Council is unlikely to be significantly different from the rates available from the Fund's bank for overnight or short-term deposits. With better forecasting (see above) funds could be let for an extended period to obtain more favourable returns. Although 2.4% of the total Fund value may not seem material, only six of sixteen Investment Fund Managers managed a larger proportion of the Fund value at 31 March 2019.

2.2.15 However, using the Council's banking arrangements will reduce the cost of administering cashflow as the risks and rewards are passed to the Council. I.e. the Council can benefit from investment returns or lower borrowing costs on the amount held, but bears the cost of treasury management operations and the risk of having to draw down or borrow funds in order to make payments to NESPF as they fall due. It may be that as the Fund develops its in-house investment portfolio, which is planned, there will be a more active role for the Service in managing cashflow. The Service has indicated that liquidity is the key requirement for the Fund, which this arrangement offers.

2.2.16 Internal Audit highlighted to the Service that the Pensions Act 1995 states that the Fund must not invest in or provide loans to any of its Employer Organisations, and that this arrangement could be seen as doing so. The Service has taken legal advice, which indicates that it is not in breach of its statutory obligations, but that the arrangements should be more formally documented to reinforce this position.

Recommendation

The Service should review options for short term cash deposits, and improve documentation regarding investments made with the Council.

Service Response / Action

Agreed.

Implementation Date

December 2020

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

- 2.2.17 The Service has stated that it does not generally disinvest for cashflow purposes. This is not generally required due to day to day receipts and payments being largely in balance. Instead, it will disinvest to crystallise / capitalise on gains, in order to adjust the strategic allocation or invest in alternative assets.
- 2.2.18 It has however disinvested to capitalise on gains, and retained this as cash in some instances, in order to fund future drawdowns (e.g. infrastructure and direct lending) – which may have limited notice, and to protect against future risks (e.g. Brexit).
- 2.2.19 There is no detailed analysis of which investments were appropriate for selection to secure current gains. The Investment Manager stated that in respect of the most recent sale (to fund investment in credit to rebalance the strategic allocation) the equity reduction proposed was from the top 20 stocks, which accounted for over 60% of the specific fund value (which had approximately 100 stocks in total). How and to what extent these were reduced was not available.
- 2.2.20 Although disinvestment for cashflow purposes may not currently be necessary, due to the current funding position, should this change a clear protocol would provide more assurance that the appropriate decisions were being made and approved at the correct level. Detailed selection of investments for sale is not well recorded. Clearly recording the selection process would provide justification for disposal of assets.

Recommendation

The Service should develop a protocol to cover selection and recording of disinvestment options.

Service Response / Action

Agreed. The actions agreed at 2.2.12 will document the principles to be applied for disinvestment.

Implementation Date

December 2020

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.3 Performance Monitoring

- 2.3.1 Performance reports are received quarterly from Fund Managers, compared with other available information, considered by the Investment Manager, challenged where appropriate, and presented to the Pensions Committee.
- 2.3.2 The same approach is taken in monitoring each Fund Manager / portfolio, though the way in which performance is reported is determined by each Fund Manager. Each reports their performance in a slightly different format.
- 2.3.3 There are no written procedures in place for monitoring performance, and the actions taken and discussions with Fund Managers are not recorded. Setting out performance monitoring procedures would provide more assurance over consistency and proportionality.

Recommendation

The Service should set out performance monitoring procedures.

Service Response / Action

Not agreed.

Following the internal audit report on Pension Governance in March 2019 the Fund agreed to recommendations 2.5.1 and 2.5.2 regarding performance management. This resulted in The Investment Policy document being updated, detailing monitoring and review process. (June 2019).

Resource constraints are such that assurance on performance monitoring comes from the task being assigned to the Investment Manager and team and these being requirements of the job profiles. The reporting requirements that are informed by the discussions and information provided by Fund Manager and an understanding that each Fund Manager mandate is different such that it may require a different set of performance data.

Internal Audit Position

The revised Investment Policy referenced sets out that performance will be reviewed, and underperformance will be discussed with Fund Managers and reported to Committee. The internal processes for doing so are not set out in a procedure, and the discussions are not documented. It is not therefore possible to obtain assurance that performance monitoring is being completed and acted on appropriately.

Implementation Date

N/A

Responsible Officer

Pension Fund Manager

Grading

Important within audited area

- 2.3.4 Fees are typically based on market values and in some cases an additional performance fee based on outperforming targets or benchmarks. Funds generally have their own benchmarks or targets, and in most cases these are set out in the Investment Management Agreements (or equivalent) between the Fund Manager and NESPF, along with details of the basis and calculation of fees and charges. These may be subject to change following renegotiation of terms – which are also documented.
- 2.3.5 As NESPF generally buys in to a Fund Manager’s investment approach, existing investment option, or new proposal, there is limited opportunity to set or influence the selected benchmarks and terms. NESPF would have to change providers, set up its own Funds or act collectively with other investors to set or change targets.
- 2.3.6 Not all funds have a benchmark recorded in the agreement – Partnership agreements / Private funds do not generally list a benchmark. Fees for these are typically deducted directly from funds, providing limited opportunity for review.
- 2.3.7 For the majority of Funds, assets are listed on a relevant exchange, and therefore performance data is published. The Global Custodian provides independent confirmation of quarterly valuations for these. Where there are variations beyond agreed tolerances, the Investment Manager seeks further information and will challenge the data where necessary. For unlisted assets, assurance has to be taken from the Fund Manager, each of which is subject to its own audit and inspection arrangements.
- 2.3.8 The Service maintains a list of all fees as part of its contracts register. Whilst in general this is up to date and includes links to all of the relevant documents, it did not include detail of the fees payable on all of the funds with each Fund Manager. An error was also identified where the fee

was stated as being applicable to the first £1 million when it should be £100 million.

- 2.3.9 The register also sets out where IFM's hold Power of Attorney (PoA) on behalf of NESPF for efficient functioning of the portfolio – i.e. acting on behalf of NESPF to sign investment documentation, or such other powers as may be requested and set out in the Investment Management Agreement or equivalent. Two instances relating to Partnership agreements for pooled investments which included PoA's were not recorded on the register.
- 2.3.10 Documentation of investment management agreements is voluminous and incorporates various amendments. There is a risk that if changes are not documented and summarised, they may not be applied correctly, or challenged appropriately if the changes are not applied. The fees section of the contracts register should include all fees to inform checks against fees levied by IFM's.

Recommendation

The Service should ensure the fees section of the contracts register is complete and accurate.

Service Response / Action

Agreed. The Fund will ensure the register is accurate, however there is no material risk to the Fund

Implementation Date

September 2020

Responsible Officer

Pension Fund Manager

Grading

Important within audited area

- 2.3.11 Fee calculations are checked by staff before payment is agreed, and annotated to confirm reviews have taken place. A sample of fees was reviewed and in each case the amounts paid to / deducted from funds by the Fund Manager matched the relevant agreements.
- 2.3.12 Monitoring generally only covers financial performance – though the Service does seek ESG (Environmental, Social and Governance) information and has sought to include it, with Fund Manager approval, in Committee reports. No standards have been set, therefore it would be difficult to measure performance on these aspects. At the time of the audit fieldwork, not all Fund Managers regularly provided ESG information, and it was not available for the Private Markets funds.
- 2.3.13 The Statement of Investment Principles and Corporate Governance and CSR (Corporate Social Responsibility) Policy indicate that a level of monitoring, and active voting arrangements, are in place regarding ESG performance. However, there are no set requirements in terms of the level of activity or assurance required by the Fund in respect of ESG (except in respect of the Fund's voting activity on its active portfolio).
- 2.3.14 The Service has stated that ESG related information is now being obtained and reported, however there are challenges for some alternative asset managers. While ESG has been an integral part of the LGPS and asset management for many years, the ability to measure in a consistent and relevant way is still a challenge for the industry across all asset classes. These challenges were discussed in detail at a recent training event for the committee and board, and while the industry continues to address and improve this will take time for a holistic solution to evolve.
- 2.3.15 However, in the absence of targets / clearly defined expectations and consistent reporting requirements it will be difficult to effectively monitor this dimension of the Fund's performance.

Recommendation

The Service should review its ESG policies and reporting requirements.

Service Response / Action

Agreed.

Implementation Date

March 2021

Responsible Officer

Pension Fund Manager

Grading

Important within audited area

2.4 Performance Reporting

- 2.4.1 There is regular performance reporting to the Pensions Committee. Performance information including the value and proportion of the fund held with each Investment Fund Manager, performance of each Manager against a benchmark, and commentary from each Manager is provided in Asset and Investment Manager Performance reports presented to each Committee meeting.
- 2.4.2 A summary table outlines the movement in funds over the last Quarter with each Investment Fund Manager, the total value of the fund, and a comparison between the current and strategic allocation between the different asset classes. There is no commentary on the latter – see section 2.1 above.
- 2.4.3 Some Managers have more than one fund / asset allocation. Whilst this is reflected in the report there is no indication of the value / proportion to which the benchmark and commentary relates for each fund. Figures could be made clearer by including the value of each portfolio where Fund Managers hold more than one.
- 2.4.4 Figures in the summary table do not show the percentage change in value of each fund over the reporting period, though this and longer-term performance against benchmarks are shown in later sections.
- 2.4.5 All fund movements and performance figures are shown gross. Fees are calculated at a later date, and reported as a single figure – i.e. not by Investment Fund Manager or fund / asset. The Service considers this to be commercially sensitive information and has stated that it would be difficult to estimate the level of fees in advance sufficiently accurately to include in performance reports. However, presenting data gross (before fees) could be misleading, as actual returns are net of fees – which will reduce and could exceed any gains made. It is therefore not possible to gauge performance and value for money based on gross figures alone.
- 2.4.6 There is limited management commentary on performance – the narrative content of the report is largely derived from Fund Managers reports which contain generic economic commentary and Managers' selected portfolio highlights. Since June 2019, following implementation of an Internal Audit recommendation, the Service makes it clear that the commentary is from Fund Managers. Whilst generally this provides suitable market and portfolio information, more tailored data would provide further assurance to the Committee over specific asset performance.
- 2.4.7 A traffic light system is used to highlight whether Fund Managers' performance is within acceptable tolerances. Additional information is also available to Committee members through a secure area on the NESPF website which hosts quarterly Investment Manager reports. Whilst the Committee is able to obtain management commentary and further assurance during its meetings, this is not specifically recorded in the minute unless a decision is being sought.
- 2.4.8 The Private Equity section of the report is in a different format, and where printed is difficult to read. Whilst it includes more information than is available for other assets / funds, there is

minimal commentary to put these in context.

2.4.9 The Service has started obtaining ESG / Responsible Investment information from Fund Managers, though not all have provided and agreed the release of this information to the Committee. Where it has been obtained, highlights are reported in respect of their engagement with individual companies / equities on specific issues. The Service also reports its voting activity (for equities it holds in its 'active' portfolio) in a register retained on the NESPF website. Voting is informed by LAPFF (Local Authority Pension Fund Forum) and PIRC (Pensions & Investment Consultants Ltd) recommendations – which give consideration to ESG issues. As noted in section 2.1 above there are no set requirements or targets for the non-financial performance elements of the reports.

2.4.10 Decisions at an individual investment / fund / asset level are largely made by Officers under delegated powers (see section 2.2 above), therefore the scope for Committee decision making is appropriately limited to strategic and policy decisions. However, the way in which information is currently provided limits the Committee's ability to scrutinise and where appropriate challenge Officers' decisions and performance. The format of reporting could be improved to provide additional and more useful information to the Committee as discussed in this section.

Recommendation

The Service should review performance reporting to ensure:

- data is tailored to the Fund's needs;
- valuation and performance data is sufficiently separated for different assets held by the same Manager;
- performance measurement reflects costs;
- the Committee is able to scrutinise and challenge Officers' decisions and performance as appropriate.

Service Response / Action

Agreed

Reporting to committee is and should be at a strategic level not operational. The committee is provided with both the Fund Managers commentary and officers provide further comments during the committee meetings detailing any significant and or strategic issues or change.

The industry standard is to report on gross performance numbers, some Fund Managers do however report net, it is not possible at present to provide true net numbers.

There is currently mounting pressure on the industry to clearly report on all costs, while we monitor and work with the industry to be more transparent this will take time.

Officers currently work and provide reporting under agreed delegations and additions or change to assets are discussed and reported to committee.

Committee reporting is regularly reviewed and discussed by committee, officers are steered by council as to the level of content in committee reporting ensuring it remains concise and strategic.

Recommendations will be considered at the next review of committee reporting by the Pension Committee

Implementation Date

Review date: March 2021

Responsible Officer

Pension Fund Manager

Grading

Significant within audited

area

AUDITORS: D Hughes
C Harvey

Appendix 1 – Grading of Recommendations

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

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North East Scotland Pension Funds - Pensions Committee and Pension Board

15 September 2020

North East Scotland Pension Fund Audit of 2019/20 annual accounts

Independent auditor's report

1. Our audit work on the 2019/20 annual accounts is now substantially complete. Subject to receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 29 September 2020 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee and Pension Board's consideration our draft annual report on the 2019/20 audit. The section headed "Significant findings from the audit of the financial statements" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. We have no unadjusted misstatements to be corrected.

Fraud, subsequent events and compliance with laws and regulations

6. In presenting this report to the Pensions Committee and Pension Board we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

APPENDIX A: Proposed Independent Auditor's Report

Independent auditor's report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Aberdeen City Council Transport Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the funds during the year ended 31 March 2020 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to the "Critical judgements in applying accounting policies" section of the Accounting Policies in the financial statements, which describes the effects of material uncertainties, caused by Covid-19, declared in the valuation report for property valuations. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the

going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Officer - Finance and Aberdeen City Council Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Chief Officer - Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director

Audit Scotland
102 West Port
Edinburgh
EH3 9DN

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
102 West Port
Edinburgh
EH3 9DN

Dear Gillian

North East Scotland Pension Fund and the Aberdeen City Council Transport Fund Annual Accounts 2019/20

1. This representation letter is provided about your audit of the annual accounts of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (North East Scotland Pension Funds or the funds) for the year ended 31 March 2020 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of relevant officers, the following representations given to you in connection with your audit of North East Scotland Pension Funds annual accounts for the year ended 31 March 2020.

General

3. North East Scotland Pension Funds and I have fulfilled our statutory responsibilities for the preparation of the 2019/20 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by North East Scotland Pension Funds have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (2019/20 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2020 and the transactions for 2019/20.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2019/20 accounting code where applicable. Where the code does not specifically apply I have used judgement in developing and applying an

accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to North East Scotland Pension Funds' circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed North East Scotland Pension Funds ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on North East Scotland Pension Funds' ability to continue as a going concern.

Assets

10. I have satisfied myself that the carrying amount of assets included in the financial statements at 31 March 2020 continues to represent the best available information while recognising the additional uncertainty created by the impact of the Covid-19 pandemic.
11. I carried out an assessment at 31 March 2020 as to whether there is any indication that an asset may be impaired and have recognised any impairment losses identified.
12. I have provided you with all information of which I am aware regarding any valuation exercises carried out after 31 March 2020.
13. There are no plans or intentions that are likely to affect the carrying value or classification of the assets recognised within the financial statements.
14. Owned assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Liabilities

15. All liabilities at 31 March 2020 of which I am aware have been recognised in the annual accounts.
16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2020 of which I am aware where the conditions specified in the 2019/20 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2020. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.
17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2020 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The pension assumptions made by the actuary in the IAS 19 report for North East Scotland Pension Funds have been considered and I confirm that they are consistent with management's own view.
19. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

20. There are no significant contingent liabilities, other than those disclosed in Note 23 of the Main Fund and Note 17 of the Transport Fund financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 and IAS 37

Fraud

21. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

22. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2019/20 accounting code. I have made available to you the identity of all the North East Scotland Pension Funds related parties and all the related party relationships and transactions of which I am aware.

Management commentary

24. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

25. I confirm that the North East Scotland Pension Funds has undertaken a review of the system of internal control during 2019/20 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

26. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. In response to the Covid-19 pandemic, there have been several changes in governance arrangements including virtual committee meetings and homeworking for a range of staff. I am satisfied that our arrangements have been adequately maintained during the pandemic and that appropriate details have been disclosed in the Governance Statement. Otherwise, there have been no significant changes in governance arrangements or issues identified, since 31 March 2020, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

27. All events subsequent to 31 March 2020 for which the 2019/20 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford, CPFA
Chief Officer - Finance

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North East Scotland Pension Fund

2019/20 Annual Audit Report - Draft



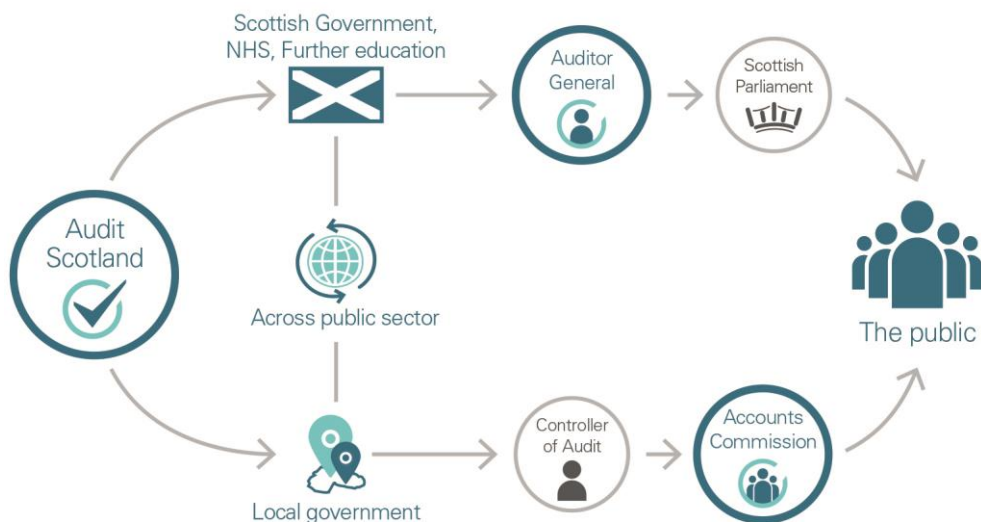
 AUDIT SCOTLAND

To Members of the Aberdeen City Council Pensions Committee and the Controller of Audit
29 September 2020

Who we are

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

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



About us

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

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

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

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Key messages

2019/20 annual accounts

- 1** North East Scotland Pension Fund's financial statements give a true and fair view and were properly prepared.
- 2** The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared.
- 3** North East Scotland Pension Fund has valued its Level 2 property assets on an appropriate basis and using information provided by professional valuers. We included an emphasis of matter paragraph in the independent auditor's report to draw attention to the impact of Covid-19 on the level of uncertainty over property valuations. The audit opinion is not modified in respect of this matter.

Financial management

- 4** The annual performance of the Fund was significantly impacted by Covid-19. At 31 December 2019 the value of the main fund's net assets exceeded £4.8 billion but by the end of March the value fell to £4.383 billion, as a result of Covid-19.
- 5** The Fund has appropriate and effective arrangements in place for financial management.
- 6** Systems of internal control operated appropriately and effectively in 2019/20.
- 7** Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

Financial sustainability

- 8** There were negative cash flows from member activity in 2019/20 and the ratio of active fund members to pensioners has been falling. This trend is expected to continue.
- 9** The Fund has appropriate and effective financial planning arrangements in place.
- 10** The Fund's three year funding and investment strategy will be reviewed following the next full triennial valuation, due to be completed by 31 March 2021. This will determine the level of employer and employee contribution rates from 2021/22 onwards.

Governance and transparency

- 11** The Fund has effective governance arrangements that support scrutiny of decisions made by the Pensions Committee.
- 12** Governance arrangements changed in March 2020 as a result of the Covid-19 pandemic. Committees were suspended and replaced by an Urgent Business Committee, with meetings held virtually. We concluded

that these changes were appropriate and properly disclosed in the Annual Governance Statement.

Value for money

- 13** The impact of Covid-19 on global markets reduced annual returns significantly but investment performance continues to outperform medium and longer term benchmarks.
- 14** The Fund has adequate arrangements for monitoring investment performance and scrutinising investment management.
- 15** The Fund's investment performance is subject to regular review and scrutiny by the Pensions Committee.

Introduction

1. This report is a summary of our findings arising from the 2019/20 audit of North East Scotland Pension Fund (NESPF or the Fund). The Fund consists of two funds, the North East Scotland Pension Fund (the main fund) and the Aberdeen City Council Transport Fund (the transport fund). Both funds are part of the Local Government Pension Scheme (LGPS). Hereafter we will refer to “the Fund” in the singular.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2020 meeting of the Pensions Committee. This report comprises:

- an audit of the Fund’s annual accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2019/20 have been:

- an audit of the Fund's 2019/20 annual accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund’s main financial systems
- consideration of the four audit dimensions

Added Value

4. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability

5. Taking this together, we aim to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Aberdeen City Council is the administering authority for the North East Scotland Pension Fund. The council delegates this responsibility to the Pensions Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Pensions Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements,
- suitability and effectiveness of corporate governance arrangements, and financial position and,
- arrangements for securing financial sustainability.

9. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

10. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#) setting out specific recommendations, responsible officers and dates for implementation. It also includes any outstanding actions from last year and progress against these.

Auditor Independence

12. Auditors appointed by the Accounts Commission or Auditor General must comply with the Code of Audit Practice and relevant supporting guidance. When auditing the financial statements auditors must comply with professional standards issued by the Financial Reporting Council and those of the professional accountancy bodies.

13. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2019/20 audit fee of £40,880 as set out in our Annual Audit Plan remains unchanged.

14. This report is addressed to both the members of the Pension Fund Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

15. We would like to thank the management and staff who have been involved in our work for their cooperation and assistance during the audit.

Part 1

Audit of 2019/20 annual accounts



Main judgements

North East Scotland Pension Fund's financial statements give 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 properly prepared.

North East Scotland Pension Fund has valued its Level 2 property assets on an appropriate basis and using information provided by professional valuers. We included an emphasis of matter paragraph in the independent auditor's report to draw attention to the impact of Covid-19 on the level of uncertainty over property valuations. The audit opinion is not modified in respect of this matter.

The annual accounts are the principal means of accounting for the stewardship of resources and performance

Our audit opinions on the annual accounts are unmodified

16. The annual accounts for the year ended 31 March 2020 were approved by the Aberdeen City Council Pensions Committee on 29 September 2020. We reported, within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

17. We have included an 'Emphasis of Matter' paragraph in our independent auditor's report which refers to the impact of Covid-19 on the valuation of property assets. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts. The Statement of Accounting Policies in the financial statements describes the uncertainty caused. The audit opinion is not modified in respect of this matter. Further information is contained in [Exhibit 3, no.1](#) below.

Objections

18. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for North East Scotland Pension Fund was published on the website of the administering authority (Aberdeen City Council) and complies with the regulations. No objections were received to the North East Scotland Pension Fund accounts.

The annual accounts were signed off in line with the timescales permitted to reflect Covid-19

19. The provisions in Schedule 6 of the Coronavirus (Scotland) Act 2020 allowed each local authority to determine its own revised timetable for the annual accounts. The pension fund invested considerable effort into delivering the unaudited annual accounts and working papers in accordance with the original audit timetable.

20. The working papers provided with the unaudited accounts continued to be of a high standard and were delivered on time despite the challenges to staff of preparing accounts under lockdown restrictions. During our audit we identified the potential to enhance some detail in the working papers to support year end cut-off testing; we will discuss this as a development for next year's working papers.

21. NESPF staff provided excellent support to the audit team during the audit and worked with us to ensure we could access all the information we needed while working remotely. We noted the significant challenges experienced by the accounting team in preparing accounts with the team members dispersed and working from home due to Covid-19 lockdown restrictions. This required new ways of working, including a move to fully electronic working (the accounting team is now paper-free) and in some cases, new working patterns to accommodate caring responsibilities.

22. The impact of Covid-19 was a factor for the audit team which led to staff shortages and some loss of audit staff productivity due to remote working in this period. The audit timetable was extended by 2 weeks in response to this. The annual accounts were signed off by 30 September which was in line with the Scottish Government's original deadline for the submission of audited annual accounts.

Overall materiality is £44 million

23. The assessment of what is material is a matter of professional judgement. It involves considering both the amount and nature of the misstatement.

24. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and is summarised in [Exhibit 2](#). With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively.

25. On receipt of the unaudited annual accounts we reviewed our materiality and concluded that no significant changes were required to our planned levels and no change was required to our audit approach.

Exhibit 2 Materiality values

Materiality level	Main Fund	Transport Fund
Overall materiality (1% of gross assets)	£45 million	£3.2 million
Performance materiality (75% of overall materiality)	£33.75 million	£2.4 million
Reporting threshold	£250 thousand	£80 thousand
Specific materiality (Benefits payable)	£14million	£0.8 million
Specific performance materiality (Benefits Payable)	£10.5 million	£0.6 million

Source: North East Scotland Pension Fund Annual Audit Plan 2019/20

Appendix 2 identifies the main risks of material misstatement and our audit work to address these

26. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance in relation to these risks.

27. We have no issues to report from our work on the risks of material misstatement highlighted in our 2019/20 Annual Audit Plan.

28. We identified a risk of material misstatement in relation to the merger of Strathclyde Pension Fund No.3 Fund with the Aberdeen City Council Transport Fund during 2019/20. Strathclyde Pension Fund No.3 Fund's assets, liabilities and members' data have all transferred to the Aberdeen City Council Transport Fund. The Transport Fund financial statements reflect the combined position at 31 March 2020. We are satisfied that the accounting treatment of the merger is appropriate.

We have no significant findings to report on the accounts, except for material valuation uncertainty

29. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices. We have no significant findings to report around the qualitative aspects covering accounting policies, accounting estimates and financial statements disclosures.

30. The Fund included some additional disclosures in the audited accounts as a result of the audit. The accounts were also updated for the 31 March 2020 valuations of Level 3 investments, which were received from Fund Managers after the unaudited accounts were prepared. This amendment reduced the value of Level 3 investments by £16.1 million.

31. The significant findings are summarised in [Exhibit 3](#).

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Material uncertainty in the valuation of property investments</p> <p>The valuer included a "material valuation uncertainty" clause in the valuation report as at 31 March 2020, regarding its valuation of the Fund's property assets. These property assets are valued at £348.8 million, which is 7.9% of total investment assets value at 31 March 2020. Covid-19 meant the property sector was faced with an unprecedented set of circumstances on which to base a judgement. As at the valuation date, the valuer considered that less weight could be given to previous market evidence for comparison purposes to inform opinions of value. Consequently, less certainty and a higher degree of caution should be attached to the valuations than would normally be the case.</p>	<p>North East Scotland Pension Fund updated the "Critical judgements in applying accounting policies" section of the Accounting Policies in the Annual Report and Accounts to disclose this material valuation uncertainty.</p> <p>We have included an 'Emphasis of Matter' paragraph in our independent auditor's report to highlight this matter. Emphasis of Matter paragraphs are added to auditors' reports where the auditor considers it necessary to draw users' attention to matters which are fundamental to the understanding of the accounts.</p> <p>The audit opinion is not modified in respect of this matter.</p>

Source: Audit Scotland

We have no misstatements above our reporting threshold to report

32. It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no misstatements above our reporting threshold to report from the 2019/20 audit.

Good progress was made on prior year recommendations

33. The Fund has made good progress in implementing our prior year audit recommendations. More information on these recommendations is included in [Appendix 1](#).

Part 2

Financial management



Main judgements

The annual performance of the Fund was significantly impacted by Covid-19. At 31 December 2019 the value of the main fund's net assets exceeded £4.8 billion but by the end of March the value fell to £4.383 billion, as a result of Covid-19.

The Fund has appropriate and effective arrangements in place for financial management.

Systems of internal control operated appropriately and effectively in 2019/20.

Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.





The annual performance of the Fund was significantly impacted by Covid-19

34. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three-year period and takes account of the strength of employer covenants and the fund's investment strategy.

35. The Fund's performance in 2019/20 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, funding level and investment performance

Increase/ (decrease) in net assets	Increase/(decrease) in estimated liabilities	Funding level	Investment performance
 Main Fund (-£86.5 million) (-1.9%)	 Main Fund (-£170 million) (-3.1%)	 107% Main Fund 94% Transport Fund 2017 Funding valuation	 Main Fund (-1.8%) Return on investments 2019/20
Transport Fund (-£5.1 million) ¹ (-1.6%) ¹	Transport Fund (-£24.6 million) ² (-10.2%) ²		

Increase/ (decrease) in net assets	Increase/(decrease) in estimated liabilities	Funding level	Investment performance
Main Fund £4,383 million	Main Fund £5,252 million		Main Fund 7.4%
Transport Fund £308.8 million	Transport Fund £217.3 million		Return on investments over 5 years
Closing net assets	Closing liabilities		

¹This reflects the combined opening net assets of ACCTF £105.3 million and Strathclyde Pension Fund No.3 Fund £208.6 million

² This reflects the combined opening estimated liabilities of ACCTF £80.9 million and Strathclyde Pension Fund No.3 Fund £161 million

Source: 2019/20 North East Scotland Pension Fund audited annual report and accounts and Strathclyde Pension Fund 2018/19 audited accounts

36. The net assets of the Main Fund decreased to £4,383 million at 31 March 2020 from £4,469 million at 31 March 2019. This was a decrease of £86.5 million (1.9%) reflecting the year end impact of Covid-19 on global markets. Prior to the pandemic outbreak, reported performance in the year had been positive. The reported value of the main fund at 31 December 2019 was £4,832 million.

37. At the same time the Fund's actuary, Mercer Limited, estimated that pension liabilities had fallen slightly from £5,422 million at 31 March 2019 to £5,252 million at 31 March 2020 (£170 million decrease) for the Main Fund.

38. The closing net assets in the Transport Fund Net Assets Statement increased by £203.5 million (193%) in 2019/20, to £308.8 million, due to the assets of Strathclyde Pension Fund No.3 Fund merging with those of the Aberdeen City Council Transport Fund during 2019/20. The underlying performance of investment assets was affected by Covid-19: the additional assets transferred from Strathclyde masked this fall in asset values. The combined net assets of ACCTF and SPF No.3 Fund dropped from £313.9 million at 31 March 2019 to £308.8 million at 31 March 2020.

39. The combined estimated Transport Fund liabilities fell slightly by £24.6 million, from £241.9 million at 31 March 2019 (based on 2018/19 accounts for ACCTF and SPF No. 3 Fund) to £217.3 million at 31 March 2020.

40. During 2019/20 contributions to the Main Fund amounted to some £144 million. This was slightly lower than the benefits paid out which totalled £154 million. Benefits payable in 2019/20 were 10% higher than in 2018/19. Pensioner numbers continue to rise, and a record number of retirements were processed by the Fund in 2019/20, although there are factors other than pensioner numbers (including individual members' entitlement) affecting the rise in benefits payable.

41. The Transport Fund paid out £6.7 million more in benefits in 2019/20 than it received in contributions. The increase in benefits payable reflects the increase in pensioner numbers as a result of the merger with Strathclyde Pension Fund No.3 Fund. There was not a corresponding increase in contributions receivable because the previous triennial funding valuation for Strathclyde Pension Fund No.3 Fund set the employer's contribution rate at nil, as the Fund was over 100% funded.

42. In addition to the year-end impact of Covid-19, a number of other challenges face the Fund and the wider environment in which it operates. A number of issues may increase pressures on the future funding position, including economic growth

and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination within pension schemes are also likely to impact on the funding position in the coming years.

43. The Fund has considered these challenges and continues to monitor risks through the corporate risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to pay its liabilities.

44. The Fund is also committed to ensuring it has appropriate resources in place to support ongoing pension administration activities, along with strategies and plans that take account of future challenges.

Financial management arrangements were appropriate and effective

45. The Chief Officer - Finance for Aberdeen City Council is the Proper Officer responsible for North East Scotland Pension Fund. The financial regulations of Aberdeen City Council, as administering authority, apply to the Fund. We consider these to be comprehensive, and current, and promote good financial management.

46. Investment and administration performance reports are submitted to the Pensions Committee on a quarterly basis. Reports are comprehensive, covering reviews of the equity and bond markets, overall performance of the funds and reviews of the performance of each investment manager. Also, through our attendance at the Pensions Committee and the virtual Urgent Business Committee meeting in June 2020, we have observed a good level of review and scrutiny by members. Overall, the Fund has appropriate and effective financial management arrangements in place.

Financial systems of internal control operated effectively

47. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements. Our objective is to gain assurance that North East Scotland Pension Fund has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements.

48. The Pension Fund uses some of the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems. We take assurance from audit reporting by KPMG, the external auditor of Aberdeen City Council, that the internal controls over these financial systems were operating effectively during 2019/20. The 2019/20 annual audit report for Aberdeen City Council reported controls testing in the following areas, with satisfactory results: journal entries; budget monitoring; bank reconciliations and controls over the provision of pension fund membership information to the actuary. Progress is reported against the 4 outstanding prior year recommendations to improve general IT controls: but in 2 cases, KPMG note that it's still unclear how access will be reviewed. KPMG will follow up implementation of these recommendations in their 2020/21 audit. KPMG have given an unmodified opinion on Aberdeen City Council's 2019/20 accounts.

49. Internal audit's annual opinion for Aberdeen City Council confirmed that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control in the year to 31 March 2020."

50. We have taken assurance over the administering authority's financial systems from these sources.

51. Our audit testing of the fund's own pension administration system did not identify any significant internal control weaknesses which could affect the Fund's

ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate

52. North East Scotland Pension Fund is responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

53. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's (Aberdeen City Council) arrangements for the prevention and detection of fraud and corruption. These include Code of Conduct for members and officers, Whistleblowing Policy and the Fraud, Bribery and Corruption Policy.

54. We have concluded that appropriate arrangements are in place within the Fund for the prevention and detection of fraud, error and irregularities, bribery and corruption. We are not aware of any specific issues that we need to bring to your attention.

Part 3

Financial sustainability



Main judgement

There were negative cash flows from member activity in 2019/20 and the ratio of active fund members to pensioners has been falling. This trend is expected to continue.

The Fund has appropriate and effective financial planning arrangements in place.

The Fund's three year funding and investment strategy will be reviewed following the next full triennial valuation, due to be completed by 31 March 2021. This will determine the level of employer and employee contribution rates from 2021/22 onwards.

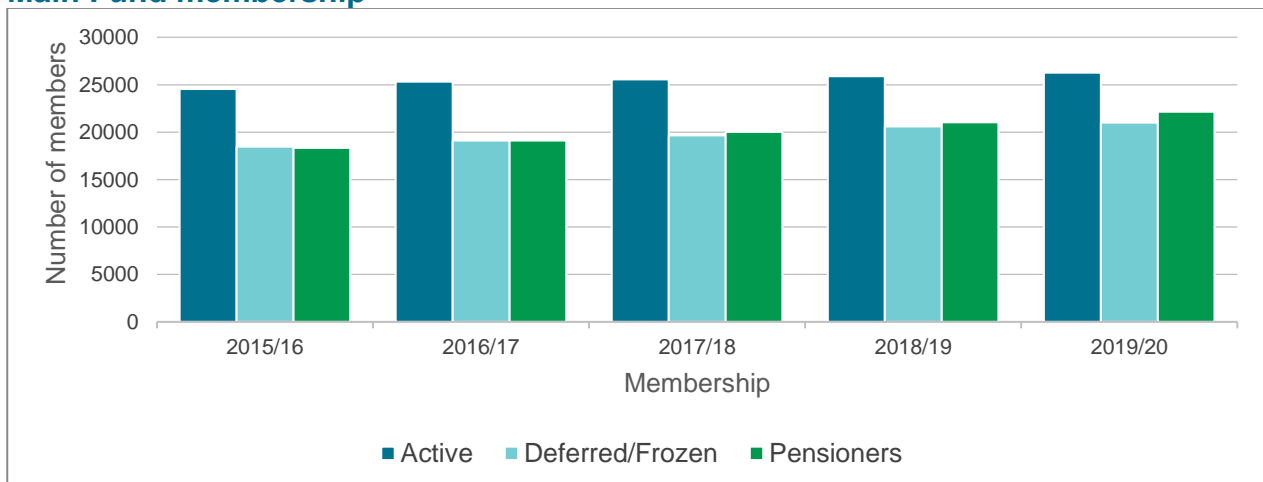
Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Main fund membership levels have increased over the last five years but the ratio of active members to pensioners has reduced over the same period

55. The main fund is a multi-employer fund with three local authorities, and around 50 other employers. The current membership profile of the main fund is shown at [Exhibit 5](#).

56. The Fund gives its members a guarantee that in exchange for contributions during their employment, it will pay a pension until the end of each member's life. It is important that the fund maintains the capacity to meet the current and future pension entitlements of its members.

Exhibit 5 Main Fund membership



Source: North East Scotland Pension Fund 2019/20 audited annual report and accounts

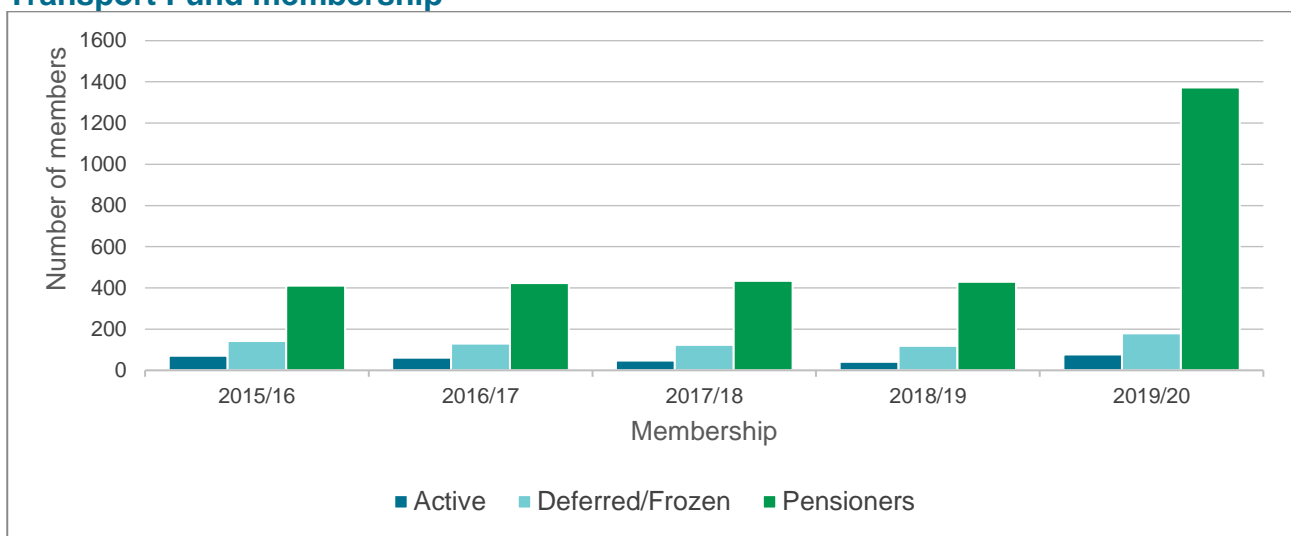
57. Membership of the main fund increased by 1,891 to 69,417 members at 31 March 2020; an increase in membership of 2.8%. The impact of auto-enrolment continues to contribute to the increase in employee members. 2019/20 was a re-enrolment year for the larger authority employers, meaning that employees who had previously opted out were automatically re-enrolled.

58. In 2019/20, the number of pensioners receiving a pension from the main fund increased by over 1,100. The number of pensioner members continues to increase steadily each year. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced in the past 5 years. 2019/20 cash flows from dealing with members were negative for the first time in 2019/20, with more paid out in benefits that was received from contributions.

59. Future membership numbers are difficult to predict with any certainty as they are dependent on a number of factors including employer budgets, recruitment decisions, and promotion of the pension scheme.

60. With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

Exhibit 6 Transport Fund membership



Source: North East Scotland Pension Fund 2019/20 audited annual report and accounts

61. Transport Fund membership increased significantly in 2019/20 due to the merger of Strathclyde Pension Fund No.3 Fund with the Aberdeen City Council Transport Fund.

Contributions

62. Following the latest triennial valuation in 2017, the actuary agreed employer contribution rates with individual employers for 2018/19 onwards. An element of these employer costs includes deficit recovery contributions to support employers' financial planning. The approximate split of all contributions received in year is set out at [Exhibit 7](#).

Exhibit 7

Contributions in 2019/20

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Transferee admission bodies £m	Total £m
Employer contributions	26.352	61.690	6.511	3.731	98.284
Employee contributions	8.291	19.290	2.099	1.190	30.870
Strain Contributions	2.381	3.601	95	0	6.077
Deficit Recovery Contributions	3.902	2.037	22	0	5.961
Total	40.926	86.618	8.727	4.921	141.192

Source: North East Scotland Pension Fund 2019/20 audited financial statements and supporting working papers

63. For the first time, the Main Fund reported a deficit from dealings with members of £10.780 million in 2019/20. This means that pension payments exceeded member contributions and investment income was used to ensure pensions were paid.

64. Strategic cashflow forecasting forms part of the triennial valuation outcome and provides the Fund future cashflow requirements that will assist in the development of the investment strategy.

65. The Main Fund currently holds a number of income-generating assets that will assist with future cashflow requirements and, following the investment strategy review in line with the triennial valuation outcome, these types of assets may increase.

The Fund will require to review its funding strategy and investment strategy following the completion of the next triennial valuation

66. The March 2017 triennial funding valuation reported that the Main Fund assets were sufficient to meet 107% of its liabilities. The funding level means that, overall, the investment assets were higher than the projected liabilities. This, alongside some deficit recovery contributions being made, enabled the fund to maintain the employer's contribution rate at 19.3% for the three councils for the period 2018-2021. The rates for the other bodies range from 11% to 33.8%.

67. The Transport Fund was assessed as 94% funded, meaning that the Fund's assets were sufficient to cover 94% of its liabilities. The administering authority and the employer, First Aberdeen Limited, agreed to maintain the current level of contributions which are 33% of pensionable pay (plus £1.5 million per annum which is being used to finance the costs in relation to future service). On this basis the deficit would be expected to be removed in around 5 years. These contributions will continue over the period 2018-2021 unless the funding level reaches 105% as assessed by the fund actuary.

68. The Strathclyde Pension Fund No.3 Fund, which merged with Aberdeen City Council Transport Fund in 2019/20, had a higher funding level at its previous

funding valuation (114% funded at 31 March 2017). The merger of the two funds improves the combined funding position of the Transport Fund.

69. At the request of First Group (the employer for members of the Strathclyde Pension Fund No.3 Fund and Aberdeen City Council Transport Fund) NESPF is working towards a buy-in arrangement with an insurance company to cover the combined future liabilities of these members. A buy-in is an insurance policy purchased by a pension fund, which is matched against some or all of the liabilities held. This will allow the pension fund to transfer the longevity risk to the insurer and create certainty around the valuation of the liabilities insured. This process is expected to complete during 2020/21.

70. The funding strategy statement is a summary of the Fund's approach to funding liabilities and sets out the level of employer and employee contribution rates required to ensure sufficient resources are available to provide for members' pensions and lump sum benefits. Following the completion of each triennial funding valuation, the Fund reviews and revises the funding strategy statement. The next full review is due to be completed by 31 March 2021. Initial funding valuation results are expected from the actuary in October to allow NESPF to begin its discussions with individual employers and carry out the required consultation on the funding strategy statement.

71. The investment strategy is set for the long-term but is monitored continually and reviewed every three years to ensure that it remains appropriate to the profile of the Fund's liabilities.

72. The current funding strategy statement and investment strategy are included within the Fund's 2019/20 annual report and accounts and both will be reviewed following the completion of the triennial funding valuation, which will determine the level of employer and employee contribution rates from 2021/22 onwards.

73. We concluded that the Fund has an appropriate framework in place through which it demonstrates effective financial planning.

Part 4

Governance and transparency



Main judgements

The Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pensions Committee.

Governance arrangements changed in March 2020 as a result of the Covid-19 pandemic. Committees were suspended and replaced by an Urgent Business Committee, with meetings held virtually. We concluded that these changes were appropriate and properly disclosed in the Annual Governance Statement.

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

The governance and transparency arrangements support good governance and accountability

74. Our previous year's conclusion is still relevant, that overall, the Fund had appropriate governance arrangements, as there has been no significant change during 2019/20, with the exception of specific comments below on the response to the Covid-19 outbreak in March 2020. The governance and transparency arrangements we consider include:

- Pension Board and Pensions Committee structure, conduct and openness.
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption.
- the reporting of performance and whether this is fair, balanced and understandable.

The Covid-19 pandemic had a significant impact on governance arrangements from March 2020

75. The impact of Covid-19 from March 2020 has been set out in the Annual Governance Statement in the Fund's annual accounts. We note that the following changes were made in response to the outbreak:

76. Aberdeen City Council suspended all its committees from March to August 2020, including the Pensions Committee. An Urgent Business Committee was established to ensure that necessary decision making by elected members could continue. Meetings were held remotely using Microsoft Teams software. Webcast recordings of the meetings were made publicly available on the council's website, as the public was unable to attend meetings in person. The Urgent Business Committee considered the NESPF unaudited accounts in June 2020. Members of the Pensions Committee substituted for Urgent Business Committee members for this agenda item, to ensure that the accounts were considered by members with the necessary pensions knowledge and training. Pension Board members did not participate in this meeting under the revised arrangements, but they considered the audited NESPF annual accounts at the September Pensions Committee meeting, as the council recommenced its committee cycle from 24 August 2020.

77. We concluded that these amended governance arrangements were appropriate and supported good governance and accountability.

Appropriate arrangements are in place to comply with the Pensions Regulator Public Service Code

78. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with. The Fund conducts an annual review against the code: the latest report assessing the Fund's compliance with the Pensions Regulator's code was submitted to the Pensions Committee and Pension Board in March 2020. This provided assurance that the Fund is largely in compliance with the regulations. There were no breaches of the code that required to be reported to the Pensions Regulator in 2019/20.

The SSAB consultation on the future structure of the Local Government Pension Scheme in Scotland found the majority of respondents were in favour of retaining the existing structure

79. In June 2018 the Scottish Scheme Advisory Board (SSAB) commenced a consultation on the future structure of the Local Government Pension Scheme in Scotland and identified four potential options:

- Option 1: retain the current structure of eleven funds
- Option 2: promote cooperation in investment and administration between the eleven funds
- Option 3: pool investments between the eleven funds, or
- Option 4: merge the eleven funds into one or more funds.

80. The SSAB commissioned the Pensions Institute to consult with a range of stakeholders, including employers and employee representative groups but not investment managers, between June and December 2019. The consultation asked stakeholders to consider the advantages and disadvantages of the current scheme structure against the other three options presented. North East Scotland Pension Fund's response to the consultation stated that the Fund's preference was to retain the current structure, but with greater collaboration and co-operation with other Funds.

81. In November 2019 the outcome of the consultation was published. This showed that the majority of respondents (36 out of 53) were in favour of either option 1 or option 2, with 9 of the 11 administering authorities preferring to retain the existing structure and promote cooperation in investment and administration between the funds.

82. Following the publication of the report, the Scheme Advisory Board wrote to the Cabinet Secretary stating that it intended to commission further work on the merger model. The Cabinet Secretary has encouraged the continuing work to look at the structure of the Local Government Pension Scheme in Scotland and monitor the impact of pooling in England and Wales. The SSAB is in the process of undertaking scoping work to expedite this.

83. We will continue to monitor developments in this area and report on any potential implication for the future organisation or operation of the Fund.

Good practice points

84. The Fund actively engages with the companies it invests in regarding Environmental, Social and Governance (ESG) matters. Its membership of the

Local Authority Pension Fund Forum (LAPFF) and being a signatory to Principles for Responsible Investment offer an opportunity to engage on a wider scale on key issues: examples include working with companies to secure commitment to achieving a carbon neutral position, reducing the use of plastics and withdrawing from fossil fuel mining.

Part 5

Value for money



Main judgements

The impact of Covid-19 on global markets reduced annual returns significantly but investment performance continues to outperform medium and longer term benchmarks.

The Fund's investment performance is subject to regular review and scrutiny by the Pensions Committee.

The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management.

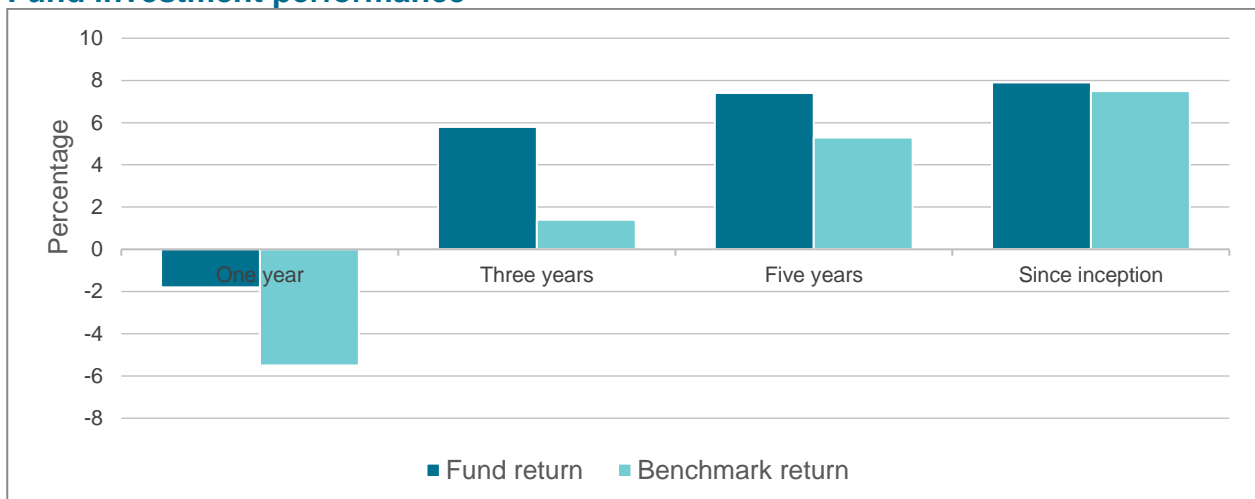
Value for money is concerned with using resources effectively and continually improving services.

The impact of Covid-19 on global markets reduced annual returns significantly but investment performance continues to outperform medium and longer term benchmarks

85. The Pensions Committee meets on a quarterly basis. A review of fund managers' performance is a standing item on the committee's agenda. At each meeting, committee members receive a report outlining overall fund performance including an analysis of risks and returns.

86. [Exhibit 8](#) shows that over the year, the Fund returned a loss of 1.8% against a benchmark loss of 5.5%. (The benchmark is to beat the market by a set percentage, hence the apparently negative benchmark.) This reflects the impact of Covid-19 on global markets in March 2020, where returns against most asset classes, especially equities, reduced significantly. Over the medium to longer term the Fund has outperformed its three-year, five-year and since inception benchmarks.

Exhibit 8 Fund investment performance



Source: North East Scotland Pension Fund 2019/20 audited financial statements

87. The Fund appoints several external investment managers. Individual investment manager performance is reported on a quarterly basis to the Pensions Committee. The Fund's investments team also carries out annual diligence reviews for each appointed fund manager.

88. Investment return and risk are inextricably linked, and it is not possible for us to give an opinion on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. However, we are aware that the Pensions Committee is regularly updated with details of how closely aligned the Fund's investments are with its investment strategy.

89. The Fund's Investment Strategy sets out how the Fund would like to structure its investments in terms of the different types of investments. Since the 2017 actuarial valuation, the Fund has progressively reduced its equity exposure and diversified its asset base in line with its Statement of Investment Principles. Equities made up 65.5% of the fund investments at 31 March 2020, against a benchmark of 57.5%. We are aware that the level of investment in equities is partly due to their significant returns in recent years compared to other categories of investment. We appreciate that moving investments between categories can take time, as investment managers look for appropriate opportunities, but the Fund should ensure it is happy with the pace of alignment with the benchmark.

90. A further review of the investment strategy is planned to be carried out alongside the 2020 actuarial valuation.

91. Internal audit carried out a 2019/20 audit of Investment Strategy and Investment Performance Management and made recommendations for improvement: progress in implementing these recommendations will be followed up by internal audit in due course.

92. We concluded that the Fund has adequate arrangements in place for monitoring investment performance.

The Fund adequately scrutinises investment management expenses

93. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the council and oversight and governance costs.

94. External investment manager fees are agreed in the respective mandates governing their appointments. The fees are relative to the risk and complexity involved in managing a particular asset and strategy.

95. Investment management expenses have decreased slightly from £18.9 million in 2018/19 to £18.1 million in 2019/20 (excluding administration, governance and oversight expenses: see paragraph 91 below). The main reason for this decrease in expenses relates to the 1.8% decrease in asset value.

96. The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses. As noted in the Fund's response to Internal Audit's recent report on Investment Strategy and Investment Performance Management, the Fund continues to work with Fund Managers to increase transparency in reporting of investment management expenses.

Administrative expenses

97. Administrative expenses have increased in 2019/20 to £2.4 million, from £2.2 million in 2018/19, including governance and oversight costs. The unit cost per member has decreased due to the increase in membership. Fund membership has increased by 14.7% in the past 5 years. The workload of the pension administration

section continues to grow, including the administration of the merger with Strathclyde Pension Fund No.3 (for First Glasgow employees) which transferred to the Aberdeen City Council Transport Fund during 2019/20. Other factors, such as the introduction of the career average pension scheme (CARE) from 1 April 2015 and auto enrolment, also increase the administration workload.

98. The Fund's business plan sets out a range of service standards against which administration performance is monitored. These are measured on a regular basis and are reported to the Pensions Committee quarterly.

99. Employers are required to submit contributions returns to the Pension Fund; this is an important control over the accuracy of pension contributions received and recorded in the pensions system and is of increased importance following the introduction of CARE as the member benefit statement requires actual salary data from all employers. The Fund made monthly online submissions of data a mandatory requirement for employers from 1 April 2017. This facility was an extension of a system used by larger employers, which was amended to cater towards the needs and capabilities of smaller employers. At 31 March 2020, all participating employers were providing information online (increased from 96% in 2018/19).

Good practice points

100. In its Management Commentary the Fund has reported several good practice examples relating to its pension administration. These include:

- Data quality - all LGPS pension funds are required to score the quality of their data as part of their annual scheme return to the Pensions Regulator. NESPF have contracted with Aquila Heywood to provide accurate data quality scores that are comparable to other pension funds. In November 2019 Aquila Heywood carried out the first of three annual evaluations against the data held by NESPF. The reported scores of 98.3% for common data and 97.1% for scheme specific data were well above the national average for the other LGPS funds that have used this analysis tool for the same purpose.
- Employer returns – from March 2020, all participating employers now submit monthly returns online through the i-Connect online portal. Moving from annual employer returns to receiving monthly data through i-Connect has improved information accuracy for the Fund and improved its ability to record, check and reconcile contributions paid to the Fund.
- Data processing times – the move to employers using i-Connect to notify the Fund of new records, member movements and leaver information for all active members has allowed the Fund to reduce its processing times for pensions administration. We noted the reduction in time taken by NESPF to process the year-end from 328 working days (2013/14) to 21 working days (2018/19).
- Testing working parties – in 2019/20 the Fund participated in two Testing Working Parties with the software supplier and other pension funds, to test software releases and new developments designed to improve functionality for members.

National performance audit reports

101. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2019/20, we published reports which may be of interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

102. The Pensions Committee considered the LGPS supplement to the Local Government in Scotland: Financial Overview 2018/19 at its March 2020 meeting. We have drawn other relevant publications to the attention of the committee convener during the period of committee suspension: these publications related to the National Fraud Initiative and the impact of Covid-19 on public sector audit and emerging fraud risks.

Appendix 1

Action plan 2019/20



No. Issue/risk



Recommendation



Agreed management action/timing

Follow up of prior year recommendations

1	<p>Merger with Strathclyde Pension Fund no.3 (Transport Fund)</p> <p>North East Scotland Pension Fund and Strathclyde Pension Fund agreed that the Strathclyde Pension Fund Transport Fund would merge with the Aberdeen City Council Transport Fund in 2019/20.</p>	<p>The Fund should ensure that adequate arrangements are in place for the transfer of membership data, assets and liabilities from Strathclyde Pension Fund Transport Fund.</p>	<p>Complete</p> <p>Membership data, assets and liabilities from Strathclyde Pension Fund Transport Fund have all transferred to the Aberdeen City Council Transport Fund during 2019/20.</p> <p>Now that the merger is complete, arrangements for a buy-in are progressing. The tender for the ACCTF buy-in is still ongoing. NESPF currently awaits the first bids from participating insurers with a view to moving on to the next stage of the process. It is hoped that, should pricing be favourable, NESPF will be able to complete the transaction with the selected insurer by 31 March 2021.</p>
2	<p>Training and development</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. During 2018/19 two Committee members and two Board members did not attend two or more training sessions.</p>	<p>Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.</p>	<p>Complete</p> <p>There were a number of changes to the committee membership during the year: new members have received induction training. A training needs analysis was carried out in 2019 for all Pensions Committee and Pension Board members. Pension Fund staff have confirmed that there were valid reasons for non-attendance at training and that these members are ensuring their training needs are being addressed.</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Based on our testing, we found no evidence of bias in accounting estimates, no evidence of transactions out with the scope of the pension fund and no evidence to suggest that management were overriding controls.</p>
<p>2 Estimation, judgements and classification</p> <p>There is a significant degree of subjectivity in the measurement and classification of certain investments and in the actuarial valuation. North East Scotland Pension Fund investments include investments such as unquoted equity and pooled funds, where valuations involve the application of judgement in determining appropriate amounts. The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. This subjectivity entails a risk of misstatement in the financial statements.</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments.</p> <p>Confirmation of valuations to valuation reports and/ or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary.</p> <p>Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2019/20.</p>	<p>We carried out 'reliance on a management expert' work on the custodian, the valuer and the actuary. This included review of the PwC report on actuarial assumptions. We concluded that we could place reliance on the custodian, the valuer and the actuary.</p> <p>We concluded that could rely on the valuer as a management expert; that property assets were appropriately included in the financial statements; and that appropriate disclosure was made in the "Critical judgements in applying accounting policies" section of the Accounting Policies regarding the material uncertainty caveat in the valuer's report. We have included an Emphasis of Matter paragraph in the audit opinion on this disclosure: the opinion is not modified by this matter.</p>
		<p>The draft accounts were amended to reflect the Private Equity level 3 investment valuations for 31 March 2020 which were available in August 2020. We substantively checked</p>

Audit risk	Assurance procedure	Results and conclusions
		all valuations to fund manager reports.
<p>3 Transfer of Strathclyde Fund No.3 (Transport Fund)</p> <p>Strathclyde Fund No.3 will merge with Aberdeen City Council Transport Fund during the 2019/20 financial year. This involves the transfer of all the assets, liabilities and records of Fund No.3 to the Transport Fund. The nature of this transaction gives rise to a risk of material misstatement around the presentation and disclosure of the financial statements of the Transport Fund.</p>	<p>Ongoing dialogue with officers around transfer progress.</p> <p>Focused testing of balances transferred.</p> <p>Assessment of the presentation and disclosure of financial statements against legislative requirements and guidance.</p> <p>Confirmation with Strathclyde Pension Fund auditor that the final financial statements of Fund No.3 and the financial statements of the Transport Fund present a complete and consistent account of Fund No.3 for 2019/20.</p>	<p>Membership data, assets and liabilities from Strathclyde Pension Fund Transport Fund have all transferred to the Aberdeen City Council Transport Fund and are appropriately presented in the 2019/20 NESPF annual report and accounts.</p>

Appendix 3

Summary of national performance reports 2019/2020

		 2019/20 Reports	
		Apr	
Social security: Implementing the devolved powers		May	
Scotland's colleges 2019		Jun	 Enabling digital government
		Jul	
NHS workforce planning - part 2		Aug	
Finances of Scottish universities		Sept	
NHS in Scotland 2019		Oct	
		Nov	
Local government in Scotland: Financial overview 2018/19		Dec	
Scotland's City Region and Growth Deals		Jan	 Privately financed infrastructure investment: The Non-Profit Distributing (NPD) and hub models
		Feb	
		Mar	 Early learning and childcare: follow-up

Reports of relevant interest:

[Local Government in Scotland: Financial Overview 2018/19](#) – December 2019.

North East Scotland Pension Fund

2019/20 Annual Audit Report - Draft - Draft

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Consideration and Signing of Audited Annual Report and Accounts
REPORT NUMBER	PC/SEPT20/ARA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 To provide the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) for consideration and signing.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
- 2.2 instruct the Chief Officer – Finance, as the Local Government (Scotland) Act 1973 – Section 95 Officer, to sign the accounts on behalf of the Funds.

3. BACKGROUND

- 3.1 Further to The Local Authority Accounts (Scotland) Regulations 2014 the audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are presented to Committee for their consideration and approval.

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts to be approved no later than 30 September each year.
- 5.2 Section 95 of The Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Funds, that officer is the Chief Officer – Finance of Aberdeen City Council.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

- 7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

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

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

Annual Report & Accounts

For the period 1 April 2019 to 31 March 2020

Aberdeen City Council, Administering Authority for the Aberdeen City Council
Pension Fund, Known as the North East Scotland Pension Funds

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Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2019/20 Annual Report and Accounts. 2019/20 was another year of significant activity and achievement with the Funds continuing to utilise technology and digital communications, participate and collaborate on national projects and develop our services to meet customer needs.

However, this work was partially overshadowed by the turbulence we saw in investment markets as a result of the COVID-19 outbreak. Despite a solid financial performance throughout the year, the economic uncertainty in the last quarter saw the North East Scotland Pension Fund's (NESPF) total asset value reduce from £4,469m as at 31 March 2019 to £4,367m as at 31 March 2020. An overall reduction of 2.3%.

The NESPF has a diversified portfolio of assets to help spread the risk of exposure to any one investment area or stock. This has ensured the financial impact on the Fund is minimal. In order to maintain the success of the Fund, it is our duty to continue to make investment decisions from a long-term perspective and we will continue to do so in 2020/21, in what we expect to be another challenging period.

Meanwhile the Aberdeen City Council Transport Fund (ACCTF) had a net increase in fund value of £203.5m, increasing the total net asset value to £308.8m. This increase is primarily a result of the merge of Strathclyde's No. 3 Fund (First Glasgow) to the ACCTF. The move, at the request of First Group, was a substantial project that involved close working partnerships to ensure a smooth transition of financial assets and data from Strathclyde to ourselves, whilst ensuring No. 3 Fund members were fully informed and engaged throughout the process.

Administratively, the Funds continued to make use of technological improvements and systems to push administration and communications online. For the first time, all annual benefit statements for active and deferred members were issued via our self-service portal, My Pension. A record number of retirement cases and system updates were processed this year, with the Funds' data quality improvement plan maintaining the high quality and accuracy of our data.

Looking ahead while challenges and uncertainties remain, the Funds will continue to deliver essential services in addition to a number of projects that are already planned. These projects include the triennial valuation, where the Funds will look to replicate the success of previous valuations; the launch of the Funds' new website and revised branding; the move to a new office; and the completion of a buy-in process for the ACCTF.

Finally, I would like to take this opportunity to thank my colleagues on the Committee and Board, Pension staff and our advisors for their dedication and hard work during the year. In particular for their remarkable response to the COVID-19 outbreak and their continued efforts to maintain and deliver services.

Councillor M. Tauqeer Malik
Pensions Committee Convener

Management Commentary

1. About the North East Scotland Pension Funds

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

The LGPS is a public sector, multi-employer defined benefit Scheme that was established under the Superannuation Fund Act 1972.

The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.

The NESPF is open to all employees of the 11 scheduled bodies, except for those who are entitled to belong to another statutory pension Scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme in line with the body's individual admission criteria for staff.

The ACCTF was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen.

The rules by which the LGPS operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out Scheme benefits, investment and governance requirements.

As at 31 March 2020, the NESPF is the third largest LGPS Fund in Scotland in asset size, with over 69,000 members and 50 participating employers.

2. Administration 2019/20

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board, Urgent Business Committee*
Chief Officer – Finance	Jonathan Belford
Actuary	Mercer
Global Custodian	HSBC
Performance Measurement	HSBC
Banks	Clydesdale Bank & HSBC
AVC Providers	Prudential, Standard Life Assurance
External Auditor	Audit Scotland
Internal Auditor	Aberdeenshire Council
Investment Consultant	KPMG (until March 2020) Isio (from March 2020)
Legal Advisor	Aberdeen City Council
Employers	For full details see Appendix 2

* Following the COVID-19 outbreak, all Council Committees were suspended. The purpose of the Urgent Business Committee (UBC) is to determine business of an urgent nature which might otherwise have been reported to Full Council or other Committees and Sub-Committees. As the Pensions Committee was unable to meet, the Unaudited Annual Report and Accounts 2019/20 were considered by the UBC at their meeting on 30 June 2020.

In reviewing the Unaudited Annual Report and Accounts 2019/20, some UBC members were substituted to ensure individuals with the appropriate knowledge and competence were present to recommend the submission of the Unaudited Accounts to Audit. The UBC consisted of the following individuals when considering the Unaudited Annual Report and Accounts; Councillor Malik, Councillor Bell, Councillor Cooke and Councillor Delaney (all current Pension Committee members); and Councillor Laing (a former Pensions Committee member). As a result of these unprecedented times, Board members were not present at the UBC however Officers have kept in touch with all Committee and Board throughout this period providing updates where required. Board and Committee meetings resumed in September 2020 ensuring full oversight of the Audited Accounts.

3. Pensions Committee & Pension Board

Pensions Committee

While day to day administration of the Pension Funds is the duty of Pension Fund staff, decision making and overall responsibility has been delegated to the Pensions Committee by Aberdeen City Council.

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

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

The Committee meets on a quarterly basis to address matters such as risk management, administration, funding, investment strategy and performance.

The Committee is comprised of nine elected members of Aberdeen City Council each with equal voting rights.

Membership 2019/20

Councillor M. Tauqeer Malik (Convener)	
Councillor John Reynolds (Vice Convener)	
Councillor Barney Crockett	
Councillor Neil MacGregor	
Councillor Philip Bell	
Councillor John Cooke	
Councillor Steve Delaney	
Councillor Christian Allard	(left May 2019)
Councillor Stephen Flynn	(joined May 2019, left January 2020)
Councillor Dell Henrickson	(joined January 2020)
Councillor Alan Donnelly	(left December 2019)
Councillor John Wheeler	(joined December 2019)

Meeting Attendance in 2019/20

	14/06/19	13/09/19	29/11/19	20/03/20	Overall Attendance 2019/20
Cllr Malik	✓	X	✓	✓	75%
Cllr Reynolds	✓	✓	X	✓	75%
Cllr Crockett	✓	✓	✓	✓	100%
Cllr MacGregor	✓	✓	X	✓	75%
Cllr Bell	✓	✓	✓	✓	100%
Cllr Cooke	✓	✓	✓	✓	100%
Cllr Delaney	X	✓	✓	✓	75%
Cllr Flynn	✓	✓	X	n/a	67%
Cllr Henrickson	n/a	n/a	n/a	✓	100%
Cllr Donnelly	✓	✓	X	n/a	67%
Cllr Wheeler	n/a	n/a	n/a	✓	100%

Pension Board

In line with Scheme regulations, the Funds established a Pension Board in 2015/16 with the responsibility of assisting the Scheme Manager (Administering Authority) in relation to compliance with Scheme regulations and the requirements of the Pensions Regulator.

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

Membership 2019/20

Unison

Morag Lawrence

(Substitute: Kenny Luke)

GMB

Kevin Masson (Left May 2019)

Neil Stirling (Joined May 2019)

(Substitute: Brenda Murdoch)

Unite

Alan Walker

(Substitute: Graham Gavin)

UCATT

Liam Knox (Chair)

Admitted/Scheduled Bodies

Mr Ian Black (Aberlour Child Care Trust)

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor Alistair McKelvie (Vice Chair)

(Substitute: Councillor Alastair Bews)

Aberdeen City Council

Councillor Yvonne Allan

(Substitute: Councillor Freddie John)

Meeting Attendance in 2019/20

	14/06/19	13/09/19	29/11/19	20/03/20	Overall Attendance in 2019/20
Cllr Yvonne Allan	✓	✓	✓	X	75%
Cllr Alistair McKelvie	✓	✓	✓	X	75%
Cllr John Cowe*	X	X	X	X	0%
Ian Black	X	X	✓	X	25%
Neil Stirling	✓	✓	✓	X	75%
Morag Lawrence	✓	✓	✓	✓	100%
Alan Walker	✓	✓	✓	X	75%
Liam Knox	✓	✓	✓	✓	100%

Notes:

- Councillor Cowe was unable to attend meetings and training during 2019/20 due to personal mitigating circumstances.
- March 2020 – based on government guidance around non-essential travel and social distancing due to the COVID-19 pandemic, a number of members did not attend.

Apart from the Pension Board's Annual Meeting, the Board sits at the same time as the Pensions Committee. For each meeting, both the Board and the Committee receive the same reports. These reports include information on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance, the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2019/20 no issues were reported by the Board to the Pensions Regulator.

An Annual Report which reviews the activity of the Pension Board can be viewed on our website at www.nespf.org.uk

Conflicts of Interest

The Funds maintain a 'Conflicts Register' on an ongoing basis to record and monitor all potential or actual conflicts noted prior to or during Pension Board meetings.

Every 12 months all individuals complete a new 'Declaration of Interest' form to either confirm that the information held on the Register is correct or to update their declaration as necessary.

In terms of management, where an actual conflict of interest arises the following option(s) exist:

- a member can withdraw from the discussion and decision making process;
- the Pension Board can establish a sub-board to review the issue (where the terms of reference give the power to do so); or
- a member can resign from the Pension Board if the conflict is so fundamental that it cannot be managed in any other way.

Pensions Committee members are managed by the national Councillors' Code of Conduct. Training was delivered on audit, risk and scrutiny by Aberdeen City Council in February 2020.

Committee and Board Training 2019/20

While Pensions Committee members are not legally obliged to undertake training, the Funds feel strongly that Committee members should receive training to ensure that they have the necessary levels of knowledge and understanding to exercise their functions. In addition, training is a requirement of the Council's Standing Orders. As per the Training Plan agreed by Committee, Committee members are expected to undertake 2 days of training per year. Recording and monitoring of attendance at meetings or training events allows any issues to be addressed promptly.

In line with the Training Policy, Board members undertook 6 training sessions during 2019/20. Board members were asked to carry out a personal training needs analysis in 2019 to assess their overall level of knowledge and understanding. The results have been evaluated and will be used to direct training in 2020/21.

In 2019/20, attendance for both Pensions Committee and Pension Board members' training is outlined below.

	24/04/19	03/09/19	13/09/19	08/10/19	24-25 /10/19	7-10 /01/20	Overall Attendance
Pensions Committee							
Cllr Malik	✓	X	X	✓	✓	✓	67%
Cllr Reynolds	✓	X	✓	✓	X	✓	67%
Cllr Crockett	X	X	✓	X	X	✓	33%
Cllr MacGregor	X	✓	✓	✓	✓	✓	83%
Cllr Bell	X	X	✓	X	X	✓	33%
Cllr Cooke	X	✓	✓	X	✓	X	50%
Cllr Delaney	✓	X	✓	X	X	✓	50%
Cllr Allard	X	n/a	n/a	n/a	n/a	n/a	0%
Cllr Flynn	n/a	X	✓	X	✓	n/a	50%
Cllr Henrickson	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Cllr Donnelly	X	✓	✓	X	✓	n/a	60%
Cllr Wheeler	n/a	n/a	n/a	n/a	n/a	X	0%
Pension Board							
Cllr Allan	X	X	✓	X	X	X	17%
Cllr McKelvie	X	X	✓	X	✓	X	33%
Cllr Cowe	X	X	X	X	X	X	0%
Ian Black	✓	✓	✓	X	✓	✓	83%
Kevin Masson	X	n/a	n/a	n/a	n/a	n/a	0%
Neil Stirling	n/a	✓	✓	X	✓	✓	80%
Morag Lawrence	✓	X	✓	X	✓	X	50%
Alan Walker	✓	✓	✓	X	✓	X	67%
Liam Knox	X	✓	X	X	X	✓	33%

Notes:

- Councillor Cowe was unable to attend any meetings or training sessions during 2019/20 due to personal mitigating circumstances.
- Councillor Henrickson joined the Committee in January 2020, after the January training session took place.

Training Topics

24 April 2019

The first event of the year was the Funds' Finance Forum. There were a number of presentations and panels on the day covering:

- Investment Overview
- Introduction to Environmental, Social and Governance (ESG): Strategy & Implementation in Real Estate
- Fund Review
- Brexit and Regulatory Insights
- Actuarial Considerations for 2020

3 September 2019

Training from the Investment Governance Group (IGG) and Scottish Pension Liaisons Group (SPLG) covered the following:

- Valuations/Cost Cap/Section 13
- ESG
- Structure Review
- Annual Report and Accounts
- Pensions Administration
- Cost Transparency
- Investments

13 September 2019

The training on 13 September took place in Aberdeen following the Pensions Committee/Board meeting on the same day and covered actuarial valuation calculations and liability assessment.

8 October 2019

Training was held by Baillie Gifford in their Edinburgh offices. The Local Authority Investment and Training Seminar focused on LGPS specific issues including investments across the life cycle of an LGPS fund, responsible investment and changes within the LGPS.

24 – 25 October 2019

Local Government Chronicle (LGC) Seminar. Areas covered during the 2 days of training included:

- Update on the SPLGS structural review consultation
- The infrastructure and housing challenge
- ESG
- How aligned is your scheme's approach to climate change and to your council's policy?
- What is keeping the investment managers awake at night?
- Investment strategy and the challenge of being an overfunded fund
- Investing in renewable energy: the opportunities and pitfalls
- Early reflections on the LGPS and looking to the future

7 – 10 January 2020

The extended training from 7 to 10 January took place at the Aberdeen Standard offices in London covering various topics from fund managers such as:

- Private Equity, Bonds, Multi-Asset Credit and Diversified Growth Funds
- ESG – reporting, data quality, engagement and sustainable approaches
- Property and infrastructure investments
- Performance updates

4. Administration and Performance

This year's report focuses on digital communications, pension administration strategy performance, data quality and our commitment to collaboration with other administering authorities.

Going Digital

2019/20 was the first year that both active and deferred annual benefit statements (ABS) were issued through our online Member Self Service (MSS) portal – 'My Pension'. Providing statements online has provided several advantages including:

Segmentation: by taking the ABS process in-house, it provides additional scope to produce multiple benefit statements. Statements are now tailored based on type of service, so members will only receive statements with information relevant to themselves.

Cost savings: There are significant cost savings in terms of production and postage. These savings will continue to increase as more members register for the system.

Environmental Impact: Issuing statements online saves over 120,000 sheets of A4 each year. This saving will increase as the Funds replace letters with email notifications to alert members of future statements.

The overall percentage achieved for providing benefit statements to more than 42,000 active and deferred members prior to the 31 August deadline was 99.86% (99.81% in 2018/19).

As at 31 March 2020, 44.6% of active members and 41.2% of deferred members were registered for MSS. The Funds will continue to promote and develop online services. This includes the development of a new website that will have increased functionality, enhanced usability and improved design, resulting in a better user experience.

Pension Administration Strategy

The Pension Administration Strategy (PAS) focuses on NESPF processing against key performance measurements and monthly data provision from employers.

NESPF processing performance

Key performance measurement	Target	2018/19	Amount	Achieved	2019/20
Letter notifying death in service to dependent	5 days	84%	43	38	88%
Letter notifying retirement estimate	10 days	99%	1029	1009	98%
Letter notifying actual retirement benefit	10 days	96%	2072	1984	96%
Letter notifying deferred benefit	10 days	97%	1302	1185	91%
Letter notifying amount of refund	10 days	98%	1473	1401	95%
Letter detailing transfer in quotes	10 days	88%	77	65	84%
Letter detailing transfer out quotes	10 days	85%	432	327	76%

This year again saw an increase in actual retirements with 528 processed in the fourth quarter. This exceeds any previous quarter and contributed to the total retirements for the year exceeding 2000 cases for the first time. New regulations came into force on 28 June 2019 and were backdated to 1 June 2018 which allowed deferred members to take their benefits from age 55 rather than 60. This resulted in an additional 220 retirements. Despite this increase, the percentage achieved remained the same as the previous year at 96%. However prioritising retirements was the main reason for percentage reductions in other areas.

From August 2019 trivial commutation, a one-off pension payment that extinguishes all rights in the scheme, was automatically offered to members whose capital value of all benefits was below £30,000 which increased the time taken to process retirement options.

Prior to the 6 October 2019 deadline, statements were issued to all members who potentially could exceed their Annual Allowance threshold for tax free pension savings.

Employer data provision

Moving from annual returns to obtaining monthly data from employers through i-Connect has provided huge benefits for the Funds in terms of information accuracy and the ability to record, check and reconcile contributions paid to the Funds. As of March 2020, the Employer Relationship Team has met its objective to obtain monthly information from all participating employers within the NESPF.

As new records, member movements and leaver information for all active members is updated through this secure online portal, the administrative burden has eased considerably across all areas of the Fund. The change of methodology allows the Fund to comfortably meet the regulatory deadlines for providing accurate benefit statements

to members by 31 August each year. Of noticeable significance is the reduction in time taken to process the year-end from 328 working days (2013/14) to 21 working days (2018/19).

Updates from I-Connect	2017/18	2018/19	2019/20
Starters	4,415	4,852	5,125
Amendments	30,314	31,543	59,305
Leavers	3,345	4,352	4,196
Contributions (employee, employer and additional)	261,380	310,983	309,519
Salary	259,913	308,978	309,637
CARE pay	251,773	299,746	297,847
Total Updates	811,140	960,454	985,629

Communication between the Funds and participating employers is key to ensuring compliance with administration requirements. Through the Funds' Employer Relationship Team regular updates are provided by email and quarterly employer newsletters. The team provide training and guidance using the employer pages of the Funds' website, annual administration and financial forums and one to one training where requested. In addition, a dedicated telephone helpline and clear points of contact help the Funds to maintain a good working relationship with employers which allows the Funds to meet the expectations of administering the scheme on their behalf.

Data Quality

Measuring and improving the quality of data held by pension scheme administrators is high on the agenda of the Pensions Regulator. Data quality held by Funds impacts directly on the calculation of member benefits and determines the level of comfort that both Funds and participating employers can have around the valuation of the liabilities calculated by the scheme actuary.

As data is collected and reconciled on a monthly basis the Funds hold consistently high quality data. Validation of the data processed by the transferring system and reconciliation of the data received ensures that inaccurate or missing data is caught at source or queried upon receipt.

As part of the annual scheme return all LGPS Schemes are required to score the quality of their data. For accurate scores that are comparable to other Funds the NESPF contracted with Aquila Heywood to use their Data Quality Analysis Tool. In November 2019 Heywood carried out the first of three annual evaluations against the data held by the Fund. The scores provided as part of the results were reported in the 2019 annual return. The scores of 98.3% for common data and 97.1% for scheme specific data fell well above the national average for the 50 plus LGPS funds that have used this analysis tool for the same purpose.

Although the Funds can take great pride in the quality of the data held, work continues to improve and maintain data quality through the implementation of the NESPF data

quality improvement plan. The plan, used in conjunction with the in-depth reports provided as part of the data analysis service contract with Heywood, works towards meeting the following objectives:

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

In addition to maintaining the accuracy of the current data and improving the historical data the plan details projects regarding tracing members and reducing the number of unprocessed records. Work continues around the completion of the reconciliation of Guaranteed Minimum Pensions (GMP) with Her Majesty's Revenue and Customs (HMRC).

Collaboration through CLASS

The Funds recognise the importance of working with other authorities and the software provider, Aquila Heywood, through the CLASS (Computerised Local Authority Superannuation System) group. Currently the group consists of 81 administering authorities in England, Wales, Scotland and Northern Ireland (NILGOSC), with all 11 Scottish funds currently using the Altair pension administration system.

CLASS collaboration takes many forms including regional and national user groups, a national testing working party for every software release and regular webinars on system issues and development. These events provide an opportunity to collaborate with colleagues from other funds to discuss system issues, consider development ideas and share best practise.

The regional group attended by staff contains Scottish funds only and is one of six regional groups in Britain and is currently chaired by NESPF. Staff also attend national user groups for Altair Payroll, MSS and i-Connect.

In October 2019 at the i-Connect user group in Manchester NESPF staff were invited to do a presentation on data quality and reconciliation of monthly submissions and sit on an expert panel for a question and answer session.

Staff participated in two Testing Working Parties (TWP) during 2019/20. In August, the Funds chaired the TWP for the Altair 10 software release and helped test developments which included a change to additional pension benefit calculation methodology for Scotland, paperless pay advices and functionality for members to upload documentation through MSS. Other sites that made significant contributions to the successful testing and sign-off of the release included Greater Manchester, NILGOSC and Oxfordshire.

Although the TWP is a big commitment, taking part provides early access to the latest software which benefits staff, members and employers.

Merge of the Aberdeen City Council Transport Fund and the Strathclyde (No. 3) Fund

In September 2018 First Group approached both the ACCTF and Strathclyde Pension Fund to express their desire to reduce the risk associated with their liabilities held within the LGPS (Scotland). One way to achieve this was to secure the liabilities by way of a buy-in. A buy-in is an insurance policy, purchased by a pension fund, that is an exact match against some, or all of the liabilities held. A buy-in would allow the fund to transfer the longevity risk to the insurer and create certainty around the valuation of the liabilities insured. Unlike a buy-out, the administration of all benefits is maintained within the fund and, should final pricing allow the final purchase to go ahead, would be the first of its kind in LGPS (Scotland).

In order to secure the best price for any potential buy-in and make the proposal more attractive to insurers it was agreed that the liabilities for both the ACCTF and Strathclyde No. 3 Fund would need to be included. Administratively, the easiest way to achieve this would be through a merge of both Funds.

There were additional advantages to the merge which included: the levelling out of funding due to Strathclyde (No. 3) Fund being over funded and the ACCTF being underfunded; the ability to increase the strength of the employer covenant supporting the liabilities held; and simplification of the management of the administrative relationship for First Group.

Aberdeen City Council expressed an interest in acting as the receiving administering authority for the merged liabilities and this was agreed by both the Aberdeen City Council and Glasgow City Council at committee level.






Following application for approval to the Scottish Government and guidance by legal advisors, the scheme actuaries and system providers, the transfer of the liabilities and member records took place in 2019. Communication with members was an integral part of the project to ensure smooth transition, with the first pension payment of Strathclyde pensioners being made in Aberdeen on 15th September 2019. Further work was undertaken to ensure the transfer of assets held was finalised in January 2020 and all signed admission agreements and additional guarantee are now held by the ACCTF.



The successful merge allowed the ACCTF to begin the buy-in process with the approval of the Pensions Committee and an understanding of the clear benefits that this method of de-risking would provide. It was decided following project work carried out by the First Group that the buy-in of pensioner liabilities only would attract the most insurance company interest and would be most cost effective for the ACCTF.


Since completion of the merge, the ACCTF have been working with buy-in specialists at Mercer to secure initial bids through a transparent procurement process.

Unfortunately, having given the insurers the opportunity to bid in early 2020, the COVID crisis and the effect on the assets held have meant that the project has been paused due to the current uncertainty. However, the ACCTF remain committed to progressing the buy-in at the earliest opportunity due to the benefits it will provide for both the ACCTF and First Group and hope to enter into an agreement in advance of the 2020 valuation results.


5. Financial Performance

2019/20 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£144m	 Contributions Receivable	£2m
£155m	 Benefits Payable	£9m
£20m	 Management Expenses	£290k
£(72)m	 Net Return on Investments	£(6)m
£4,367m	 Net Assets of the Fund at the End of Year	£309m


Key Statistics		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
50	 Total Number of Employers	2
69,417	 Total Membership	1,630

2,049 


Votes at AGMs

35% 

All Fund Members Registered for MSS

985,629 

Updates Processed

33.5 

Staff Employed (FTE)

North East Scotland Pension Fund Financial Summary

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Deductions)	(13,485)	(15,456)	(18,219)	(19,697)	(30,977)
Net Investment Income Change in Market Value Net Return on Investment	23,929	648,411	329,035	363,300	(71,648)
Net Increase/ (Decrease) in Fund	10,444	632,955	310,816	343,603	(102,625)
Fund Balance as at 31 March (Market Value)	3,181,793	3,814,748	4,125,564	4,469,167	4,366,542

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

After meeting the cost of current benefits, all surplus cash is invested and the value of investments is then available to meet future liabilities.

Budget

	Note	Actual Spend 2019/20 £'000	Budget or Forecast* 2019/20 £'000	Over or (Under) Spend 2019/20 £'000
Administration Expenses	1	1,822	2,036	(214)
Oversight and Governance Expenses	2	422	601	(179)
Investment Management Expenses*	3	17,953	20,083	(2,130)
Management Expenses Total		20,197	22,720	(2,523)

Where the variance is +/- 5%, an explanation is outlined below:

1. Under spend – New staff posts some of which were recently filled and some yet to be filled.
2. Under spend – Reduction in actuarial fees, as focus switched to the merge of the Transport Funds.
3. Under spend – This is a forecast* rather than a traditional budget. This is largely due to the level of estimation and the extent of the unknown, especially given that the expenses are based upon an unpredictable market activity/value. However, the under spend is largely associated with the reduction in market value arising from the COVID-19 outbreak.

Membership Statistics

NESPF	2015/16	2016/17	2017/18	2018/19	2019/20
Active	24,546	25,329	25,568	25,892	26,275
Pensioners	18,328	19,111	20,023	21,029	22,156
Deferred	16,590	16,888	17,218	17,846	17,965
Frozen Leavers	1,865	2,232	2,435	2,759	3,021
Total	61,329	63,560	65,244	67,526	69,417

Active membership has risen from 2018/19 to 2019/20 with all of the local authorities showing an increase in the number of records held. As 2019/20 was a re-enrolment year for the larger authorities, members that had previously opted out of the scheme were taken back in automatically. Changes to payroll systems and the way employment records are held may also have had an impact on the number of pension records held for active members. Pensioner numbers continue to increase as the use of voluntary severance schemes encourage more eligible employees to take early retirement.

Management Expenses

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Administration	1,542	1,563	1,638	1,634	1,822
Oversight and Governance	348	468	467	474	422
Investment Management	14,627	16,455	19,092	18,665	17,953
Total Management Expenses	16,517	18,486	21,197	20,773	20,197

Unit Cost Per Member

	2015/16 £	2016/17 £	2017/18 £	2018/19 £	2019/20 £
Administrative Unit Cost per Member	25.14	24.59	25.11	24.20	26.25
Oversight and Governance Unit Cost per Member	5.68	7.36	7.16	7.02	6.08
Investment Management Unit Cost per Member	238.50	258.89	292.62	276.41	258.62
Total Cost per Member	269.32	290.84	324.89	307.63	290.95

Aberdeen City Council Transport Fund Financial Summary

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Deductions)	(1,347)	(1,731)	(2,669)	(1,900)	(7,024)
Net Investment Income Change in Market Value Net Return on Investment	(2,050)	15,454	2,774	7,129	(5,836)
Net Increase/ (Decrease) in Fund	(3,397)	13,723	105	5,229	(12,860)
Transfer of Cash/Stock	0	0	0	0	216,388
Fund Balance as at 31 March (Market Value)	86,243	99,966	100,071	105,300	308,828

Membership Statistics

Transport Fund	2015/16	2016/17	2017/18	2018/19	2019/20
Active	71	61	48	42	77
Pensioners	411	423	434	429	1,373
Deferred	133	121	114	110	171
Frozen Leavers	9	9	9	9	9
Total	624	614	605	590	1,630

Following an application to the Scottish Public Pensions Agency (SPPA), Strathclyde No. 3 Fund merged with the Aberdeen City Council Transport Fund in the financial year 2019/20. All membership data held by Strathclyde Pension Fund was transferred electronically to the ACCTF in advance of the official merge with the first pension payment being made by the ACCTF on 15 September 2019. The transfer included 52 active members, 83 deferred members, 945 pensioners and 1 frozen leaver.

Both admission agreements for First Glasgow and First Aberdeen are closed to new entrants and are very mature in nature therefore the combined membership totals will continue to reduce on an annual basis.

Management Expenses

	2015/16	2016/17	2017/18	2018/19	2019/20
	£'000	£'000	£'000	£'000	£'000
Administration	46	50	51	50	60
Oversight and Governance	16	38	72	31	49
Investment Management	166	157	868	231	181
Total Management Expenses	228	245	991	312	290

Unit Cost Per Member

	2015/16	2016/17	2017/18	2018/19	2019/20
	£	£	£	£	£
Administrative Unit Cost per Member	73.72	81.43	84.30	84.75	36.81
Oversight and Governance Unit Cost per Member	25.64	61.89	119.01	52.54	30.06
Investment Management Unit Cost per Member	266.02	255.70	1,434.71	391.52	111.04
Total Cost per Member	365.38	399.02	1,638.02	528.81	177.91

Remuneration Report

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

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

6. Economic and Market Background

It may seem a distant memory, however 2019 was a strong year for financial markets, with most asset classes delivering positive returns. We saw a stabilisation in global growth, helped by the US-China trade truce; plus, supportive economic monetary policies of central banks including the US Federal Reserve. Towards the end of January 2020, the World Health Organisation declared that Coronavirus (COVID-19) was a global pandemic as the virus spread across the world. This unprecedented event caused a major shock to global stock markets and our way of life. We have seen headline grabbing moves across most asset classes despite the unprecedented actions taken by governments and central banks to provide financial support to the world economy. Volatility was unprecedented with stocks having the best and worst sessions in a decade on consecutive days, moving around amid widespread investor concern.

US

Despite the significant political risks and fears of global economic slowdown, 2019 was great for US equities. The S&P 500 saw its best year since 2013 and Nasdaq had its loftiest annual performance in six years. The rally was driven by increasingly conciliatory negotiations between the U.S. and China and dovish policy from the Federal Reserve Bank. A sense of optimism spilled over into 2020, when US markets made fresh highs. However, news of the deadly COVID-19 spreading from China caused havoc, wiping out gains, leaving the US down just under 3%.

UK

UK markets had a slow start to 2019 with political uncertainty and Brexit worries subduing UK stocks. However, the passing of a withdrawal agreement by a newly elected UK parliament lifted sentiment and markets responded positively. As we came into 2020, and investors feared that the spread of COVID-19 would destroy economic growth, gains vanished, and the index closed down over 18%.

Europe

2019 was one of the best years for European equities in two decades after strong runs in 1999 and 2009. The market was driven by ample M&A activity and share buy backs as well as easing measures from the European Central Bank. However, Europe was not immune to steep sell offs and market volatility as the global pandemic took hold with the market closing down 8% for the 12 months to 31 March.

Japan

In 2019, Japan was the second-best performer among major indexes in Asia behind China. The market was buoyed by the Bank of Japan announcing a massive stimulus package to help its economy. However, after a promising start to 2020, stocks fell, as concerns about a Coronavirus-induced recession grew.

Emerging Markets

Despite the volatility that afflicted the Emerging Markets for much of the year, the asset class produced positive returns in 2019. This in part driven by the rise of optimism that a trade deal may be forthcoming between the US and China. With the global outbreak front and centre, in the first quarter of 2020 the Emerging Markets were sharply down, finishing the 12 months to 31 March, down 13%.

Bonds

Bond market returns were better than anticipated in 2019, as concerns about economic growth, inflation outlook and the likelihood of central banks raising interest rates all acted as positive catalysts for the asset class. This was largely validated by disappointing economic data in China, Europe and the US, and by a marked shift in the tone of the European Central Bank and Federal Reserve. This environment was supportive for developed and emerging government bonds, as well as high yield and investment grade debt issuances. However, Bond markets have not been immune to the COVID-19 crisis. Having initially rallied as equities fell, developed market government bond yields moved higher (i.e. prices fell) in mid-March. This is highly unusual in times of market stress and one explanation is that this was driven by market participants selling their most liquid assets to meet collateral requirements, or to raise cash. However, the announcement of trillions of dollars of stimulus from central banks around the world has reversed this sell-off. Elsewhere, Emerging Market government bonds have been materially affected by the current crisis with the main impact seen in their currencies. Credit spreads (the difference between the yield on a corporate bond and a sovereign bond of the same maturity) have also moved sharply wider indicating that corporate credit is seen as riskier than it was.

Property

Over the 12 months to March 2020, according to the Morgan Stanley Capital International (MSCI) Monthly Index, property recorded a total return of 0.1%. This was markedly down on the 5.6% recorded over the previous 12-month period and the weakest since 2009. Capital values fell by 5.0% in the year to March 2020, with rental value growth negative at -0.2% and equivalent yield impact at -4.5%.

The retail sector continued to underperform over the 12-month period, posting a negative total return of -9.7% with COVID-19 adding to the headwinds impacting on investment sentiment and rental levels at the very end of the period. Indeed, monthly returns lower than the -4.2% recorded in March have only been seen twice in the 33 years of data. All other sectors delivered positive returns, with the small residential sample posting the highest total return of 6.3%, closely followed by industrials at 5.8% and offices at 3.9%.

Capital value growth was dispersed across sectors over the year to March, with the retail sector recording a large decrease of 15.3%, although its income return, at 6.6%, remained higher than all other sectors. Hotel capital values decreased by 3.8%, whilst industrials and residential delivered small but positive capital returns of 1.0% and 1.3% respectively over the 12-month period. Office values had been growing modestly but ended the period 0.9% lower after values fell 1.4% in the month of March.

Market rental values delivered positive, yet modest, growth for most sectors, with industrial, office and residential rents growing 3.1%, 1.9% and 1.1% respectively. Retail growth was negative at -5.2% for the year, highlighting challenging occupational market conditions for the sector.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:			
FTSE All Share Index	-18.5	-4.2	0.6
FTSE All World Index	-6.2	2.2	7.2
FTSE All World ex UK	-5.5	2.6	7.6
FTSE North American Index	-2.8	5.0	10.1
FTSE European (ex UK) Index	-8.0	-0.5	3.8
FTSE Japan Index	-2.1	1.4	6.0
FTSE Developed Asia (ex Japan) Index	-17.6	-4.2	2.7
FTSE Emerging Markets Index	-13.0	-1.2	3.6
Bonds:			
FTA Government Securities All Stocks	9.9	4.6	4.7
ML UK Corporate Bonds	1.7	2.2	3.2
FTA Index Linked All Stocks	2.2	2.7	5.7
Above are total returns in Sterling. Source: Datastream content from Refinitiv			

7. NESPF Investment Strategy

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

There are a range of fund managers employed to again spread risk, with different style biases, each with clear and documented agreements in place detailing their investment mandates. The Funds also employ an independent Global Custodian.

The objective of the investment strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The investment strategy is monitored on an ongoing basis by the Pensions Committee and Pension Board, focusing on long term investment with consideration given to short term tactical considerations if appropriate.

The suitability of particular investments and types of investments are detailed in the Statement of Investment Principles. The Funds take proper advice at reasonable intervals regarding their investments, through their appointed advisors.

Asset Structure 2019/20

Asset Class	Distribution as at 31 March 2019		Distribution as at 31 March 2020	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	76.0	57.5	65.5	57.5
Bonds / Credit	10.0	20.0	20.0	20.0
Property / Infrastructure	11.2	20.0	12.6	20.0
Cash / Other	2.8	2.5	1.9	2.5
Total	100.0	100.0	100.0	100.0

The NESPF continues to re-balance assets in line with its revised investment strategy, aiming to de-risk by reducing exposure to equities and increasing real assets and alternatives.

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

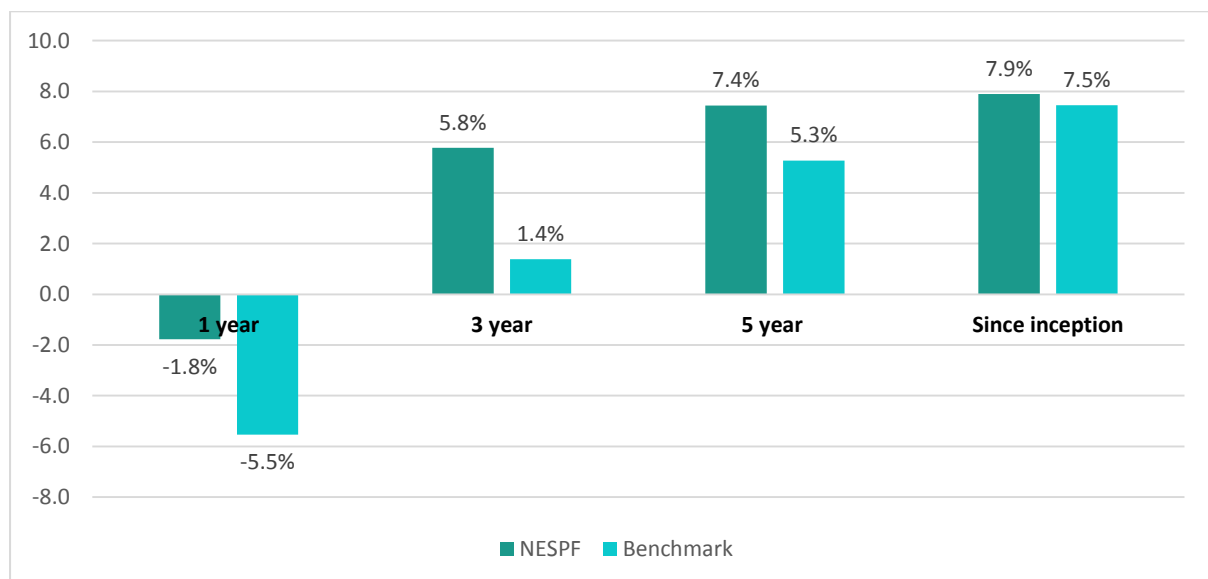
Equities	45.0% (range +/- 5%)
Alternative Assets (including private equity)	12.5% (range +/- 5%)
Bonds/ Credit	20.0% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

For the best part of year 2019/20 investment returns were actually very strong and the Fund continued to re-balance and fold in investment gains made. However, towards the end of the period the unforeseeable impact of the COVID-19 pandemic struck and investment performance turned significantly, ending negatively across most asset classes. Risk assets, in particular equities have been more severely impacted, but this is why the Fund is well diversified and has other assets in the portfolio to provide defensive support.

It is notable that despite a difficult year, the Fund has outperformed the benchmark returns over all periods and comparators such as CPI and Average Earnings over the longer term. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

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



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

Year Ending	2017/18	2018/19	2019/20	Since Inception Annualised
	%	%	%	%
CPI*	2.5	1.9	1.5	2.5
Average Earning*	2.6	3.2	2.4	2.9
NESPF Return	11.1	8.5	-1.8	7.9

*Source: Office of National Statistics

Investment Management Structure

The Investment Management Structure is contained within Note 11: "Investments Analysed by Fund Manager" within the NESPF Accounts and within Note 9 of the ACC Transport Fund Accounts.

8. ACCTF De-Risking Strategy and Performance

The Aberdeen City Council Transport Fund has until recently been on a de-risking or “flightpath” strategy, therefore measuring performance versus Funding Level with the aim to being 100% funded and thus covering all liabilities.

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

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

Over the course of last year, the flightpath strategy returned 1.31% and is now in the process of being merged with the Strathclyde Transport Fund. This process will involve combining both sets of liabilities, effectively insuring out some of those liabilities known as a ‘Buy In’ and then re-assessing the investment strategy to align to the new target. All investment assets have now been received and at present there is an interim investment strategy in place to manage volatility, whilst the exercise is being conducted.

9. Risk

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

Investment Risk is recognised as falling into two distinct areas: Manager Skill (alpha) and Market Risk (beta). The structure of the Investment Strategy reflects this and is designed with the support of external expert advice. Details are contained in the Statement of Investment Principles and the Funding Strategy Statement.

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

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

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

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

Risk Management

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

10. Funding Strategy Statement

The long term objective of the Funds is to achieve and maintain sufficient assets in order to pay all pension benefits as they fall due. The Funding Strategy Statement (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 purpose of the FSS 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 Funds and the "long term cost efficiency".
- To have regards to the desirability of maintaining, as much as possible, a constant primary contribution rate.

The FSS is required as part of Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2017 actuarial valuation, the FSS for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund were reviewed, with employers consulted on the revised version.

Copies of the full statement are available at www.nespf.org.uk

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

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

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

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

The trade off and its consequences on both funding level and employer contribution level, were examined by the Pensions Committee and led to the strategic benchmarks.

The full statement is available at www.nespf.org.uk

12. Environmental, Social and Governance Issues

As a long-term investor, the Funds have a duty to engage with the companies we invest in on Environmental, Social and Governance (ESG) issues.

What makes engagement necessary?

Put simply the interests of those who have control over a firm can differ from the interest of those who supply the firm with external finance i.e. the shareholders. With positive engagement you can help achieve better outcomes and awareness on topics such as executive compensation, environmental issues, corporate governance, and other topics falling outside of the usual financial and strategic conversations. The Funds believe engagement is the best approach to achieving better outcomes.

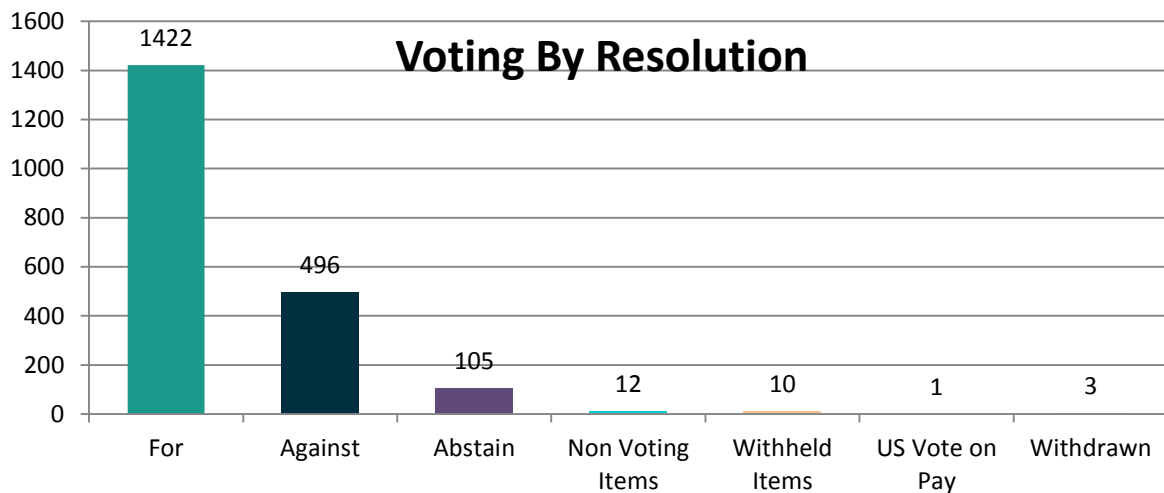
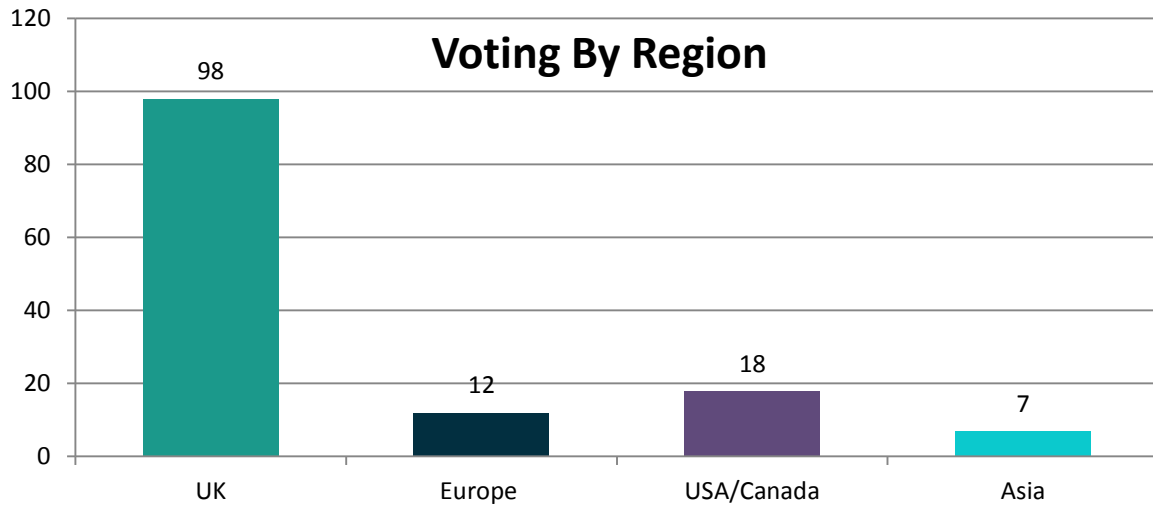
The below gives a snapshot of the activities that the Funds have undertaken on governance and engagement over the past year.

Voting

As an institutional shareholder we have a responsibility to make full use of our voting rights which enables the Funds to promote good governance practices in the companies in which we invest.

The Funds vote in-house on all our active Managers holdings and over the last year have voted at 135 Annual General Meetings/Special meetings on 2,049 resolutions. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

Further information on the Funds' Voting record can be found on our website <https://www.nespf.org.uk/about/investment/responsible-investment/voting/>



During the year to 31 March 2020, the main reasons for casting a vote against a resolution are listed below:

Annual Reports

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

Share Issues/Re-purchase

- No clear justification for the re-purchase put forward by the board.

Election of Directors

- Insufficient Independent representation on the board.
- Lack of board diversity.
- Concerns over aggregated time commitments.

Engagement

Local Authority Pension Fund Forum (LAPFF)

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £300 billion and brings together over 80 local authority pension funds and six pools. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. Councillor M. Tauqeer Malik, our Pensions Committee convenor, is a member of the LAPFF executive committee.

Some examples of the engagement work undertaken by LAPFF are noted below:

Climate Change

LAPFF's two main areas of work on this issue are:

1. Engagement - this work included raising climate risk and carbon management in nearly every direct company engagement. It has also involved being increasingly active in the Climate Action 100+ campaign and other international collaborative investor initiatives.
2. Social Impact – A Just Transition on Climate Change
The social dimension of the transition to a resilient and zero-carbon economy has been given insufficient attention, notability in terms of the implications in the workforce and wider community. The entire Just Transition initiative is premised on the need to achieve a net zero economy for both social and environmental reasons.

Achievements

- Given that construction and building work contributes around 40% of the UK's total carbon footprint, addressing new build as well as retrofitting is a core component of the zero-carbon drive. A positive outcome here is Taylor Wimpey's commitment to set science-based targets.
- LAPFF was also able to leverage collaboration through its partnership with the US-based Climate Majority Project. Joining a call to the 20 largest carbon emitting US utility companies to commit to achieving net-zero carbon emissions by 2050. By the end of September, Entergy, NextEra, WEC Energy Group and NRG Energy indicated 2030 targets in line or ahead of science-based parameters.
- After consistent engagement with LAPFF and other investors ArcelorMittal announced an aim to be carbon neutral in European operations by 2050.

Plastics

During the last year the Forum has progressed work on the issue of plastics, joining a coalition of investors engaging with companies on the overall threats posed by plastic waste and pollution.

The Forum met with two companies on this issue, Nestle & PepsiCo, as well as discussing single use plastic specifically. Additionally, the Forum co-signed a letter to a range of companies on reducing plastic pellet loss. Pellet loss is incurred during both the manufacturing and transport stages, these pellets create pollution in the oceans and on the beaches.

Achievements

- Following on from engagement PepsiCo has committed to reducing use of virgin plastic across its portfolio by 35% by 2025. This is additional to the company's commitment to increase its use of recycled commitment in plastics packing by 30%.

The above are just a few examples of engagement carried out by LAPFF, more in-depth information can be found at <http://www.lapfforum.org>

Climate Action 100+

Climate Action 100+ is an investor initiative launched in 2017. There are two categories of participation, Participant or Supporter. The Funds are a Supporter in this initiative.

Its aim is to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. More than 450 investors with over \$40 trillion in assets collectively under management are engaging companies to:

- Curb emissions
- Improve governance
- Strengthen climate related financial disclosures

The companies include 100 'systemically important emitters', accounting for two-thirds of annual global industrial emissions, alongside more than 60 others with significant opportunity to drive the clean energy transition.

Achievements

- Rio Tinto has exited from mining coal, published a Task Force Climate-related Financial Disclosure (TCFD) report, and committed to an asset by asset review to set emissions reduction targets.
- Royal Dutch Shell released a statement committing to a range of industry leading climate commitments, including emissions reduction targets that include Scope 3 emissions.
- Maersk the world's biggest shipping company committed to net zero emissions by 2050.

The first progress report has now been produced and the full report can be found on our website- <https://www.nespf.org.uk/about/investment/responsible-investment/>

Principles for Responsible Investment (PRI)

PRI is the world's leading proponent of responsible investment.

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

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

Through the year the Funds have added their name to:

- Feb 2020 Legislation - Letter sent to the Securities and Exchange Commission in the USA on its proposed changes to shareholder proposals and proxy firms.
- Aug 2019 Deforestation – Statement to companies asking them to demonstrate clear commitment to eliminate deforestation within their operations and supply chains.
- Jun 2019 Climate Change – Global investor statement to governments in advance of G20 Summit in Osaka
- Aug 2019 Palm Oil - Statement of Investor expectations in the Palm Oil Industry

More information on the above can be found on our website at <https://www.nespf.org.uk/about/investment/responsible-investment/>

13. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2019/20 Annual Report and Accounts.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor M. Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

29 September 2020

Statement of Responsibilities

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

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

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 29 September 2020.

Signed on behalf of Aberdeen City Council

Councillor M. Tauqeer Malik
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

In preparing the Annual Accounts, the Chief Officer - Finance has:

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

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2020.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 29 September 2020

Annual Governance Statement

Scope of Responsibility

Aberdeen City Council has statutory responsibility for the administration of the Local Government Pension Scheme (LGPS) in the North East of Scotland.

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

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

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

Purpose of the Governance Framework for North East Scotland Pension Funds

The governance framework comprises the systems, processes, culture and values by which the Administering Authority (including the Pension Funds) is directed and controlled. The Pension Funds comply with this framework ensuring that strategic objectives are monitored and to assess the effectiveness of services.

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds during 2019/20 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS;
- Identifying the objectives of the Funds in the Funding Strategy Statements, Statement of Investment Principles and Service Plan. Quarterly updates are presented to the Pensions Committee;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by the Pensions Committee, senior officers and stakeholders including benchmarking of services;
- A clear statement of risk combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;
- The Monitoring Officer reports on any non-compliance with laws and regulations of which the Pensions Committee are made aware;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;

- Appropriate investment custody arrangements with a global custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed fund managers and third-party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

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

Following the COVID-19 outbreak, all Council Committees were suspended. The purpose of the Urgent Business Committee (UBC) is to determine business of an urgent nature which might otherwise have been reported to Full Council or other Committees and Sub-Committees. Further details of the membership of the UBC meeting that was held on 30 June 2020 can be viewed on Page 5 of this Annual Report.

During the period of suspension, both Committee and Board members were in regular contact with Officers to receive updates, demonstrating an ongoing commitment to the effective governance of the Fund.

In September 2020, Board and Committee meetings will resume ensuring full oversight of the Audited Annual Report and Accounts 2019/20.

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

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

Review of Effectiveness

The Pension Funds have a responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

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

Management Assurance

As the administration of the Pension Funds was directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of

internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2019/20, no significant areas of weakness were highlighted.

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

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

Assurance from Internal Audit

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

The focus of internal audit was on the Pension Funds' Investment Strategy and Investment Performance Management with the outcome to be reported to the September 2020 Pensions Committee together with any identified areas of good practice, improvement, and procedural compliance.

The Chief Internal Auditor's annual report concluded that in his opinion reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2020.

At the Pensions Committee meeting on the 20 March 2020, the 2020/21 internal audit plan was approved to review payroll. The audit will focus on the calculation and payment of new and ongoing pensions, and transfer and termination of pension payments.

External Audit and Other External Scrutiny

The external auditor, Audit Scotland, reports to the Pensions Committee on the year-end financial audit and issues national performance audit reports.

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. In

2019/20, there were no significant issues to highlight on the Governance Compliance Statement.

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

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds. The annual review demonstrates that the governance and internal control environment operated effectively during the 2019/20 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor M. Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

29 September 2020

Governance Compliance Statement

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

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

Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2019/20 financial year and its position at year end as at 31 March 2020.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £6,047,983 in 2019/20 (2018/19 £6,146,372).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2020 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

Additional Voluntary Contributions

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

Critical Judgments in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

The valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS.

The value of unquoted investments at 31 March 2020 was £485,085,848 (31 March 2019 £323,345,002).

Actuarial Present Value of Promised Retirement Benefits

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

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

Property Valuations - Novel Coronavirus (COVID-19) Outbreak Uncertainties

The outbreak of the Novel Coronavirus (COVID-19), declared by the World Health Organisation as a “Global Pandemic” on the 11th March 2020 has impacted global financial markets. Travel restrictions have been implemented by many countries.

Savills’ undertook a valuation of the Fund’s property portfolio as at 31 March 2020. In applying the Royal Institute of Chartered Surveyors (RICS) Valuation Global Standards (‘Red Book’), a material uncertainty was declared in the valuation report. This is due to the market uncertainties caused by COVID-19. The Red Book defines material uncertainty as ‘where the degree of uncertainty in a valuation fall outside any parameters that might normally be expected or accepted.’ Consequently, less certainty and a higher degree of caution should be attached to their valuation than would normally be the case.

The valuation report has been used to inform the measurement of directly held property in these financial statements. Although the valuer has declared a material valuation uncertainty, the valuer has exercised professional judgement in preparing the valuation. Therefore, this valuation is the best available information to the Fund that can be relied upon.

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

When a new or amended accounting standard has been issued but not yet adopted, the Code requires the disclosure of information relating to its impact. The following new or amended standards have been published but not yet adopted:

- **IFRS 16 Leases** – will affect new lease classifications for directly held investment properties. Implementation of this standard has been deferred to 1 April 2021. Therefore, the impact of this standard is not considered for 2019/20.
- **Amendments to IAS 28 Investments in Associates and Joint Ventures: Long Term Interests in Associates and Joint Ventures.** This amendment clarifies that a company applies IFRS9 Financial Instruments to long term interests in an associate or joint venture that form part of the net investment in the associate or joint venture. This will have no impact as the Fund already complies.
- **Amendments to IAS 19 Employee Benefits:** Plan Amendment, Curtailment or Settlement. This amendment specifies how organisations determine pension expenses when changes to a defined benefit pension plan occur. This amendment is not expected to have a significant impact on the Financial Statements.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2020

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

	Notes	2018/19 £'000	2019/20 £'000
Contributions Receivable			
Employees' Contributions	2	30,242	30,857
Employers' Contributions	2	108,618	110,335
Transfer Values	3	2,905	2,811
Other Income		6	4
		<u>141,771</u>	<u>144,007</u>
Benefits Payable			
Retirement Pensions	4	106,572	114,657
Retirement Allowances	4	25,574	30,298
Death Gratuities	4	4,061	4,189
Contributions Refunded	5	598	571
Transfer Values	5	3,890	5,072
		<u>140,695</u>	<u>154,787</u>
Management Expenses	6	20,773	20,197
Return on Investment			
Investment Income	7	54,805	56,316
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	308,495	(127,964)
Net Return on Investments		<u>363,300</u>	<u>(71,648)</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		343,603	(102,625)
Opening Net Assets of the Fund		4,125,564	4,469,167
Net Assets of the Fund at the end of the year		<u>4,469,167</u>	<u>4,366,542</u>

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2020

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

	Notes	2018/19	2019/20
		£'000	£'000
Investment Assets			
UK Equities		766,975	561,127
Overseas Equities		921,354	811,137
Pooled Vehicles - Other		1,849,246	1,947,975
Pooled Infrastructure		130,600	176,920
Direct Property	13	328,025	348,750
Private Equity – Other		280,903	322,825
Private Debt		18,428	83,435
Funds held by Investment Managers		71,971	60,266
ACC Loans Fund Deposit	19	106,700	67,480
Investment Income Due		5,799	3,685
Investment Sales Amount Receivable		664	0
Total Investment Assets		<u>4,480,665</u>	<u>4,383,600</u>
Investment Liabilities			
Investment Purchases Amount Payable		(890)	(1,711)
Net Investment Assets		<u>4,479,775</u>	<u>4,381,889</u>
Long Term Assets	18a	0	81
Current Assets	18b	16,026	15,106
Current Liabilities	18c	(26,634)	(30,534)
Net Current Assets/(Liabilities)		<u>(10,608)</u>	<u>(15,428)</u>
Net Assets of the Fund at the end of the year		<u>4,469,167</u>	<u>4,366,542</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 29 September 2020

The unaudited accounts were authorised on 30 June 2020 and the audited accounts were authorised for issue by Jonathan Belford on 29 September 2020.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2020

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

	Notes	2018/19 £'000	2019/20 £'000
Contributions Receivable			
Employees' Contributions	2	72	129
Employers' Contributions	2	1,943	1,908
Other Income		305	348
		2,320	2,385
Benefits Payable			
Retirement Pensions	3	3,243	7,061
Retirement Allowances	3	337	1,734
Death Gratuities	3	328	324
		3,908	9,119
Management Expenses	5	312	290
Return on Investment			
Investment Income	6	104	224
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7a	7,025	(6,060)
Net Return on Investments		7,129	(5,836)
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		5,229	(12,860)
Transfer of Strathclyde Transport Fund Assets (Cash & Stock)	7b	0	216,388
Opening Net Assets of the Fund		100,071	105,300
Net Assets of the Fund at the end of the year		105,300	308,828

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2020

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

	Notes	2018/19 £'000	2019/20 £'000
Investment Assets			
Index Linked Securities		27,793	164,934
Pooled Vehicle		76,192	135,282
Funds held by Investment Managers		4,093	8,304
ACC Loans Fund Deposit	16	228	429
Investment Income Due		3	148
Investment Sales Amount Receivable		918	0
Total Investment Assets		<u>109,227</u>	<u>309,097</u>
Investment Liabilities			
Investment Purchases Amount Payable		(3,999)	(675)
Net Investment Assets		<u>105,228</u>	<u>308,422</u>
Long Term Assets	15a	296	269
Current Assets	15b	192	909
Current Liabilities	15c	(416)	(772)
Net Current Assets/ (Liabilities)		(224)	137
Net Assets of the Fund at the end of the year		<u>105,300</u>	<u>308,828</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 29 September 2020

The unaudited accounts were authorised on 30 June 2020 and the audited accounts were authorised for issue by Jonathan Belford on 29 September 2020.

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2017.

Information from the 2017 Actuarial Valuation is detailed below:

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

Funding Level

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

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

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.6% meaning that the average employer contribution rate is 19.4% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2017 Actuarial Valuation. This sets out the contributions for each employer over the 3 year period to 31 March 2021.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2021. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

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

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

The full Actuarial Report and the Funding Strategy Statement are available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £5,252m (2019 £5,422m). Included within the calculation for 2020 is an amount of broadly £24 million by way of an estimate of the effect of the McCloud judgement. These figures are used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

These calculations are only prepared for the purposes of IAS 26 and have no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Scheme Actuary, including notes on the McCloud judgement, can be found in Appendix 1.

Note 2: Contributions Receivable

By Category	2018/19	2019/20
	£'000	£'000
Employees' Normal Contributions	30,242	30,857
Employers' Normal Contributions	106,088	107,777
Employers' Deficit Recovery Contributions	2,530	2,558
Total Employers' Contributions	108,618	110,335
Total	138,860	141,192

By Authority	2018/19	2019/20
	£'000	£'000
Administering Authority	42,486	40,926
Scheduled Bodies	82,470	86,618
Admitted Bodies	9,087	8,727
Transferee Admission Bodies	4,817	4,921
Total	138,860	141,192

Note 3: Transfers in from other Pension Funds

	2018/19	2019/20
	£'000	£'000
Individual Transfers	2,905	2,811
Total	2,905	2,811

Note 4: Benefits Payable

By Category	2018/19	2019/20
	£'000	£'000
Pensions	106,572	114,657
Commutation and Lump Sum Retirement Benefits	25,574	30,298
Lump Sum Death Benefits	4,061	4,189
Total	136,207	149,144

By Authority	2018/19	2019/20
	£'000	£'000
Administering Authority	36,309	41,103
Scheduled Bodies	88,538	94,819
Admitted Bodies	9,934	11,408
Transferee Admission Bodies	1,426	1,814
Total	136,207	149,144

Note 5: Payment to and on Account of Leavers

	2018/19	2019/20
	£'000	£'000
Refunds to Members Leaving Service	599	565
Payments for Members Joining State Scheme	(1)	6
Individual Transfers	3,890	5,072
Total	4,488	5,643

Note 6: Management Expenses

	2018/19	2019/20
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,084	1,203
Information Technology	366	400
Supplies & Services	83	115
Accommodation	79	84
Printing and Publications	22	20
Administration Expenses Total	1,634	1,822
Pension Fund Staffing Costs – Investment	159	168
Pension Fund Committee	12	16
Pension Board	1	8
External Audit Fee	39	40
Internal Audit Fee	8	7
Actuarial Fees	113	49
General Expenses	142	134
Oversight and Governance Expenses Total	474	422
Investment Management	10,721	10,293
Performance Fees	6,146	6,048
Direct Operating Property Expenses	186	664
Transaction Costs	1,477	823
Custody Fees	135	125
Investment Management Expenses Total	18,665	17,953
Management Expenses Grand Total	20,773	20,197

Analysis of Transaction Costs:

Commission £'000	Fees/ Tax £'000	2018/19 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2019/20 Total £'000
0	0	0	Fixed Income	0	0	0
319	747	1,066	Equities	192	397	589
0	267	267	Pooled Infrastructure	0	234	234
0	144	144	Private Equity	0	0	0
319	1,158	1,477	Total	192	631	823

Note 7: Investment Income

	2018/19	2019/20
	£'000	£'000
Equity Dividends	27,079	25,573
Property Rental Income	15,690	17,442
Interest on Cash Deposit	689	1,395
Pooled Infrastructure*	6,734	7,506
Private Equity*	485	670
Private Debt*	0	1,946
Other (including P/L from Currency & Derivatives)	4,897	1,962
Total	55,574	56,494
Tax		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Equities	(769)	(178)
Withholding Tax – Pooled	0	0
Total Tax	(769)	(178)
Net Total	54,805	56,316

***Note: Previously included within 'Other' Income**

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
UK Equities	766,975	83,732	(182,766)	(106,814)	561,127
Overseas Equities	921,354	62,690	(291,957)	119,050	811,137
Pooled Other	1,849,246	383,504	(131,066)	(153,709)	1,947,975
Pooled Infrastructure	130,600	58,489	(4,109)	(8,060)	176,920
Property	328,025	28,849	0	(8,124)	348,750
Private Equity	280,903	51,997	(42,637)	32,562	322,825
Private Debt	18,428	73,883	(6,007)	(2,869)	83,435
	4,295,531	743,144	(658,542)	(127,964)	4,252,169
Derivative Contracts					
FX Contracts	0	0	0	0	0
	4,295,531	743,144	(658,542)	(127,964)	4,252,169
Other					
Cash	178,671				127,746
Investment Income Due	5,799				3,685
Investment Sales Amount Receivable	664				0
Investment Purchases Amounts Payable	(890)				(1,711)
Net Investment Assets	4,479,775				4,381,889

Reconciliation of Movements in Investment and Derivatives (continued)

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
UK Equities	734,875	170,380	(157,517)	19,237	766,975
Overseas Equities	819,078	105,501	(157,630)	154,405	921,354
Pooled Other	1,855,823	9,918	(96,768)	80,273	1,849,246
Pooled Infrastructure	88,899	39,576	(1,662)	3,787	130,600
Property	293,045	35,652	(4,323)	3,651	328,025
Private Equity	232,461	59,967	(58,780)	47,255	280,903
Private Debt	0	17,549	(94)	973	18,428
	4,024,181	438,543	(476,774)	309,581	4,295,531
Derivative Contracts					
FX Contracts	0	33,374	(32,288)	(1,086)	0
	4,024,181	471,917	(509,062)	308,495	4,295,531
Other					
Cash	113,484				178,671
Investment Income Due	0				5,799
Investment Sales Amount Receivable	0				664
Investment Purchases Amounts Payable	0				(890)
Net Investment Assets	4,137,665				4,479,775

Note 9: Analysis of Investments

	2018/19	2019/20
	£'000	£'000
Equities		
UK		
Quoted	766,975	561,127
Overseas		
Quoted	921,354	811,137
Subtotal Equities	1,688,329	1,372,264
Pooled Funds (Other) – Additional Analysis		
UK		
Unit Trusts	872,300	741,632
Pooled Indexed Linked	202,644	206,888
Overseas		
Unit Trusts	652,004	791,417
Global Pooled Bonds	122,298	208,038
Subtotal Pooled Funds (Other)	1,849,246	1,947,975
Pooled Infrastructure - Quoted	106,586	98,094
Pooled Infrastructure - Unquoted	24,014	78,826
Subtotal Pooled Infrastructure	130,600	176,920
Property, Direct	328,025	348,750
Private Equity	280,903	322,825
Private Debt	18,428	83,435
Funds held by Investment Managers	71,971	60,266
ACC Loans Fund Deposit	106,700	67,480
Investment Income Due	5,799	3,685
Investment Sales Amount Receivable	664	0
Investment Assets Total	4,480,665	4,383,600
Investment Liabilities		
Investment Purchases Amounts Payable	(890)	(1,711)
Investment Liabilities Total	(890)	(1,711)
Net Investment Assets	4,479,775	4,381,889

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2020.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2020.

Note 11: Investments Analysed by Fund Manager

	31 March 2019		31 March 2020	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,403,222	31.3	1,234,017	28.3
Baillie Gifford	1,237,351	27.7	1,022,435	23.4
BlackRock Asset Management	500,158	11.2	388,970	8.9
BlackRock Diversified Growth Fund	162,322	3.6	158,096	3.6
Baring Asset Managers	(3)	0.0	(3)	0.0
AAM Property (API)	364,367	8.1	370,869	8.5
AAM Property Residential	7,963	0.2	9,138	0.2
HarbourVest	113,833	2.5	136,620	3.1
Standard Life	29,677	0.7	22,567	0.5
ACC Loans Fund Deposit	106,700	2.4	67,480	1.5
Global Custodian	18,818	0.4	15,409	0.4
Partners Group	57,569	1.3	58,066	1.3
Maven Capital	2,043	0.1	1,541	0.0
Capital Dynamics	26,118	0.6	36,306	0.8
RCP Advisors	16,078	0.4	23,743	0.6
Unigestion	30,495	0.7	47,941	1.1
Invesco Diversified Growth Fund	150,707	3.4	152,724	3.5
Russell Multi Asset Credit	103,035	2.3	91,021	2.1
Russell Transition	294	0.0	312	0.0
Aviva Infrastructure	106,586	2.4	98,094	2.3
Hermes Infrastructure	24,014	0.5	78,933	1.8
Alcentra	18,428	0.4	53,683	1.2
Hayfin Direct Lending	0	0.0	29,752	0.7
Insight Credit	0	0.0	284,175	6.5
	4,479,775	100.2	4,381,889	100.3
Net Long and Current Assets				
Bank Account	19	0.0	27	0.0
Long Term and Current Debtors Less Creditors	(10,627)	(0.2)	(15,374)	(0.3)
Net Assets	4,469,167	100.0	4,366,542	100.0

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

Security	Market Value 31 March 2019	% of Net Investment Assets	Market Value 31 March 2020	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund	548,970	12.3	416,221	9.46
MPF UK Equity Pooled Fund	529,305	11.9	402,869	9.16
Insight Investment Mgt Global Funds	0	0.0	284,175	6.46

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

Note 12: Stock Lending

	31 March 2019	Collateral Percentage	31 March 2020	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	398,546		305,518	
Fixed Interest	0		0	
Total Exposure	398,546		305,518	
Total Collateral	425,845	107%	329,942	108%

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

Collateral is held at 108% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 13: Property Holdings

	2018/19	2019/20
	£'000	£'000
Opening Balance	293,045	328,025
Purchases	26,440	27,671
Construction	9,227	676
Subsequent Expenditure	(15)	502
Disposals	(4,323)	0
Net Increase in Market Value	3,651	(8,124)
Closing Balance	328,025	348,750

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

Savills' valuation of the Fund's property portfolio includes a 'material valuation uncertainty' clause. Please refer to the Accounting Policies section for further information.

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

	2018/19	2019/20
	£'000	£'000
Within One Year	17,049	17,266
Between One Year and Five Years	59,748	62,912
Later than Five Years	100,571	98,659
Total	177,368	178,837

In accordance with IAS17, the above table has been presented using the 'break date' of the lease agreements.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure has been reduced by a credit loss allowance for one property, but not thought to be material.

During the year 2019/20, one tenant went into administration and a new turnover based lease was agreed with no base rent.

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2019				31 March 2020		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
1,688,329			Equities	1,372,264		
1,849,246			Pooled Other	1,947,975		
130,600			Pooled Infrastructure	176,920		
280,903			Private Equity	322,825		
18,428			Private Debt	83,435		
	178,671		Cash		127,746	
	6,463		Other Investment Balances		3,685	
	16,026		Debtors		15,187	
3,967,506	201,160		Subtotal	3,903,419	146,618	
			Financial Liabilities			
		(890)	Other Investment Balances			(1,711)
		(26,634)	Creditors			(30,534)
		(27,524)				(32,245)
3,967,506	201,160	(27,524)	Financial Instruments Total	3,903,419	146,618	(32,245)
			Non-Financial Instruments			
328,025			Property	348,750		
4,295,531	201,160	(27,524)		4,252,169	146,618	(32,245)
		4,469,167	Net Assets of the Fund	4,366,542		

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

31 March 2019		31 March 2020
£'000	Financial Assets	£'000
304,844	Fair Value through Profit and Loss	(119,840)
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
304,844	Net Gains and Losses on Financial Instruments	(119,840)
	Non-Financial Instruments	
3,651	Fair Value through Profit and Loss	(8,124)
308,495	Net Gains and Losses of the Fund	(127,964)

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

The values of the investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which North East Scotland Pension Fund has invested.

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

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

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

Note 16a: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 2	Valued at fair value at the year-end using the investment method of valuation by Claire Magowan MRICS under the supervision of Tim Ainsley MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for	

		in accordance with the <i>RICS Valuation Professional Standard</i>	existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2018)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between (un)audited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,418,333		485,086	3,903,419
Non-Financial Assets at Fair Value through Profit and Loss		348,750		348,750
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	3,418,333	348,750	485,086	4,252,169

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,644,161		323,345	3,967,506
Non-Financial Assets at Fair Value through Profit and Loss		328,025		328,025
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	3,644,161	328,025	323,345	4,295,531

Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

Note 16c: Reconciliation of Fair Value Measurements within Level 3

	Market Value 1 April 2019	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Infrastructure	24,014	50,205	(3,096)	518	7,185	78,826
Private Equity	280,903	51,997	(42,637)	25,332	7,230	322,825
Private Debt	18,428	73,883	(6,007)	976	(3,845)	83,435
Total	323,345					485,086

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

Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2020.

	Assessed Valuation Range (+/-)	Value at 31 March 2020	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Pooled Infrastructure	13%	78,826	89,073	68,579
Private Equity	30%	322,825	419,673	225,977
Private Debt	30%	83,435	108,466	58,404
Total		485,086	617,212	352,960

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

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund’s Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.5%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Pooled Infrastructure	13.0%
Private Equity	30.0%
Private Debt	30.0%
Property	13.0%
Cash	1.0%

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

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

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£’000		£’000	£’000
UK Bonds	206,888	7.5	222,405	191,371
Overseas Bonds	583,234	7.5	626,977	539,491
UK Equities	991,938	16.5	1,155,608	828,268
Overseas Equities	1,227,358	20.5	1,478,966	975,750
Pooled – Diversified Growth Funds	310,821	12.5	349,674	271,968
Pooled – Infrastructure	176,920	13.0	199,920	153,920
Private Equity	322,825	30.0	419,673	225,977
Private Debt	83,435	30.0	108,466	58,404
Total	3,903,419		4,561,689	3,245,149

Asset Type	Value as at 31 March 2019	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	202,644	7.5	217,842	187,446
Overseas Bonds	225,333	7.5	242,233	208,433
UK Equities	1,326,246	16.0	1,538,445	1,114,047
Overseas Equities	1,470,324	20.5	1,771,740	1,168,908
Pooled – Diversified Growth Funds	313,028	12.5	352,157	273,899
Pooled – Infrastructure	130,600	13.0	147,578	113,622
Private Equity	280,903	30.0	365,174	196,632
Private Debt	18,428	30.0	23,956	12,900
Total	3,967,506		4,659,125	3,275,887

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2019	As at 31 March 2020
	£'000	£'000
Cash and Cash Equivalents	178,671	127,746
Cash Balances	19	27
Fixed Interest Securities	427,977	790,122
Total	606,667	917,895

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2020	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	127,746	129,023	126,469
Cash Balances	27	27	27
Fixed Interest Securities	790,122	798,023	782,221
Total	917,895	927,073	908,717

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,671	180,458	176,884
Cash Balances	19	19	19
Fixed Interest Securities	427,977	432,257	423,697
Total	606,667	612,734	600,600

Currency Risk

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

The Fund's currency rate risk is routinely monitored in accordance with the Fund's Risk Management Strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2020 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Asset Value as at 31 March 2020
	£'000	£'000
Overseas Quoted Securities	921,354	811,137
Overseas Unquoted Securities	263,207	359,274
Overseas Unit Trusts	652,004	791,417
Overseas Global Pooled Bonds	122,298	208,038
Total Overseas Assets	1,958,863	2,169,866

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0%.

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

A 10.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Potential Market Movement	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas Quoted Securities	811,137	892,251	730,023
Overseas Unquoted Securities	359,274	395,201	323,347
Overseas Unit Trust	791,417	870,559	712,275
Overseas Global Pooled Bonds	208,038	228,842	187,234
Total	2,169,866	2,386,853	1,952,879

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Potential Market Movement	
		+10.2%	-10.2%
	£'000	£'000	£'000
Overseas Quoted Securities	921,354	1,015,332	827,376
Overseas Unquoted Securities	263,207	290,054	236,360
Overseas Unit Trust	652,004	718,508	585,500
Overseas Global Pooled Bonds	122,298	134,772	109,824
Total	1,958,863	2,158,666	1,759,060

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2020 was £127,773,000 (31 March 2019 £178,690,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2019	Balance as at 31 March 2020
		£'000	£'000
Liquidity Funds			
HSBC Liquidity Funds	A+	31,856	34,412
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	106,700	67,480
HSBC	A+	40,115	25,854
Subtotal		178,671	127,746
Bank Current Accounts			
Clydesdale Bank	A-	19	27
Total		178,690	127,773

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2020 the value of illiquid assets was £833,835,848 which represented 19.3% of the total net assets of the Fund (31 March 2019 £651,370,002 which represented 14.5% of the total net assets).

Note 18a: Long Term Assets

	31 March 2019	31 March 2020
	£'000	£'000
Merge – Transport Funds	0	81
Total Long Term Assets	0	81

Note 18b: Current Assets

	31 March 2019	31 March 2020
	£'000	£'000
Employees' Contributions due	3,259	2,498
Employers' Contributions due	9,674	7,513
Sundry Debtors	3,074	5,068
Subtotal	16,007	15,079
Bank	19	27
Total Current Assets	16,026	15,106

Note 18c: Current Liabilities

	31 March 2019	31 March 2020
	£'000	£'000
Sundry Creditors	18,002	19,744
Benefits Payable	8,632	10,790
Total Current Liabilities	26,634	30,534

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,534,042 (2018/19 £1,354,549).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £67,480,000 (2018/19 £106,700,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £870,248 (2018/19 £345,451) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

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

		Accrued Pension 2018/19	Accrued Pension 2019/20
		£'000	£'000
Steven Whyte	Director of Resources	39	42
Jonathan Belford	Chief Officer - Finance	1	36

Governance

As at 31 March 2020, 9 members of the Pensions Committee and 7 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2019/20, Elected Members' had interests in Sport Aberdeen and Aberdeen International Youth Festival.

Note 21: Contractual Commitments as at 31 March 2020

As at 31 March 2020 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	205,653	41,332
Standard Life	47,629	15,640
Partners Group	89,376	22,253
Maven (SLF)	6,308	44
Capital Dynamics	60,000	24,760
RCP Advisors	36,292	11,765
Unigestion	57,519	15,354
AAM Residential Property	30,000	21,232
Hermes Infrastructure	100,000	27,219
Alcentra EDL	88,492	35,258
Hayfin DLF	88,492	59,683
Total	809,761	274,540

Note 22: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Funds' Accounts.

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

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

2018/19	Income (AVCs Paid by Members)	2019/20
£'000		£'000
29	Standard Life	33
2,730	Prudential	2,428

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

Market Value	Additional Voluntary Contributions	Market Value
31 March 2019		31 March 2020
£'000		£'000
1,473	Standard Life	1,135
24,313	Prudential	23,480

Note 23: Contingent Assets/Liabilities

Following a bond review in 2018 the North East Scotland Pension Fund hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation in the Scheme. These bonds are drawn up in favour of the Pension Fund and payment will only be triggered in the event of an employer default. The next bond review will be carried out by the Scheme Actuary following the completion of the 2020 valuation process.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total the Fund has secured guarantees for 24 Community Admission Bodies and Transferee Admission Bodies currently participating in the Scheme.

UK and European law require pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMPs). To allow the government to continue to meet these requirements an interim solution was introduced which means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK

Government may extend this for members reaching State Pension Age from 6 April 2021 onwards or will adopt a long-term methodology known as conversion. Currently, the additional cost of extending GMP cannot be quantified.

The Goodwin Case – a recent employment tribunal decision changed the pension entitlement of male survivors in opposite sex marriages to take account of the female member's service from 6 April 1978. Previously, the male survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005 and affects the pension of male spouse survivors where their entitlement arose on or after that date. This ruling will impact upon the future promised retirement benefits of members of the Fund and the cost cannot yet be quantified with any certainty.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pensions obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are imbedded within the Funding Strategy Statement. For 2019/20 one employer terminated from the Fund. The assets and liabilities held for this employer were subsumed by the scheme guarantor with a calculated termination fee of zero due upon exit from the Fund. As at 31 March 2020 there are no participating employers in the process of terminating from the Fund.

Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on our website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 26: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2020 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £323 million. Private Debt £83 million. Pooled Infrastructure (Unquoted) £79 million. There is a risk that these investments may be under or overstated in the accounts.
Property Valuations Re COVID-19	As a result of the COVID-19 pandemic, Savills (the Fund's property valuer) has declared a 'material valuation uncertainty' in their valuation report.	Property may be under/over stated in the accounts. The actual financial return is only realised when the asset is sold.

Note 27: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer - Finance on 30 June 2020. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Along with the rest of the world, the Pension Fund has felt the force of the COVID-19 pandemic, not only in asset value and returns but also in the way we go about our daily business. While asset values and returns have retracted as a result of market volatility, the Fund remains above benchmark, however, there remains uncertainty and potential volatility yet to be experienced.

The Pension Fund has shown its resilience by adapting to alternative working environments to ensure service delivery and most importantly to continue the payment of pensions.

Note 28: Agency Arrangement for Administering Compensatory ‘Added’ Years

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

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

	2018/19	2019/20
	£’000	£’000
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,360	2,386
Aberdeenshire Council	1,364	1,380
Moray Council	714	720
Scottish Water	1,276	1,286
Other	307	310
Total	6,021	6,082
Associated Payroll Cost	4	4

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the Aberdeen City Council Transport Fund was provided as at 31 March 2017. Information from the 2017 Actuarial Valuation is detailed below:

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

Funding Level

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

In the year 2019/20 the assets and liabilities held with the LGPS (Scotland) for First Glasgow were transferred from the Strathclyde No. 3 Fund to the Aberdeen City Council Transport Fund for administrative purposes under a Scottish Government direction.

Following the completion of the transfer, the scheme actuary completed an evaluation of the total liabilities held for both First Aberdeen and First Glasgow based on the 2017 assumptions for the ACCTF

Market Value of Assets at Valuation	£325,000,000
Liabilities	£308,000,000
Surplus	£ 17,000,000

Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities 106%

The figures above are an approximation based on a roll forward of the data held for First Aberdeen as at 31 March 2017 and based on an extract of data held for First Glasgow as at 31 March 2019.

A full valuation of the liabilities will take place in line with regulations as at 31 March 2020.

For the interim period, the contribution requirements for each employer will remain in line with the 2017 valuation carried out by the respective scheme actuaries at the time.

Contribution Requirement

	2018/19	2019/20	2020/21
First Aberdeen (as a percentage of payroll)	33% plus £1,500,000	33% plus £1,500,000	33% plus £1,500,000
First Glasgow	0%	0%	0%

Due to the surplus determined as at 31 March 2017

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

Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a.
Assumed Long Term Price Inflation (CPI)	2.9% p.a.
Salary Increases – Long Term	3.4% p.a.
Salary Increases – Short Term	2.9% p.a. (to 31 March 2018)
Pension Increases in Payment	2.9% p.a.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £217.3m (2019 £80.9m). Included within the calculation for 2020 is an amount of less than £100,000 by way of an estimate of the effect of the McCloud judgement. These figures are used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

These calculations are only prepared for the purposes of IAS 26 and have no validity in other circumstances. It is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Scheme Actuary, including notes on the McCloud judgement, can be found in Appendix 1.

Note 2: Contributions Receivable

	2018/19	2019/20
	£'000	£'000
Employees' Normal Contributions	72	129
Employers' Normal Contributions	385	408
Employers' Deficit Recovery Contributions	1,558	1,500
Total Employers' Contributions*	1,943	1,908
Total	2,015	2,037

*There are no First Glasgow employer contributions for the year 2019/20.

	2018/19	2019/20
	£'000	£'000
Scheduled Bodies	2,015	2,037
Total	2,015	2,037

Note 3: Benefits Payable

	2018/19	2019/20
	£'000	£'000
Pensions	3,243	7,061
Commutation and Lump Sum Retirement Benefits	337	1,734
Lump Sum Death Benefits	328	324
Total	3,908	9,119

	2018/19	2019/20
	£'000	£'000
Scheduled Bodies	3,908	9,119
Total	3,908	9,119

Note 4: Payment to and on Account of Leavers

There were no payments to and on Account of Leavers.

Note 5: Management Expenses

	2018/19	2019/20
	£'000	£'000
Pension Fund Staffing Costs – Administration	33	40
Information Technology	11	12
Supplies and Services	3	4
Accommodation	2	3
Printing and Publications	1	1
Administration Expenses Total	50	60
Pension Fund Staffing Costs – Investment	5	8
Pension Fund Committee	0	1
External Audit Fee	1	1
Actuarial Fees	20	34
General Expenses	5	5
Oversight and Governance Expenses Total	31	49
Investment Management	212	163
Custody Fees	19	18
Investment Management Expenses Total	231	181
Management Expenses Grand Total	312	290

Note 6: Investment Income

	2018/19	2019/20
	£'000	£'000
Fixed Interest Securities	7	113
Pooled Investments	108	44
Interest on Cash Deposits	14	40
Other (including P/L from Currency & Derivatives)	(25)	27
Total	104	224
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Pooled	0	0
Total Tax	0	0
Net Total	104	224

Note 7a: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	27,793	145,755	(8,310)	(304)	164,934
Pooled Investments	76,192	223,147	(158,301)	(5,756)	135,282
	103,985	368,902	(166,611)	(6,060)	300,216
Other					
Cash	4,321				8,733
Investment Income Due	3				148
Investment Sales Amount Receivable	918				0
Investment Purchases Amount Payable	(3,999)				(675)
Net Investment Assets	105,228				308,422

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	1,117	25,095	0	1,581	27,793
Pooled Investments	97,060	26,402	(52,714)	5,444	76,192
	98,177	51,497	(52,714)	7,025	103,985
Other					
Cash	1,621				4,321
Investment Income Due	0				3
Investment Sales Amount Receivable	0				918
Investment Purchases Amount Payable	0				(3,999)
Net Investment Assets	99,798				105,228

Note 7b: Transfer of Strathclyde Transport Fund Assets

	2018/19	2019/20
	£'000	£'000
Cash	0	180,500
Pooled Investment – Unit Trust	0	35,888
Total	0	216,388

Note 8: Analysis of Investments

	2018/19	2019/20
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	27,793	164,934
Pooled Funds – Additional Analysis		
UK		
Fixed Income	28,569	66,554
Unit Trusts	25,750	49,292
Overseas		
Unit Trusts	21,873	19,436
Subtotal Pooled Funds	76,192	135,282
Cash Deposits	4,321	8,733
Investment Income Due	3	148
Investment Sales Amount Receivable	918	0
Investment Assets Total	109,227	309,097
Investment Liabilities		
Investment Purchases Amount Payable	(3,999)	(675)
Investment Liabilities Total	(3,999)	(675)
Net Investment Assets	105,228	308,422

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2019		31 March 2020	
	£'000	%	£'000	%
Schroders	105,000	99.8	103,888	33.7
Schroders (Transition)	0	0.0	204,105	66.2
ACC Loans Fund Deposit	228	0.2	429	0.1
Net Investment Assets	105,228	100.0	308,422	100.0

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

Security	Market Value 31 March 2019 £'000	% of Net Investment Assets	Market Value 31 March 2020 £'000	% of Net Investment Assets
LGIM Active Corporate Bond	0	0.0	33,830	11.0
Schroder Pension Mgt Life DGF Series 8	0	0.0	21,703	7.0
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,194	14.4	15,924	5.2
Blackrock Asset Management UK Aquila Life Currency Work Ex UK Equity	6,286	6.0	5,031	1.6
SIF Diversified Completion CLS P Accumulation	10,556	10.0	11,665	3.8
SSGA Lux MG GL Treasury Bond Index GBP	11,984	11.4	12,884	4.2
Vanguard Investment series Global Stock Index FD-INST USD SHS	5,660	5.4	4,925	1.6
Schroder Pension Management Life Risk	8,393	8.0	8,419	2.7
Schroder Matching Plus Synthetic Index Linked Gilt FDI ACC	7,116	6.8	6,320	2.0
UK Gilt 0.125% IL 10/8/2048	10,149	9.6	10,414	3.4
UK Treasury 0.125% IL 22/3/2044	8,802	8.4	1,478	0.5
UK Treasury 0.125% IL 22/3/2058	6,175	5.9	6,232	2.0

Note 10: Stock Lending

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

Collateral is held at a minimum of 108% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

There was no stock lending in operation as at 31 March 2020.

Note 11: Financial and Non-Financial Instruments

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

31 March 2019				31 March 2020		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
27,793			Fixed Interest	164,934		
76,192			Pooled	135,282		
	4,321		Cash		8,733	
	921		Other Investment Balances		148	
	488		Debtors		1,178	
103,985	5,730	0	Subtotal	300,216	10,059	0
			Financial Liabilities			
		(3,999)	Other Investment Balances			(675)
		(416)	Creditors			(772)
103,985	5,730	(4,415)		300,216	10,059	(1,447)
		105,300	Financial Instruments Total			308,828
0			Non - Financial Instruments	0		
103,985	5,730	(4,415)		300,216	10,059	(1,447)
		105,300	Net Assets of the Fund			308,828

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

31 March 2019		31 March 2020
£'000		£'000
	Financial Assets	
7,025	Fair Value through Profit and Loss	(6,060)
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
7,025	Net Gains and Losses on Financial Instruments	(6,060)
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
7,025	Net Gains and Losses of the Fund	(6,060)

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

The values of the investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which Aberdeen City Council Transport Fund has invested.

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

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

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

Note 13a: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	300,216	0	0	300,216
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	300,216	0	0	300,216

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	103,985	0	0	103,985
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	103,985	0	0	103,985

Note 13b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 13c: Reconciliation of Fair Value Measurements within Level 3

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

Note 13d: Sensitivity of Assets Valued at Level 3

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

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

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.5%
Overseas Equities	20.5%
Pooled – Diversified Growth Funds	12.5%

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

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

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	231,488	7.5	233,224	229,752
UK Equities	15,924	16.5	18,551	13,297
Overseas Equities	19,436	20.5	23,420	15,452
Pooled – Diversified Growth Funds	33,368	12.5	37,539	29,197
Total	300,216		312,734	287,698

Asset Type	Value as at 31 March 2019	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	56,362	7.5	60,589	52,135
UK Equities	15,194	16.0	17,625	12,763
Overseas Equities	21,873	20.5	26,357	17,389
Pooled – Diversified Growth Funds	10,556	12.5	11,876	9,236
Total	103,985		116,447	91,523

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2019 and 31 March 2020 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2019	As at 31 March 2020
	£'000	£'000
Cash and Cash Equivalents	4,321	8,733
Cash Balances	1	733
Fixed Interest Securities	56,362	231,488
Total	60,684	240,954

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2020	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	8,733	8,820	8,646
Cash Balances	733	740	726
Fixed Interest Securities	231,488	233,803	229,173
Total	240,954	243,363	238,545

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	4,321	4,364	4,278
Cash Balances	1	1	1
Fixed Interest Securities	56,362	56,926	55,798
Total	60,684	61,291	60,077

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2020 and as at the previous year end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2019	Asset Value as at 31 March 2020
	£'000	£'000
Overseas Unit Trusts	21,873	19,436
Total Overseas Assets	21,873	19,436

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.0%.

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

A 10.0% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Potential Market Movement	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas Unit Trust	19,436	21,380	17,492
Total	19,436	21,380	17,492

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Potential Market Movement	
		+10.2%	-10.2%
	£'000	£'000	£'000
Overseas Unit Trust	21,873	24,104	19,642
Total	21,873	24,104	19,642

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme Investment Regulations have limits as to the maximum percentage of the

deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2020 was £9,466,000 and at 31 March 2019 £4,322,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2019	Balance as at 31 March 2020
		£'000	£'000
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	228	429
HSBC	A+	4,093	8,304
Subtotal		4,321	8,733
Bank Current Accounts			
HSBC	A+	0	731
Clydesdale Bank	A-	1	2
Total		4,322	9,466

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. There were no illiquid assets as at 31 March 2020 and 31 March 2019.

Note 15a: Long Term Assets

	31 March 2019	31 March 2020
	£'000	£'000
Lifetime Tax Allowance	296	269
Total Long Term Assets	296	269

Note 15b: Current Assets

	31 March 2019	31 March 2020
	£'000	£'000
Employees' Contributions due	1	3
Employers' Contributions due	5	132
Sundry Debtors	185	41
Subtotal	191	176
Bank	1	733
Total Current Assets	192	909

Note 15c: Current Liabilities

	31 March 2019	31 March 2020
	£'000	£'000
Sundry Creditors	132	285
Benefits Payable	284	487
Total Current Liabilities	416	772

Note 16: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £53,751 (2018/19 - £41,893).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £429,000 (2018/19 - £228,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £2,590 (2018/19 - £1,584) for the Aberdeen City Council Transport Fund.

Note 17: Contingent Assets/Liabilities

UK and European law require pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMPs). To allow the government to continue to meet these requirements an interim solution was introduced which means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may extend this for members reaching State Pension Age from 6 April 2021 onwards or will adopt a long-term methodology known as conversion. Currently, the additional cost of extending GMP cannot be quantified.

The Goodwin Case – a recent employment tribunal decision changed the pension entitlement of male survivors in opposite sex marriages to take account of the female member's service from 6 April 1978. Previously, the male survivor's entitlement was based on service accrued from 6 April 1988. The change is backdated to 5 December 2005 and affects the pension of male spouse survivors where their entitlement arose on or after that date. This ruling will impact upon the future promised retirement benefits of members of the Fund and the cost cannot yet be quantified with any certainty.

Note 18: Key Management Personnel

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

Note 19: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 20: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement at 31 March 2020 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

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

Note 21: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer - Finance on 30 June 2020. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2020, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

As a result of the COVID-19 pandemic, First Group requested to defer both employer and deficit contributions relating to First Aberdeen for the year 2020/21. This request forms part of a company wide, short term solution to their cashflow issues.

The Fund considered the regulations, financial information provided by First Group and advice from the Fund's Actuary. It was agreed that contributions could be put on hold and a formal agreement has been drafted to confirm that the deferred payments are due, in full, before 31 March 2021.

Independent Auditor's Report

Independent auditor's report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Aberdeen City Council Transport Fund and the Accounts Commission

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2020 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the 2019/20 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2019/20 Code of the financial transactions of the funds during the year ended 31 March 2020 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2019/20 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is four years. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of Matter

I draw attention to 'Critical judgements in applying accounting policies' section of the Accounting Policies in the financial statements, which describes the effects of material uncertainties, caused by Covid-19, declared in the valuation report for property valuations. My opinion is not modified in respect of this matter.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Officer - Finance and Aberdeen City Council Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Chief Officer - Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering

- Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

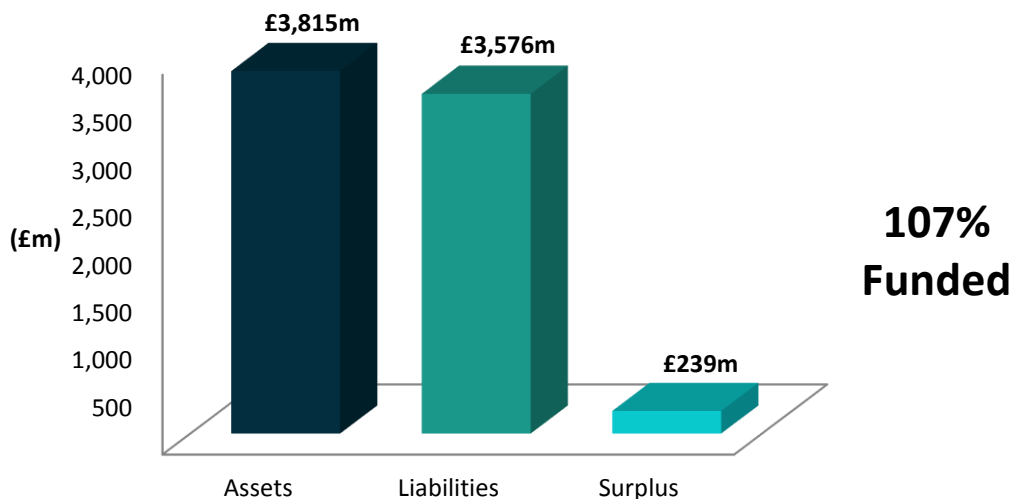
Appendix 1 – Statement by the Consulting Actuary

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2020 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2018.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.



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

The valuation also showed that a Primary contribution rate of 22.0% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At the last actuarial valuation, the average spread/recovery period adopted was approximately 24 years, and the total initial surplus reclaimed on a whole fund level (the “Secondary rate” for 2019/20) was approximately £12.8 million per annum.

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

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

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

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

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

The assets were assessed at market value.

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

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

As they were calculated in 2017, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However,

at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of broadly £24 million and an increase in the Primary Contribution rate of 1.0% of Pensionable Pay per annum.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2017. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, and these will be considered as part of the 2020 valuation process, including considering what changes (if any) should be made to contributions.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.7% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.2% per annum	2.1% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint

The demographic assumptions are the same as those used in the 2017 valuation, except the post retirement mortality assumptions, which have been updated to reflect analysis carried out in 2019 (set out below). Full details of the valuation assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £5,422 million, including an estimate of the potential impact of the McCloud judgment.

Interest over the year increased the liabilities by c£131 million. Allowing for net benefits accrued/paid over the period then increased the liabilities by c£87 million (this includes the impact of early retirements/augmentations, a revised estimate of the potential impact of the McCloud judgment and the impact of GMP Indexation (see comments elsewhere in this statement)). There was a decrease in liabilities of £388 million made up of “actuarial gains” (£101 million relating to changes in financial assumptions, and £287 million relating to changes in the post retirement mortality assumptions).

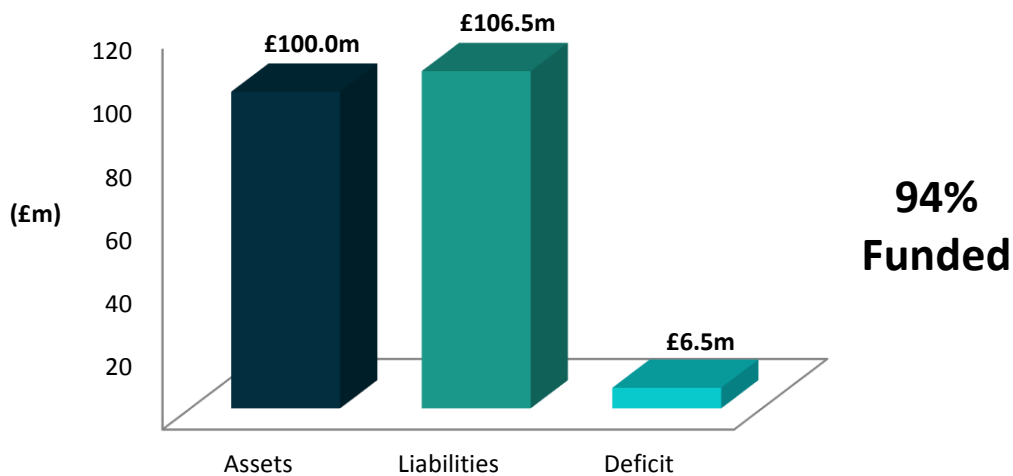
The net effect of all the above is that the estimated total value of the Fund’s promised retirement benefits as at 31 March 2020 is therefore £5,252 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities by about £16 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Aberdeen City Council Transport Fund

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



On the basis of the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Solvency Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million. The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan. At the last actuarial valuation, the Administering Authority and First Aberdeen Limited agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation, which is 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.2m p.a. On this basis the deficit would be expected to be removed in about 5 years from 31 March 2018.

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

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

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

The assets were assessed at market value.

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

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government announced in 2019 that this needs to be remedied for all schemes including the LGPS. This is likely to result in increased costs for some employers. This remedy is not yet agreed but guidance issued requires that each Fund sets out its policy on addressing the implications.

As they were calculated in 2017, the above funding level and Primary contribution rate do not include an allowance for the estimated cost of the McCloud judgment. However, at the overall Fund level we estimate that the cost of the judgment could be an increase in past service liabilities of less than £100,000 and a negligible increase in the Primary Contribution rate.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2017. In 2020 we have so far seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, and these will be considered as part of the 2020 valuation process, including considering what changes (if any) should be made to contributions.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2020 (the 31 March 2019 assumptions are included for comparison):

	31 March 2019	31 March 2020
Rate of return on investments (discount rate)	2.4% per annum	2.4% per annum
Rate of pay increases	2.7% per annum	2.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.3% per annum	2.2% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.2% per annum	2.1% per annum

The demographic assumptions are the same as those used in the 2017 valuation for the Aberdeen City Council Transport Fund, except the post retirement mortality assumptions, which have been updated to reflect analysis carried out in 2019 (set out below). Full details of the valuation assumptions are set out in the formal report on the

actuarial valuation dated 28 March 2018 (and the equivalent report for the Strathclyde No. 3 Fund).

Corporate bond yields were similar at the start and end of year resulting in the same discount rate of 2.4% p.a. being used for IAS 26 purposes at the year-end as for last year. The expected long-term rate of CPI inflation decreased during the year, from 2.2% p.a. to 2.1%, which served to decrease the liabilities slightly over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2019 was estimated as £80.9 million.

Interest over the year increased the liabilities by c£1.9 million. Allowing for net benefits accrued/paid over the period then decreased the liabilities by c£2.1 million (this includes the impact of early retirements/augmentations, a revised estimate of the potential impact of the McCloud judgment and the impact of GMP Indexation (see comments elsewhere in this statement)). There was a decrease in liabilities of £7.4 million made up of "actuarial gains" (£1.4 million relating to changes in financial assumptions, and £6.0 million relating to changes in the post retirement mortality assumptions).

Over the year, the Strathclyde Pension No. 3 Fund merged with the Aberdeen City Council Transport Fund. The impact at 31 March 2020 of this merge is an increase in liabilities of £144.0 million.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2020 is therefore £217.3 million.

GMP Indexation

At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards, which would give rise to a further cost to the LGPS and its employers. If the Fund were required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021, then this would increase the Fund liabilities (including the liabilities that were formerly part of the Strathclyde No. 3 Fund) by about £1.7 million on IAS26 assumptions, and we have included this amount within the final IAS26 liability figure above.

Post retirement mortality assumptions applied at 31 March 2020

The post retirement assumptions adopted use S3PA tables ("middle" tables for females), other than for female dependants, where the S3DA tables have been used and for members retiring in ill-health, where the S3IA tables have been used. The future improvements assumptions adopted are in line with the CMI 2019 model with Sk=7.5, long term rate of 1.75% and weightings as set out below:

North East Scotland Pension Fund

Current Status	Retirement Type	Weighting
Annuitant	Normal Health	114% males 101% females
	Dependant	150% males 104% females
	Ill Health	136% males 144% females
	Future Dependant	146% males 121% females
Active	Normal Health	121% males 101% females
	Ill Health	134% males 151% females
Deferred	All	144% males 116% females
Active/deferred	Future Dependant	153% males 128% females

Aberdeen City Council Transport Fund

Current Status	Retirement Type	Weighting – former ACCTF members	Weighting – former Strathclyde members
Annuitant	Normal Health	108% males 88% females	117% males 94% females
	Dependant	100% males 104% females	145% males 111% females
	Ill Health	132% males 149% females	137% males 150% females
	Future Dependant	128% males 112% females	139% males 119% females
Active	Normal Health	112% males 115% females	112% males 86% females
	Ill Health	128% males 169% females	128% males 131% females
Deferred	All	143% males 102% females	136% males 110% females
Active/deferred	Future	137% males	140% males
	Dependant	121% females	120% females

Paul Middleman
 Fellow of the Institute and Faculty of Actuaries
 Mercer Limited
May 2020

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2019	New Admissions	Ceased	Employers as at 31 March 2020
Scheduled Bodies	11	0	0	11
Transferee Bodies	14	1	0	15
Admission Bodies	25	0	1	24
Total	50	1	1	50

Participating Employers as at 31 March 2020:

1.	Aberdeen City Council (Administering Authority)	Scheduled
2.	Aberdeenshire Council	Scheduled
3.	The Moray Council	Scheduled
4.	Scottish Water	Scheduled
5.	Grampian Valuation Joint Board	Scheduled
6.	Scottish Fire and Rescue Service	Scheduled
7.	Scottish Police Authority	Scheduled
8.	North East Scotland College	Scheduled
9.	Moray College	Scheduled
10.	Visit Scotland	Scheduled
11.	NESTRANS	Scheduled
12.	Robertson Facilities Management (Shire)	Transferee
13.	Bon Accord Care Ltd	Transferee
14.	Bon Accord Support Services Ltd	Transferee
15.	Aberdeen Heat & Power Ltd	Transferee
16.	Station House Media Unit	Transferee
17.	Aberdeen Sports Village	Transferee
18.	Sport Aberdeen	Transferee
19.	Robertson Facilities Management (City)	Transferee
20.	Forth & Oban Ltd	Transferee
21.	Alcohol and Drugs Action	Transferee
22.	Idverde UK	Transferee
23.	Citymoves Dance Agency	Transferee
24.	Xerox (UK) Ltd	Transferee
25.	Forth and Oban Ltd (Shire)	Transferee
26.	Inspire Catering Scotland LLP	Transferee
27.	Aberdeen Endowments Trust	Admitted
28.	North East Sensory Services	Admitted
29.	Aberlour Child Care Trust	Admitted
30.	Fraserburgh Harbour Commissioners	Admitted
31.	Peterhead Port Authority	Admitted
32.	Robert Gordon University	Admitted
33.	Robert Gordon's College	Admitted

34.	Aberdeen Cyrenians	Admitted
35.	Mental Health Aberdeen	Admitted
36.	Fersands & Fountain Community Project	Admitted
37.	SCARF	Admitted
38.	Inspire (Partnership Through Life) Ltd	Admitted
39.	Archway	Admitted
40.	St Machar Parent Support Project	Admitted
41.	Printfield Community Project	Admitted
42.	HomeStart Aberdeen	Admitted
43.	Aberdeen Foyer	Admitted
44.	HomeStart NEA	Admitted
45.	Pathways	Admitted
46.	Outdoor Access Trust for Scotland	Admitted
47.	Osprey Housing	Admitted
48.	Aberdeen Performing Arts	Admitted
49.	Sanctuary Scotland Housing Association Ltd	Admitted
50.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled
2.	First Glasgow	Scheduled

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Pensions Committee Annual Effectiveness Report
REPORT NUMBER	COM/20/117
CHIEF OFFICER	Fraser Bell
REPORT AUTHOR	Stephanie Dunsmuir
TERMS OF REFERENCE	GD 8.5

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the annual report of the Pensions Committee to enable Members to provide comment on the data contained within. The data contained in the annual report relates solely to the Pensions Committee, as the Pension Board receive their own annual report.

2. RECOMMENDATIONS

That Committee:-

- 2.1 provide comments and observations on the data contained within the annual report; and
- 2.2 note the annual report of the Pensions Committee.

3. BACKGROUND

Annual Reports on Committee Terms of Reference

- 3.1 The annual committee effectiveness reports were introduced in 2018/19 following a recommendation from the Chartered Institute of Public Finance and Accountancy (CIPFA) as part of the Council's work towards securing that organisation's accreditation in governance excellence. The Terms of Reference set out that each Committee will review its own effectiveness against its Terms of Reference through the mechanism of the annual report.
- 3.2 The annual effectiveness reports were mentioned by CIPFA in their recent report which awarded the Mark of Excellence in Governance accreditation to Aberdeen City Council. CIPFA highlighted the implementation of the annual effectiveness reports as a matter of good practice in governance and were encouraged that, during consideration of the reports at Committee and Council,

Members had made suggestions for improvements to the reports in future years.

- 3.3 As well as the CIPFA Accreditation, Committee Services also recently won SOLAR Administration Team of the Year 2020 in March 2020 in recognition of the introduction of the annual committee effectiveness reports and the process which allows Committees to examine how they can improve the way they do business, while providing assurance that they are undertaking their role effectively.
- 3.4 Data from the annual effectiveness reports was used to inform the review of the Scheme of Governance, ensuring that Committee Terms of Reference were correctly aligned, and identifying any areas of the Terms of Reference which had not been used throughout the year in order that they could be reviewed and revised if necessary. The information from the effectiveness reports will also be used to feed into the Annual Governance Statement.
- 3.5 The reports provide a mechanism for each committee to annually review its effectiveness, including data on attendance, any late reports, referrals to Council and the number of times officer recommendations were amended, and to ensure that it is following its Terms of Reference.
- 3.6 Similarly, recording the sections of the Local Outcome Improvement Plan (LOIP) which apply to each report allows Members to be aware of the direct impact of any proposals before them on the LOIP, and gives a general overview at the end of each year of the number of reports which have had an impact on the LOIP outcomes. Officers also actively review the data gathered to ensure that it aligns to Council's operating model and decisions taken by the Council throughout the year. This part of the annual report will be expanded for the next year of reporting to incorporate the changes to the outcomes section of the committee report template. That section now asks report authors to consider the implications of their report for the Council Delivery Plan, which incorporates the LOIP outcomes.
- 3.7 While the above is one section of the annual effectiveness report template which officers aim to amend for future reporting, any comments from Members on additional areas of data that should be considered would be welcomed to ensure that Members are presented with meaningful data.
- 3.8 The annual report for 2019/2020 is therefore appended for the Committee's consideration. Following consideration by the Committee, the report will be submitted to Council in December for noting.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	N/A		
Compliance	Failure to submit this report means that the committee would not be complying with the instruction from Council that all committees receive such a report each year.	L	Committee is given the opportunity to consider the report and provide feedback on any amendments Members would wish to see in the content so that this can be taken on board for next year's Scheme of Governance review
Operational	N/A		
Financial	N/A		
Reputational	N/A		
Environment / Climate	N/A		

7. OUTCOMES

There are no links to the Council Delivery Plan, however the committee effectiveness annual reports link to the Scheme of Governance, by ensuring that each committee is fulfilling its Terms of Reference.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Full impact assessment not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None.

10. APPENDICES

10.1 Pensions Committee Annual Effectiveness Report 2019/20

11. REPORT AUTHOR CONTACT DETAILS

Stephanie Dunsmuir
Committee Services Officer
sdunsmuir@aberdeencity.gov.uk
01224 522503

Pensions Committee Annual Effectiveness Report



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1. INTRODUCTION

- 1.1 I am pleased to present the second annual effectiveness report for the Pensions Committee. As Members will be aware, as part of their interim assessment of the Council's governance arrangements in 2016, CIPFA recommended that Committees review the extent to which they had operated within their Terms of Reference, through an annual report. This had been an aspiration for some time, representing good practice in governance terms. I am delighted that this year, the Council was the first in Scotland to be awarded the CIPFA Mark of Excellence in Governance, and that the annual effectiveness report was highlighted by CIPFA as an example of good governance. The annual effectiveness report also informs the annual review of the Council's Scheme of Governance and enables officers to identify if any changes are required, for example, to the Committee Terms of Reference.
- 1.2 As part of the 2020 review, minor changes were made to the Pensions Committee Terms of Reference to provide greater clarity and those will be monitored throughout the year and taken into consideration during next year's review and the preparation of the third annual committee effectiveness report.
- 1.3 The annual report is a good mechanism for the Committee to support the Council's improvement journey whilst also providing the opportunity to reflect on the business of the Committee over the past year and to look to the Committee's focus for the year ahead.
- 1.4 Throughout the year, the Committee has worked collectively alongside the Pension Board to ensure the governance arrangements for the Pension Fund are robust and continue to deliver a responsible and compliant scheme.



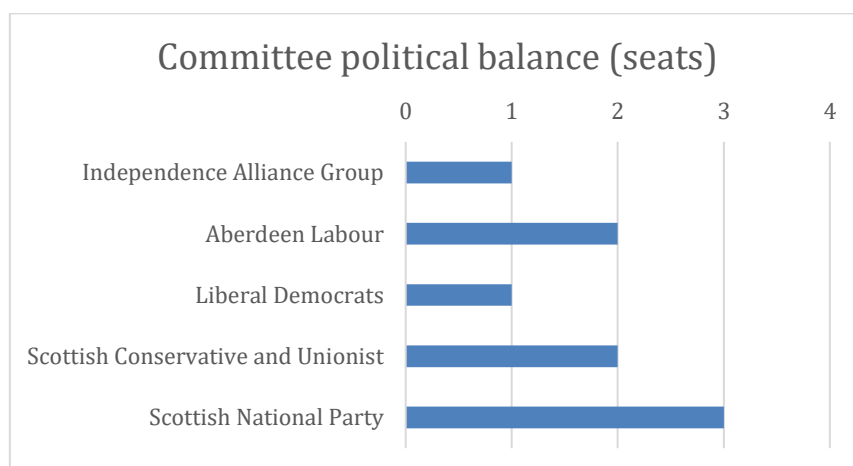
Councillor M. Tauqeer Malik
Convener, Pensions Committee

2. THE ROLE OF THE COMMITTEE

- 2.1 The role of the Committee is to discharge all functions and responsibilities in respect of the Council's role as administering authority for the North East Scotland Pension Funds (NESPF). This includes managing the investment of the NESPF in accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and other relevant legislation.
- 2.2 The previous Terms of Reference for the Committee as approved by Council in March 2019 are appended to the report.

3. MEMBERSHIP OF THE COMMITTEE DURING 2019/2020

- 3.1 The Pensions Committee has 9 Elected Members and the composition is presented below.



4. MEMBERSHIP CHANGES

- 4.1 Councillors Flynn, Henrickson and Wheeler all joined the Committee during the reporting period. Councillor Flynn then resigned from the Committee during the year following his election as an MP.

5. MEMBER ATTENDANCE

Member	Total Anticipated Attendances	Total Attendances
Councillor Bell	4	4
Councillor Cooke	4	4
Councillor Crockett	4	4
Councillor Delaney	4	4
Councillor Donnelly	3	2
Councillor Flynn	3	2

Councillor Henrickson	1	1
Councillor MacGregor	4	3
Councillor Malik	4	3
Councillor Reynolds	4	3
Councillor Wheeler	1	1

6. MEETING CONTENT

6.1 During the 2019/2020 reporting period (29 April 2019 to 30 April 2020), the Committee had 4 meetings and considered a total of 29 reports.

6.2 Terms of Reference

Of the 29 reports received the following table details how the reports aligned to the Terms of Reference for the Committee.

Terms of Reference	Count of Terms of Reference
Purpose of Committee 1.1	5
Purpose of Committee 1.2	3
Purpose of Committee 1.3	3
Purpose of Committee 1.4	1
Remit of Committee 1.1	4
Remit of Committee 1.2	2
Remit of Committee 1.3	3
Remit of Committee 2.1	3
Remit of Committee 2.2	5
Remit of Committee 3.1	4
Remit of Committee 4.1	9
Remit of Committee 4.2	3
Remit of Committee 5.1	8
Remit of Committee 5.2	1

6.3 During the course of 2019/2020 all sections of the Committee's Terms of Reference were discharged throughout the course of the reporting period. This would indicate that the Committee has discharged its role as determined by Council. As a result, only minor changes were made to the Terms of Reference as part of the March 2020 Scheme of Governance review.

6.4 Most of the reports considered related to Purpose 4.1 – Compliance with Local Government Pension Scheme (Scotland) Regulations and Purpose 5.1 – Monitoring the performance of Fund Managers, which is to be expected given the role of the Committee in relation to the NESPF.

6.5 Local Outcome Improvement Plan

None of the 29 reports had a link to the themes of the Local Outcome Improvement Plan. Due to the nature of the Pensions Committee remit, reports to the Committee link instead to the design principles of the Target Operating Model, such as Governance and are before Members for assurance and monitoring purposes.

6.6 Reports and Committee Decisions

The following table details the outcome of the Committee's consideration of the 29 reports presented to it throughout the year.

	Total	% Total Reports
Confidential	0	0%
Exempt	9	31%
Number of reports where the Committee has amended officer recommendations	0	0%
Number and percentage of reports approved unanimously	29	100%
Number of reports or service updates requested by members during the consideration of another report to provide additional assurance and not in forward planner	0	0%
Service update requested	0	0%
Number of decisions delayed for further information	0	0%
Number of times the Convener has had to remind Members about acceptable behaviour and the ethical values of Public Life	0	0%
Number of late reports received by the Committee (i.e. reports not available for inspection by members of the public at least three clear days before a meeting)	2	7%
Number of referrals to Council, or other Committees in terms of Standing Order 33.1	0	0%

6.7 Notices of Motion, Suspension of Standing Orders, Interface with the Public

Number of notices of motion	0
Number of times Standing Orders were suspended and the specific Standing Orders suspended	0
Standing order number (ref)	-
Number of deputations or other indicators of interface with the public, i.e. engagement and social media.	0
Number of petitions considered	0
Number of Members attending meetings of the committee as observers	1
Number of Meetings held by the Convener with other Conveners, relevant parties, to discuss joint working and key issues being raised at other Committee meetings	There is less scope for the Pensions Committee to link with other Committees, however the Convener meets with Chief Officers on a monthly basis in respect of any key issues at other Committee meetings.

7. TRAINING REQUIREMENTS

7.1 The NESPF training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A revised Training Policy was approved by the Pensions Committee in June 2019, to incorporate changes requested by internal audit around minimum training requirements.

7.2 The NESPF is committed to supporting members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance; training is provided in line with the NESPF Training Policy and covers the following areas:

- Scheme Governance
- Investment Strategy
- Support Services
- Scheme Documentation

7.3 Members were asked to carry out a personal assessment in late 2019 to assess their overall knowledge and understanding levels based on CIPFA's current Code of Practice and supporting framework. The results of the responses have been evaluated and will be used to direct future training.

7.4 Training Content

The first event of the year was the NESPF Finance Forum on 24 April 2019 (outwith the reporting period) in Aberdeen. There were a number of presentations and panels on the day covering:

- Investment Overview
- Introduction to Environmental Social Governance (ESG): Strategy &

Implementation in Real Estate

- Fund Review
- Brexit and Regulatory Insights
- Actuarial Considerations for 2020

Training on 3 September took place at COSLA's office in Edinburgh and covered the following:

- Valuations/Cost Cap/Section 13
- ESG
- Structure Review
- Annual Report and Accounts
- Pensions Admin
- Cost Transparency
- Investments

Training on 13 September took place in Aberdeen following the Pensions Committee/Board meeting on the same day and covered actuarial valuation calculations and liability assessment.

An LGC Seminar was held on 24 and 25 October in Edinburgh. Topical areas covered during the 2 days of training included:

- Update on the SPLGS structural review consultation
- The infrastructure and housing challenge
- ESG
- How aligned is your scheme's approach to climate change, to your council's policy
- What is keeping the investment managers awake at night?
- Investment Strategy and the challenge of being an overfunded fund
- Investing in renewable energy: the opportunities and pitfalls
- Early reflections on the LGPS and looking to the future

Extended training was held from 7 to 10 January 2020 in the Aberdeen Standard offices down in London covering various topics from the fund managers.

Day 1 sessions covered:

Aberdeen Standard	Property and residential
Hermes	Investment
Aviva	Investment
Invesco	DGF

Day 2 sessions covered:

Blackrock	DGF
	Equities
Baillie Gifford	Global Equities
SSGA	Passive equities and bonds
	Dynamic Strategic Hedge

Day 3 sessions covered:

Insight	Buy and maintain credit
Russell	Multi-asset credit
Aberdeen Standard	Private equity
HarbourVest	Private equity
Unigestion	Private equity

Day 4 sessions covered:

Aberdeen Standard	ESG landscape
HSBC	ESG data quality
Hermes	Engagement
NESPF	ESG Policy

Finally, at the June 2019 meeting the Pensions Committee and Pension Board agreed to undertake the online E-Learning Public Service Toolkit produced by the Pensions Regulator and provide evidence of completion to the Pension Fund's governance manager.

8. CODE OF CONDUCT – DECLARATIONS OF INTEREST

- 8.1 No declarations of interest were made by Councillors during the reporting period. Information in respect of declarations of interest is measured to evidence awareness of the requirements to adhere to the Councillors' Code of Conduct and the responsibility to ensure fair decision-making.

9. OFFICER SUPPORT TO THE COMMITTEE

Officer	Total Anticipated Attendances	Total Attendances	Substitute Attendances
Chief Officer - Finance	4	3	1
Pensions Manager	4	4	
Investment Manager	4	4	

10. EXECUTIVE LEAD'S COMMENTS

- 10.1 In March 2020, Council approved new Terms of Reference and a further review will be undertaken in March 2021. Although very minor tweaks were made to the Pensions Committee Terms of Reference, we will review them over the next year in line with the business submitted to the Committee and reflect on whether any areas require refinement moving forward to ensure the efficient operation of the Committee.
- 10.2 Generally, the Committee considers the same reports at each point in the year in line with its role to monitor the administration of the NESPF. A major piece of work each year is the presentation and approval of the NESPF Annual Report and Accounts, a task made more onerous this year due to the impact of COVID-19. The draft accounts were however presented on time

to the Urgent Business Committee in June 2020 and the final accounts are on track to be presented in September as usual.

- 10.3** Following Committee approval in November 2018 and a thorough procurement process, the new NESPF website has been delivered with updated branding including a new logo and brand guidelines to ensure a consistent and memorable look and feel to all Fund communication materials.
- 10.4** Another major area of work this year has been the merger of the Aberdeen City Council Transport Fund with the Strathclyde No. 3 Fund which was successfully completed in 2019. The move, at the request of First Group was a substantial project that involved close working partnerships to ensure a smooth transition of financial assets and data from Strathclyde to the NESPF, whilst ensuring No. 3 Fund members were fully informed and engaged throughout the process.
- 10.5** The NESPF has continued to make use of technological improvements and systems to push administration and communications online. For the first time, all annual benefit statements for active and deferred members were issued via the self-service portal, My Pension. A record number of retirement cases and system updates were processed this year, with the Funds' data quality improvement plan maintaining the high quality and accuracy of data.

11. NEXT YEAR'S FOCUS

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

- Training Plan
- Risk Management & Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Compliance Review
- Internal/External Audit Plan and updates
- Conflicts of Interest declarations
- Breaches of Law
- Pension Service Business Plan

11.2 Work for the NESPF in 2020/21 includes the usual delivery of essential services in addition to a number of already planned projects, such as the triennial valuation; the move to a new office; and the completion of a buy-in process for the Aberdeen City Council Transport Fund.

**Previous Pensions Committee Terms of Reference
Approved by Council on 4 March 2019**

PURPOSE OF COMMITTEE

1. To discharge all the functions and responsibilities relating to the Council's role as administering authority for the North East Scotland Pension Funds (NESPF) including:-
 - 1.1 approving and monitoring the administration of the Local Government Pension Scheme (LGPS) in accordance with the LGPS (Scotland) Regulations 2018 and other relevant legislation;
 - 1.2 managing the investment of the NESPF in accordance with the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010 and other legislation;
 - 1.3 receiving regular training to enable the Committee members to make effective decisions under the LGPS Regulations and other relevant legislation and to make decisions in compliance with the Pensions Regulator's Code of Practice; and
 - 1.4 working alongside the Fund's Local Pension Board, considering any pension compliance matters raised.

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

REMIT OF COMMITTEE

1. Risk Management

The Committee will:

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

2. Internal and External Audit

The Committee will:

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

3. Annual Report and Accounts

The Committee will:

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

4. Legal Obligations

The Committee will ensure:

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

5. Scrutiny

The Committee will:

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

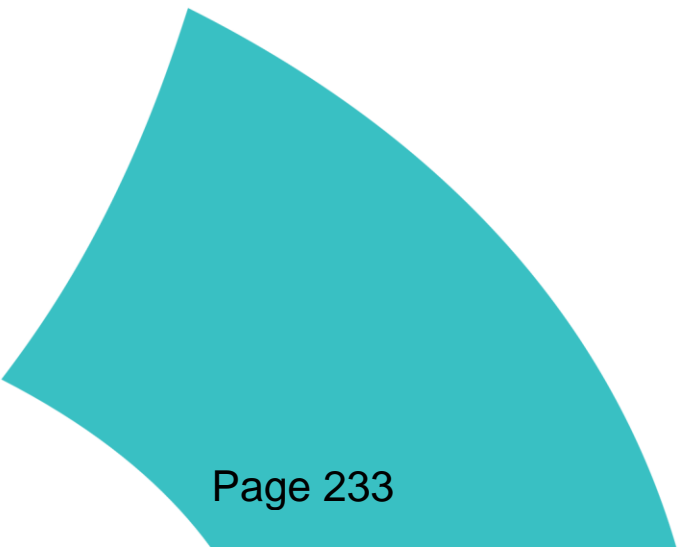
JOINT WORKING WITH OTHER COUNCIL COMMITTEES

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

JOINT WORKING WITH NON COUNCIL BODIES

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

Executive Lead: Chief Officer - Finance



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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget / Forecast 2020/2021
REPORT NUMBER	PC/SEPT/BUD
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	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 2020/21 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee approve the NESPF Management Expenses Budget/Forecast 2020/21, shown in Appendix I.

3. BACKGROUND

3.1 BUDGET/FORECAST 2020/21

- 3.1.1 Appendix I shows the Council's Budget for 2020/21 for the NESPF. The re-alignment of cost headings 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 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market

value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with a few of its 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.

3.1.5 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.

3.1.6 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'.

3.2 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.

3.2.2 Although all the Pension Fund costs are paid for by the Fund, avoiding complacency and ensuring value for money remain key drivers for making savings within the Scheme. Therefore, it is important that the Fund scrutinise and understand the costs of administering the Pension Fund and explore the opportunities for any savings.

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 in this report.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2019/20) and Fund Governance Policy Statement.

10. APPENDICES

Appendix I, Budget/Forecast 2020/21

11. REPORT AUTHOR CONTACT DETAILS

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Appendix I – 2020/21 BUDGET/FORECAST

The Budget/Forecast for the NESPF is shown below:

	Notes	ACC Full Year Budget 2020-21	Additional Budget	NESPF Full Year Budget 2020-21
		£'000	£'000	£'000
Administrative Staff Costs		1,556	11	1,567
Information Technology		42	413	455
Supplies & Services		87	42	129
Accommodation		36	215	251
Printing & Publications		2	18	20
Administration Expenses Total		1,723	699	2,422
Investment Staff Costs		269	32	301
Pension Fund Committee		2	13	15
Pension Board		2	8	10
External Audit Fee		0	41	41
Internal Audit Fee		6	0	6
Actuarial Fees		0	182	182
General Expenses		0	130	130
Oversight & Governance Expenses Total		279	406	685
Investment Management Fees		0	10,782	10,782
Performance Fees		0	6,335	6,335
Direct Operating Property Expenses		0	774	774
Transaction Costs		0	475	475
Custody Fees		0	125	125
Investment Management Expenses Total		0	18,491	18,491
Management Expenses Grand Total		2,002	19,596	21,598

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	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/SEPT20/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss and Mairi Suttie
TERMS OF REFERENCE	1 to 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. RECOMMENDATION

- 2.1 That the Committee note the work undertaken to review and update the scheme policy documents to ensure continuing compliance with LGPS regulations (as per item 3.9.7)

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

3.5 **INVESTMENT**

3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

3.5.2 *Procurement of Investment Consultancy Services*

Separate report, provided

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

Budget/Forecast 2020/21 Report

Separate Reports, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Scottish Public Pensions Agency Consultation**

3.7.1.1 The Scottish Public Pensions Agency (SPPA) are seeking views on changes to the Local Government Pension Scheme (LGPS) in Scotland. Changes are proposed to the LGPS statutory underpin protection to remove unlawful discrimination found by the Courts in relation to public service pension scheme 'transitional protection' arrangements.

3.7.1.2 The proposed changes remove the condition requiring a member to have been within 10 years of their Normal Pension Age on 1 April 2012 to be eligible for underpin protection.

3.7.1.3 The consultation will run until 31 October 2020. The accompanying documentation can be found at <https://pensions.gov.scot/local-government/scheme-governance-and-legislation/consultations>

3.7.1.4 Pension Fund officers will prepare and submit a response to the consultation. A copy of which will be provided to the next Committee meeting.

3.7.2 **Visit Scotland**

3.7.2.1 As a result of the desire of Visit Scotland to consolidate its liabilities and avoid costly termination fees from all Funds within the Scottish LGPS they have applied for a SPPA direction to transfer assets and liabilities to Lothian Pension

Fund, the receiving Fund of all their new joiners. As part of this large project all member records will transfer from NESPF with effect from September 2020, with Lothian being responsible for all administration following in early September and making the first pension payment from 15 October 2020. The assets will be transferred by March 2021 following completion of the transfer of liabilities from all other Funds.

3.7.2.2 The merge of employer liabilities for Visit Scotland is in line with LGPS (Scotland) regulations and is being carried out in collaboration with the system providers, scheme actuaries and the receiving scheme. This is the preferred approach for NESPF, offering the employer a risk free extract from the Fund whilst protecting the remaining participating employers.

3.8 **TECHNICAL**

3.8.1 Performance reporting is provided on a quarterly basis. An additional report has been prepared to further document the impact of COVID-19 on the Fund's ability to meet its statutory requirements.

Appendix I, Pensions Administration Strategy Update

Appendix II, Impact Assessment of COVID-19 on PAS performance

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

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

3.9.2 **Pension Fund Annual Benefit Statements**

3.9.2.1 The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31 August each year.

3.9.2.2 In line with our move towards increased digital communication, both deferred and active statements were issued online for 19/20. Paper statements are no longer posted out to members unless they contact the Fund to 'opt in' to continue to receive paper copies. To meet disclosure requirements, letters were sent out to members to provide 'activation keys' where they were not already registered with My Pension (MSS online facility). As at June 2020 6,075 deferred members were registered for MSS. Members registered for MSS receive an email notification advising them their statement is available to view online.

3.9.3.3 Benefit Statement data was generated against 17,505 deferred records, with no reported errors, and letters subsequently issued to members on 24 July. In addition, paper statements were issued on request to approximately 397 deferred members from 3 August.

3.9.3.4 Committee approved a Data Quality Improvement Plan in March 2019 (PC/MAR19/STRAT) which included address tracing. In line with this plan, a

bulk tracing exercise for all 'gone away' members will be carried out every three years using an external tracing provider. In addition, a mortality check will be carried out against 'gone away's' annually using the National Fraud Initiative and ATMOS Data Services on alternate years to identify any deceased members. For any 'gone away' deferred members reaching age 55, an individual trace will be carried out through the DWP tracing service.

3.9.3.5 A final update on the active member statements will be provided to the next meeting. However these are on course to be generated mid-August along with email notifications and letters following towards the end of the month by post for those members not registered for MSS or who have requested paper statements.

3.9.4 Breaches of Law

3.9.4.1 A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 27 new breaches of law recorded in the NESPF Breaches Register during 19/20. The majority were scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions.

3.9.4.2 The Pension Fund will continue to engage with scheme employers during 20/21 and build on the training and support already provided.

3.9.4.3 Following assessment none of the above breaches were deemed to be of 'material significance' to require reporting to the Pensions Regulator.

3.9.4.4 In line with the General Data Protection Regulation and the Data Protection Act 2018, certain personal data breaches must now be reported to the Information Commissioners' Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 19/20.

3.9.5 Pension Fund Staff Training 2019/20

3.9.5.1 The Fund had 2 Trainee Pensions Officers during the 19/20 year, one in year 1 and the other in year 2. On successful completion of the 2nd year exams, a TPO will progress to become a fully qualified Pensions Officer.

3.9.5.2 Pensions Staff continued to pursue individual training throughout the year as agreed as part of the new Continuous Review and Development (CR&D) process. All staff successfully completed their annual refresher training in relation to Information Governance.

3.9.6 Pension Board Annual Report

The Pension Board Annual report 2019/20 was agreed by Pension Board members. As part of the process, members were required to nominate and appoint a new Chair and Vice Chair for 2020/21. Councillor McKelvie

(employer) was appointed as Chair with Neil Stirling (member) acting as Vice Chair.

Appendix III, Pension Board Annual Report 19/20

3.9.7 Annual Documentation Review

3.9.7.1 Following the completion of the rebranding exercise, the policy documents have all been updated to incorporate the new NESPF logo and branding guidelines. A full review is now underway, with the following policies revisions made to date:

- **Statement of Investment Principles**
Increase to headroom limits in respect of 'all contribution to partnerships'.
- **Breaches of Law Policy**
- **Conflicts of Interest Policy**
- **Communications Policy**
- **Corporate Governance & SRI Policy**
- **Data Protection Policy**
- **Employer Engagement Policy**
- **Nomination and Appointment Process**
Minor structure and content changes e.g. supporting procedures section
- **Record Keeping Policy**
Minor structure and content changes including reference to publishing training attendance and approval of Data Quality Improvement Plan.

Copies are available online at www.nespf.org.uk in the secure trustee area.

3.9.8 Pensions Committee and Board Training

Separate report, provided

3.10 EMPLOYER RELATIONSHIP

3.10.1 Year end process

3.10.1.1 All scheme employers are required to submit an annual year end data return by 30 April. The process for reconciliation of the data supplied for year end 2019/20 was completed by the Employer Relationship Team in 24 days (up from 23 in 2018/19). Year end processing increased primarily due to the COVID precautions but was also impacted due to delays in receiving monthly data from Aberdeen City Council during 2019/20 which were previously highlighted to Committee as part of the PAS reporting.

3.10.1.2 The Fund continues to expand its online data exchange services, with all employers required to submit electronic monthly submissions. Monthly processing has a number of benefits for the Fund, one of which is significantly reducing time and resource drain at 'year end time'. To provide a more accurate

overall picture the employer relationship team now record reconciliation time on a monthly basis. On average the ERT spend 5.5 days per month on reconciliation.

3.10.2 Data Quality

3.10.2.1 As part of the NESPF data quality improvement plan the Fund have entered into a three year contract with our system provider to use their Data Quality Analysis Tool. For year two of the contact, all data held by the Fund on the member database was analysed as at June 2020 and the results were made available in mid-July.

3.10.2.2 The score in relation to the Common Data held for members was 98.3% which is the same score that was published for 2019. A tracing exercise is planned for later in 2020 to gather data in respect of 'gone away' members which will improve the score from this already desirably high figure. The Scheme Specific Data improved by 1% from the figure published in 2019 of 97.3% to 98.3%. This improved score reflects the work of the Fund to amend historical data in line with the previous year's report and the continued effort to reconcile and check the monthly data being received into the Fund.

3.10.2.3 Both scores will be provided to the Pensions Regulator as part of the annual scheme return which will be completed in September. Work continues by all teams to improve the scores further on an annual basis.

3.10.3 Valuation

3.10.3.1 Preliminary discussions have taken place with the scheme actuary, Mercer, around the approach for the triennial valuation as at 31 March 2020. These early discussions revolve around the assumptions that will be used for the valuation calculations and in particular the assumed rate of asset returns, that will be used for determining the discount rate, which has a significant impact on both the funding levels and the contribution requirements for employers.

3.10.3.2 The Fund takes direction around the assumptions from the scheme actuary as it is essential that they are comfortable with the level of prudence and certainty of the results, ensuring that the Fund solvency and contribution stability is maintained from valuation to valuation. However the Fund is also carrying out investigations around the appropriateness of the suggested assumptions to ensure that they accurately reflect market expectations in relation to the assets held. Discussions will continue to ensure that both parties are in accordance with one another in advance of the results, development of the Investment Strategy and Funding Strategy Statement being issued to employers for consultation.

3.10.3.3 The data for the valuation calculations has now been sent to Mercer to allow them to carry out their actual calculations. Preliminary results will be available by mid-October giving the team plenty of time to begin discussions with participating employers around the suggested contribution rate requirements and affordability. The valuation is due to be completed and signed off by 31 March 2021.

3.10.3.4 Further details of the valuation process, assumptions and preliminary results will be available to Committee in December.

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 a number of legal implications arising from implementation of the strategy which have been identified and addressed as set out in this report.

6. MANAGEMENT OF RISK

6.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Appendix IV, Copy of Risk Register (August 2020)

7. OUTCOMES

7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update
Appendix II, Impact Assessment of COVID-19 on PAS performance
Appendix III, Pension Board Annual Report 19/20
Appendix IV, Copy of Risk Register (August 2020)

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund
nespf

Pension Administration Strategy

Quarterly Reporting June 2020

1. NESPF performance from 1st April to 30th June

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	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	8	8	100.0%					4	66.7%
Notification of retirement estimate	10 days	68	68	100.0%					0	100.0%
Notification of retirement benefits	10 days	421	313	74.3%	88.8%	94.3%	96.9%	13	85	61.9%
Notification of deferred benefits	10 days	766	757	98.8%	99.1%	99.2%	99.2%	6	179	80.1%
Notification of refund	10 days	394	376	95.4%	97.0%	99.2%	99.7%	1	8	93.5%
Notification of transfer in value	10 days	10	10	100.0%					4	71.4%
Notification of transfer out value	10 days	64	40	62.5%	66.7%	69.8%	74.6%	16	14	51.3%
		1731	1572	90.8%				36	294	77.6%

Completed cases during reporting period - reporting output is based on 5 and 10 day targets built into workflow cases for processing administration tasks as declared in the pension administration strategy:

- Overall percentage achieved has reduced from 97% to 91% with a significant decrease in the revised percentage from 94% to 78%
- The reductions are down to ongoing home working as a result of Covid-19
- An impact assessment carried out shows that it takes longer to process benefits whilst working from home.

Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- 100% achieved for death in service, retirement estimates and transfers out albeit the volumes are lower than normal
- 36 cases completed in over 30 days, this amounts to 2% of completed cases
- Transfers out were taking longer as a result of focusing on retirement and death processing following guidance issued by tPR.

Uncompleted cases during reporting period - cases identified that were due to be completed and do not have a Reply Due date set in advance of the end of the reporting period:

- 294 cases were identified and contributed to the revised percentages
- With exception of estimates and refunds Covid-19 and home working has had a significant impact on all other performance measurements.

1.2 Previous years comparison



2. Employer performance from 1st April to 30th June

2.1 Policy on discretions received (85%)

Each Scheme employer is required under regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2018 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	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 regarding 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
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 (236,829)

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)	539
Amendments (address, personal details, hours and absence)	4,054
Leavers (exit and opt out)	480
Contributions (employee, employer and additional)	78,296
Salary	76,349
Cumulative CARE Pay	74,886
Works Address	2,225

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 2019)

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												
North East Scotland College	Extract File												
Scottish Water	Extract File												
Scottish Fire and Rescue Service	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												

Aberdeen Performing Arts	Online Return																		
Aberdeen Sports Village	Online Return																		
Aberlour Child Care Trust	Online Return																		
Archway	Online Return																		
City Moves Dance Agency	Online Return																		
Alcohol & Drugs Action	Online Return																		
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																		
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																		

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Impact assessment of Covid-19 on PAS performance

1. Introduction

To assess the impact Covid-19 and home working is having on key administration task performance reported quarterly in the pension administration strategy (PAS) a comparison is provided for the first quarter and covers a reporting period from 01 April to 30 June 2020 against the same period in 2019.

Unlike the quarterly PAS report no adjustments have been made to percentages achieved for cases that were due to be completed during the reporting period but are still outstanding.

2. Key administration tasks

2.1 Death in Service

Death in service cases are processed by the Benefits Administration team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	8	100%
01 April to 30 June 2019	8	100%
Difference	0	0

Identical amount of cases and percentage achieved.

Although not reported through the PAS we can compare performance for active, deferred and pensioner deaths during the reporting period.

Reporting Period	Completed cases	Percentage achieved
01 April to 30 June 2020	168	96%
01 April to 30 June 2019	169	89%
Difference	-1	7%

Almost identical amount of cases completed with improved percentage achieved.

2.2 Retirement estimates

Retirement estimates are processed by the Benefit Administration team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	68	100%
01 April to 30 June 2019	318	100%
Difference	-250	0

A significant decrease in cases completed however the percentage achieved remains the same.

Given there are very few outstanding cases this is likely to be down to restricted access to the Fund for members as a result of home working.

2.3 Actual retirements

Actual retirements are processed by the Benefit Administration team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	421	74%
01 April to 30 June 2019	488	98%
Difference	-67	-24%

A decrease in cases completed and a significant decrease in percentage achieved.

Significant delays caused by having to come into the office to print documentation for members who do not want to use the self-service portal as well as closing payroll early to allow more time for checking work.

2.4. Transfers

Transfers in and out of the scheme are processed by the Benefit Administration team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	74	68%
01 April to 30 June 2019	117	88%
Difference	-43	-20%

A significant decrease in cases completed and a significant decrease in percentage achieved.

Initial decision to suspend for up to three months has now been reversed and will be contributing as well as higher priority given to death and retirement processing as recommended by guidance issued from the Pension Regulator.

2.5. Deferred benefits

Members who defer their benefits are processed by the Employer Relationship Team and for those who choose to join/concur membership held in different employments they will be processed by the Benefit Administration team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	766	99%
01 April to 30 June 2019	277	97%
Difference	489	2%

A large increase during the reporting period is a result of a project to complete a backlog of join/concur cases prior to running extracts for the triennial valuation, this exercise was completed out with normal working hours.

If we exclude the project work, then both the amount and percentage achieved reduces.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	74	95%

01 April to 30 June 2019	277	97%
Difference	-203	-2%

A significant decrease in cases completed with a similar percentage maintained.

This decrease was expected as priority was given to year end processing because it could be done entirely while working from home unlike deferred benefit processing which requires staff to be in the office to print off member notifications.

2.6. Refund of contributions

Refunds are processed by the Technical team.

Reporting Period	Completed cases	Target percentage achieved
01 April to 30 June 2020	394	95%
01 April to 30 June 2019	128	99%
Difference	266	-4%

A significant increase in cases completed with a similar percentage maintained.

3. New Disclosure Reporting

New reporting is currently being tested to accurately measure performance in delivering statutory timescales for processing pension benefits.

Currently the reporting measures deaths, deferred benefits, refund of contributions, retirements and transfers in/out within the statutory 2 month period and divorce within the statutory 3 month period, estimate provision within the statutory 2 month period will be included going forward¹

Reporting Period	Completed cases	Disclosure pass	Disclosure fail	Percentage achieved
Q1 2020/21	876	832	44	95%
Q4 2019/20	621	615	6	99%

The performance achieved for delivering statutory disclosure requirements is encouraging and remains high at 95%.

Quarter 4 saw all deaths processed within statutory timescales however in Quarter 1, when the pandemic was at its peak, 19 of the 44 fails were deaths and the difficulties members will have had with limited access to the Fund will have contributed.

The report only measures cases that were created after the 1 January 2020, cases not measured will decrease over the coming months.

4. Impact Assessment by Team

4.1 Benefit Administration

Death in Service / Estimates / Retirements / Deferred Concurrent / Transfers

¹ Measurement excludes time taken for members to respond to communications

Delivering an essential front line service with limited phone access, no member appointments and printing delays is challenging whilst working from home. The team have introduced a number of new processes including:

- Use of electronic signatures and email templates
- Printing procedures for payment related notifications, non-payment related documentation and work that requires to be checked by senior officers
- Uploading documents and emails directly to member records
- Emailing members to advise documentation has been generated and uploaded to the secure members portal.

Despite all this the team will struggle to maintain performance levels achieved in previous years, evidenced in the appendices, because there is still a reliance on hard copy documentation for many members and a reluctance to do things online.

Benefit processing requires notifications to be issued within statutory timescales and prolonged home working will impact on the time taken and the amount that can be processed.

4.2 Employer Relationship

Deferred Benefits

With year-end processing given priority and completed in 24 days, this is the first year there has not been a reduction in time taken compared to the previous year, attention will now turn to deferred benefit processing which is part of the team's remit for managing leavers received through automated updates from employer's payroll systems. This is one of a number of responsibilities the team have to manage which this year includes delivering the 2020 triennial valuation with the scheme actuary.

The team manager recently requested access for staff members at weekends for processing deferred benefits as currently the Fund only has 7 seats available within Marischal College for all staff.

Deferred processing also requires notifications to be issued within statutory timescales and prolonged home working will impact on the time taken and the amount that can be processed.

4.3 Technical

Refund of Contributions

Assistant Pension Officers (APO) have been taking turns to maintain a daily presence in the office to process incoming/outgoing mail and scanning and indexing all documentation.

In addition to this critical function the APO are also responsible for processing refunds. It was thought their role would not be suitable for home working however circumstances have dictated that this is a requirement for some and that has allowed them to focus solely on refund processing. The result of this is evidenced in the number of cases processed and the high percentage achieved.

Prolonged home working is unlikely to have any impact on refund processing but will contribute to scanning/indexing backlogs which can only be reduced by having more staff in the office. Failure to reduce the backlogs will impact on the time taken to process other key administration tasks within statutory timescales.

5. Staff Impact Assessment

Management are in regular contact with staff advising them of the latest guidelines around homeworking and their health and wellbeing.

A confidential survey was carried out with Pension Officers around hours currently being worked and how they are coping with ongoing home working, key points raised were:

- No significant change in hours worked, some are doing slightly more and some slightly less
- It has been challenging for everyone adapting to the new working practises that have been put in place by the Fund
- Acknowledgment that processing pension benefits whilst working from home takes longer than it would whilst in the office

NESPF have published performance for key administration tasks consistently for the previous seven years. Adjustments are made to the percentages to account for work not completed that was due to be completed and this provides an accurate assessment of overall performance.

There is no regulatory requirement to publish KPI performance however it is important that we continue to do so to reflect the effort and commitment from staff during these difficult times.

The recent announcement from the Pension Regulator that easement in reporting requirements will not be extended beyond 30 June raises concerns around delivering statutory timescales for disclosure regulations.

Staff are taking longer to process key administration tasks and consistent failure to meet these timescales will be of material significance to the Pension Regulator and therefore must be reported. This could potentially happen, despite the continued effort and commitment from staff, as long as ongoing home working is the default position.

Appendix 1 – 2019/20 Performance

Home working as a result of Covid-19 has significantly impacted on the time taken to process key administration tasks.

This is evidenced by comparing the revised percentages to be reported for this year's first quarter with the figures published for last year:

- Death in service reduced from 88.4% during 2019/20 to 66.7% with adjustments made for 4 cases
- Retirement benefits reduced from 95.8% during 2019/20 to 61.9% with adjustments made for 85 cases
- Deferred benefits reduced from 91% during 2019/20 to 80.1% with adjustments made for 179 cases
- Transfer in reduced from 84.4% during 2019/20 to 71.4% with adjustments made for 4 cases
- Transfer out reduced from 75.7% during 2019/20 to 51.3% with adjustments made for 14 cases.

Administration Task	Completed cases during reporting period				Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
	Target	Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	41	38	92.7%	97.6%	100.0%		0	2	88.4%
Notification of retirement estimate	10 days	1012	1009	99.7%	99.8%	99.9%	99.9%	1	17	98.1%
Notification of retirement benefits	10 days	2024	1984	98.0%	98.8%	99.2%	99.7%	7	48	95.8%
Notification of deferred benefits	10 days	1217	1185	97.4%	97.4%	97.4%	98.8%	15	85	91.0%
Notification of refund	10 days	1407	1401	99.6%	99.6%	99.6%	99.7%	4	66	95.1%
Notification of transfer in value	10 days	71	65	91.5%	92.9%	94.3%	94.3%	4	6	84.4%
Notification of transfer out value	10 days	424	327	77.1%	88.8%	92.8%	97.4%	31	8	75.7%
		6196	6009	97.0%				62	232	93.5%

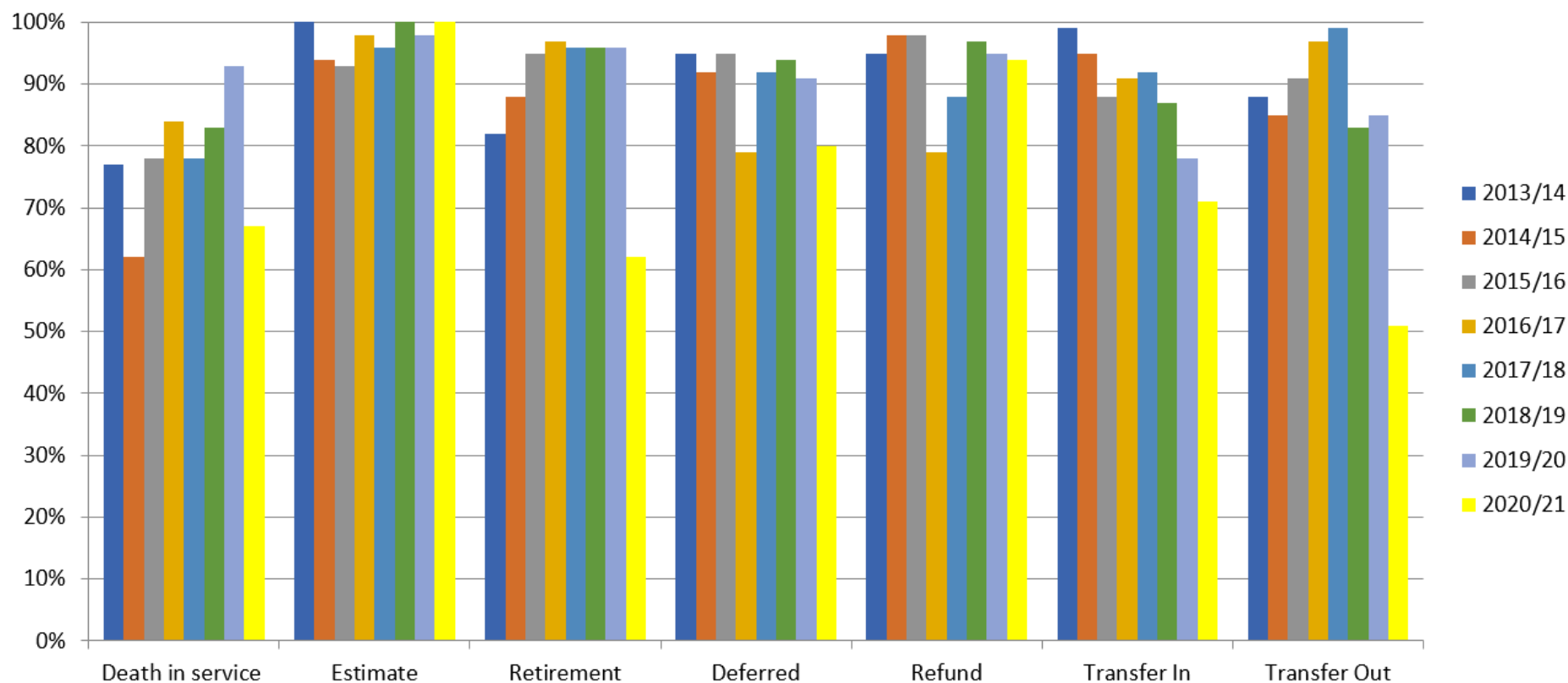
Retirement processing will continue to increase during 2020/21 as employers continue to offer Voluntary Severance and Early Retirement.

There is also no evidence to suggest that members will not continue to choose to take their benefits early as a result of regulatory change introduced in 2019 that enables active and deferred members to do so from age 55.

Appendix 2 - Previous Years Performance

First quarter performance to be reported compared against previous years shows the significant impact home working is having on processing.

The graph below does include the adjustments made to the percentages to provide a consistent comparison with performance reported in previous years:



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NESPF Pension Board Annual Report

For the period 1 April 2019 to 31 March 2020

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Introduction

This is the 2019/20 annual report of the North East Scotland Pension Fund Pension Board.

The North East Scotland Pension Fund (NESPF) Pension Board is required by The Public Service Pensions Act 2013 and has responsibility for assisting the 'Scheme Manager' in securing compliance with all relevant regulations in respect of the Local Government Pension Scheme (Scotland), as well as with the Pension Regulator's *Code of Practice no.14 Governance and Administration of Public Service Pension Schemes*.

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2019/20.

Legal Background to the Local Pension Board

Lord Hutton was asked to conduct a wide ranging review into public service pensions on behalf of the Independent Public Service Pensions Commission (IPSPC) and his final report was published in March 2011. In the report a series of reforms were proposed which Lord Hutton believed would allow public service employees to continue to have access to good quality, sustainable and fairer defined benefit pension schemes for the foreseeable future.

One of the key recommendations was the introduction of a new formal regulatory framework to ensure independent review of the governance of public sector pension schemes. This included a properly constituted and trained Pensions Board at both national and local level for the Local Government Pension Scheme (LGPS), with overall responsibility for governance and administration and formal member representation.

In response to the report recommendations, The Public Service Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 were subsequently introduced.

These two pieces of legislation brought about changes in governance arrangements for the LGPS, including the requirement for each administering authority to establish a local pension board to assist them in running the pension fund from 1 April 2015.

The Role of the NESPF Pension Board

The role of the local pension board is to assist the 'Scheme Manager' (i.e. Aberdeen City Council as the administering authority) in:

- Securing compliance with the LGPS (Scotland) 2018 regulations and other regulations relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator (tPR);

- Such other matters as the Scheme regulations may specify

The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision making body.

A copy of the Board's Nomination and Appointment Policy can be found at <http://www.nespf.org.uk/TheFund/Governance/PoliciesStatements.aspx>.

Regulatory Oversight by the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 also gave the Pensions Regulator (tPR) an expanded role to regulate the governance and administration of public service pension schemes from 1 April 2015.

In carrying out their role, tPR are guided by two statutory objectives; to protect the benefits of members of occupational pension schemes, and to promote and to improve the understanding of, the good administration of work based pension schemes.

The aims of tPR in relation to the regulation of public service pension schemes are:

- To understand governance and administration practices within public service schemes and make clear the standards and practices that are expected,
- To improve governance and administration standards and practices across all schemes, and
- To support those responsible for complying with legal requirements so that those requirements are met.

Code of Practice no. 14 sets out the standards of conduct and practice tPR expect of those responsible for public service schemes, as well as practical guidance on how to comply with the legal requirements.

Code of Practice no. 14 is structured as a reference for Scheme Managers and Pension Boards to use to inform their actions in four core areas of scheme governance and administration;

Governing the scheme	Knowledge and understanding required by Pension Board members Conflicts of interest and representation Publishing information about Schemes
Managing risks	Internal controls
Administration	Scheme record-keeping Maintaining contributions Providing information to members
Resolving issues	Internal dispute resolution Reporting Breaches of the Law

The Code sets out, under each of the core sections, practical guidance to help Scheme Managers and Pension Boards discharge their legal duties.

The North East Scotland Pension Fund Pension Board

The Terms of Reference for the NESPF Pension Board can be found in [Appendix I](#).

Membership during 2019/20

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

Unison

Morag Lawrence

(Substitute: Mr Kenny Luke)

GMB

Mr Kevin Masson *Left 08/05/2019*

Mr Neil Stirling *Joined 13/05/2019*

(Substitute: Mrs Brenda Murdoch)

Unite

Mr Alan Walker

(Substitute: Mr Graham Gavin)

UCATT

Mr Liam Knox

Admitted/Scheduled Bodies

Mr Ian Black (Aberlour Child Care Trust)

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor Alistair McKelvie

(Substitute: Councillor Alistair Bews)

Aberdeen City Council

Councillor Yvonne Allan

(Substitute: Councillor Freddie John)

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015, the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Liam Knox as the member representative Chair for 2019/20, an employer representative will be required to act as Chair in 2020/21.

Under the Terms of Reference for the Pensions Board, representatives are appointed for a 4 year term, with the option of re-appointment for further terms.

Meeting Attendance (for 2019/20)

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

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

Active participation during meetings as shown in the table below and a willingness to undertake training, clearly demonstrate the commitment of Board members to the continued effectiveness of the NESPF Pension Board.

Board Member Employer	Meetings & Attendance			
	14/06/2019	13/09/2019	29/11/2019	20/03/2020
Clr Yvonne Allan	✓	✓	✓	X
Clr Alistair McKelvie	✓	✓	✓	X
Clr John Cowe	X	X	X	X
Ian Black	X	✓	✓	X
Member/Union				
Neil Stirling	✓	✓	✓	X
Morag Lawrence	✓	✓	✓	✓
Alan Walker	✓	✓	✓	X
Liam Knox	✓	✓	✓	✓
Overall Attendance Rate	75%	88%	88%	25%

Notes:

Due to personal reasons Councillor Cowe was unable to attend meetings in 19/20.

Following government guidance around non-essential travel and social distancing due to the Covid 19 pandemic, a number of members did not attend the March 2020 meeting.

Meeting Content

The Pension Board receive the Pensions Committee reporting pack for each meeting which includes reports covering all six main areas of work for the Pension Fund; investment, accounting, governance, employer relationship, administration and technical.

The following reports were included as standard in the reporting packs during 2019/20:

Asset & Investment Manager Performance
Budget & Projected Spend
Strategy

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

Training
Corporate Governance/ESG

Statement of Accounts
Project Dallas

Actuarial Valuation	Risk Management & Risk Register
Compliance Review	External Audit
Annual Report & Account	Internal Audit
PAS performance	LGPS Structure Review
Strategic Infrastructure Priorities	Annual Benefit Statements
Staffing & Accommodation	
Pensions Committee Annual Effectiveness Report	
Procurement (website and actuarial services)	

Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money. All costs are met by the Pension Fund.

During the period 2019/20 the cost of administering the Pension Board was as follows:

Area	Costs £'s
Flights	1,220.68
Hotel	3,909.92
Train	963.35
Event Fee	133.50
Catering	51.50
Total	6,278.95

*The above figures are still subject to the annual accounts audit process.

Note: Travel costs have increased from those reported in 2018/19 (previously £2,672.23) primarily due to increased uptake in training by Board members and the extended training event in London in January 2020.

Training Requirements

The Public Service Pensions Act 2013 requires that members of local pension boards have an appropriate level of **knowledge and understanding** in order to carry out their role. These responsibilities begin from the date the member takes up their role on the pension board.

A member of the pension board of a public service pension scheme must be **conversant** with the rules of the Scheme and any document recording policy about the administration of the Scheme which is for the time being adopted in relation to the Scheme.

The Pensions Regulator Code of Practice no.14 sets out the legal requirements for the knowledge and understanding requirements of pension board members. The Pension Fund must be able to demonstrate compliance with the Code.

The NESPF Pension Board's training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A copy of the Training Policy can be found at [Appendix II](#). A revised Training Policy was approved by the Pensions Committee in June 2019, to incorporate changes requested by internal audit around minimum training requirements.

The NESPF is committed to supporting Board members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance; training is provided in line with the NESPF Training Policy and covers the following areas:

- Scheme Governance
- Investment Strategy
- Support Services
- Scheme Documentation

Board members were asked to carry out a personal assessment in late 2019 to assess their overall knowledge and understanding levels based on CIPFA's current Code of Practice and supporting framework. The results of the responses have been evaluated and will be used to direct future training.



Training Attendance during 2019/20

Board Member	Intro Training	24/04 /19	03/09 /19	13/09 /19	08/10 /19	24-25/10/19	7-10/01/20	Per Member
Cllr Yvonne Allan		X	X	✓	X	X	X	1
Cllr Alistair McKelvie		X	X	✓	X	✓	X	2
Cllr John Cowe		X	X	X	X	X	X	0
Ian Black		✓	✓	✓	X	✓	✓	5
Neil Stirling	✓		✓	✓	X	✓	✓	5
Morag Lawrence		✓	X	✓	X	✓	X	3
Alan Walker		✓	✓	✓	X	✓	X	4
Liam Knox		X	✓	X	X	X	✓	2
Overall Attendance Rate	100%	43%	50%	75%	0%	63%	38%	

Notes:

Councillors Allan and Cowe were unable to attend the minimum number of training days due to personal reasons.

Neil Stirling joined the Board in May 2019 and received introductory training from the Pensions Manager.

Training Content

The first event of the year was the NESPF Finance Forum on the 24th April in Aberdeen. There were a number of presentations and panels on the day covering:

- Investment Overview
- Introduction to ESG: Strategy & Implementation in Real Estate
- Fund Review
- Brexit and Regulatory Insights
- Actuarial Considerations for 2020

The SPLG training on the 3rd September took place at COSLA's office in Edinburgh. Training covered the following:

- Valuations/Cost Cap/Section 13
- ESG
- Structure Review
- Annual Report and Accounts
- Pensions Admin

- Cost Transparency
- Investments

The training on the 13th September took place in Aberdeen following the Pensions Committee/Board meeting on the same day and covered actuarial valuation calculations and liability assessment.

The LGC Seminar on the 24th and 25th October took place over the course of two days in Edinburgh. Topical areas covered during the 2 days of training included:

- Update on the SLGPS structural review consultation
- The infrastructure and housing challenge
- ESG
- How aligned is your scheme's approach to climate change, to your council's policy
- What is keeping the investment managers awake at night
- Investment Strategy and the challenge of being an overfunded fund
- Investing in renewable energy: the opportunities and pitfalls
- Early reflections on the LGPS and looking to the future

The extended training from 7th to 10th January took place at the Aberdeen Standard offices down in London covering various topics from the fund managers.

Day 1 sessions covered:

Aberdeen Standard	Property & Residential
Hermes	Infrastructure
Aviva	Infrastructure
Invesco	DGF

Day 2 sessions covered:

Blackrock	DGF
BlackRock	Equities
Baillie Gifford	Global Equities
SSGA	Passive Equities & Bonds
	Dynamic Strategic Hedge

Day 3 sessions covered:

Insight	Buy & Maintain Credit
Russell	Multi-Asset Credit
Aberdeen Standard	Private Equity
HarbourVest	Private Equity
Unigestion	Private Equity

Day 4 sessions covered:

Aberdeen Standard	ESG landscape
HSBC	ESG data quality

Hermes
NESPF

Engagement
ESG Policy

TPR Toolkit

At the June 2019 meeting the Pensions Committee and Pension Board agreed:

- To undertake the online E-Learning Public Service Toolkit produced by the Pensions Regulator as soon as possible and provide evidence of completion to the Pension Fund's governance manager (available at <http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>)

3 representatives plus 1 substitute have provided evidence of completion of this training to date.

Commitment to Training

Board members are expected to attend meetings and undertake a minimum of 2 days training per year to ensure they maintain the prescribed knowledge and understanding levels required to be able to fulfil the responsibilities of the role. The Fund monitors attendance at meetings and training events on an ongoing basis.

Where a member fails to meet the minimum requirements set out in the Training Policy, and in the absence of mitigating factors, the member will be given a reasonable period of time to improve their attendance level. Should no clear improvement be demonstrated, the Administering Authority will take the necessary steps to terminate the individual's membership.



Code of Conduct, Conflicts of Interest & compliance with tPR

Code of Conduct

Members of the NESPF Pension Board agreed a Code of Conduct in April 2015. It is the responsibility of the individual to ensure that they are familiar with, and that their actions comply with, its provisions. A copy of the national Code of Conduct and guidance notes can be found at <http://www.standardscommissionscotland.org.uk>.

The key principles of the Code of Conduct are:

- Duty
- Selflessness
- Integrity
- Objectivity
- Accountability and Stewardship
- Openness
- Honesty
- Leadership
- Respect

Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. This was reviewed and noted by the Pensions Committee on 15 March 2019. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

As a standing item at each Pensions Committee and Board meeting, members will be given the opportunity to declare their interest in any of the agenda items and any declared interests will be recorded in the formal minutes of the meeting. In addition, conflict of interest declaration forms will be issued by NESPF on appointment to the Board and are subject to regular monitoring during the term of appointment.

During 2019/20 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on a 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

There were no formal conflicts declared by Board members during 2019/20.

Compliance with tPR

The Pension Fund carries out a compliance review every six months, with annual reporting to the Pensions Committee. An assessment is made in terms of compliance with the Public Service Pensions Act 2013 and tPR Code of Practice no. 14.

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

To assist with compliance, a number of exercises were carried out during 19/20 including:

- A knowledge and skills assessment for Committee and Board members
- Implementation of a data quality improvement plan
- Review of Reporting Breaches of Law procedures in relation to personal data breaches

In addition to the above, internal audit carried out a review of Pension Governance. Their report was presented to the Pensions Committee in June 2019. The report provided further assurance over the Fund's governance arrangements. In response to the recommendations, updates were made to the Training Policy in relation to minimum training requirements for Board members and a new Risk Management Framework was introduced specifically for the Pension Fund.

Breaches of Law

There are certain people that are required to report breaches of the law to the Pensions Regulator where they have reasonable cause to believe that a legal duty which is relevant to the administration of the Scheme has not been, or is not being, complied with and the failure to comply is likely to be of material significance to tPR in the exercise of any of its functions.

Those people with a responsibility to report breaches, including Scheme Managers and Pension Board members shall establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations.

Under the General Data Protection Regulation, organisations now have a duty to report certain types of personal data breach to the relevant supervisory authority within 72 hours of becoming aware of the breach, where feasible.

A revised Breaches of Law Policy was approved by the Pensions Committee in November 2019.

There were no breaches reported to the tPR or the ICO (the supervisory authority) during the year 2019/20.

Risk Management

In line with CIPFA guidance issued in December 2018, the Pension Fund created its own Risk Management Policy and this was approved by the Pensions Committee in November 2019.

The risk register for the Pension Fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to mitigate these risks.

The register is reviewed regularly by the pensions management team and reported quarterly to the Pensions Committee and Board.

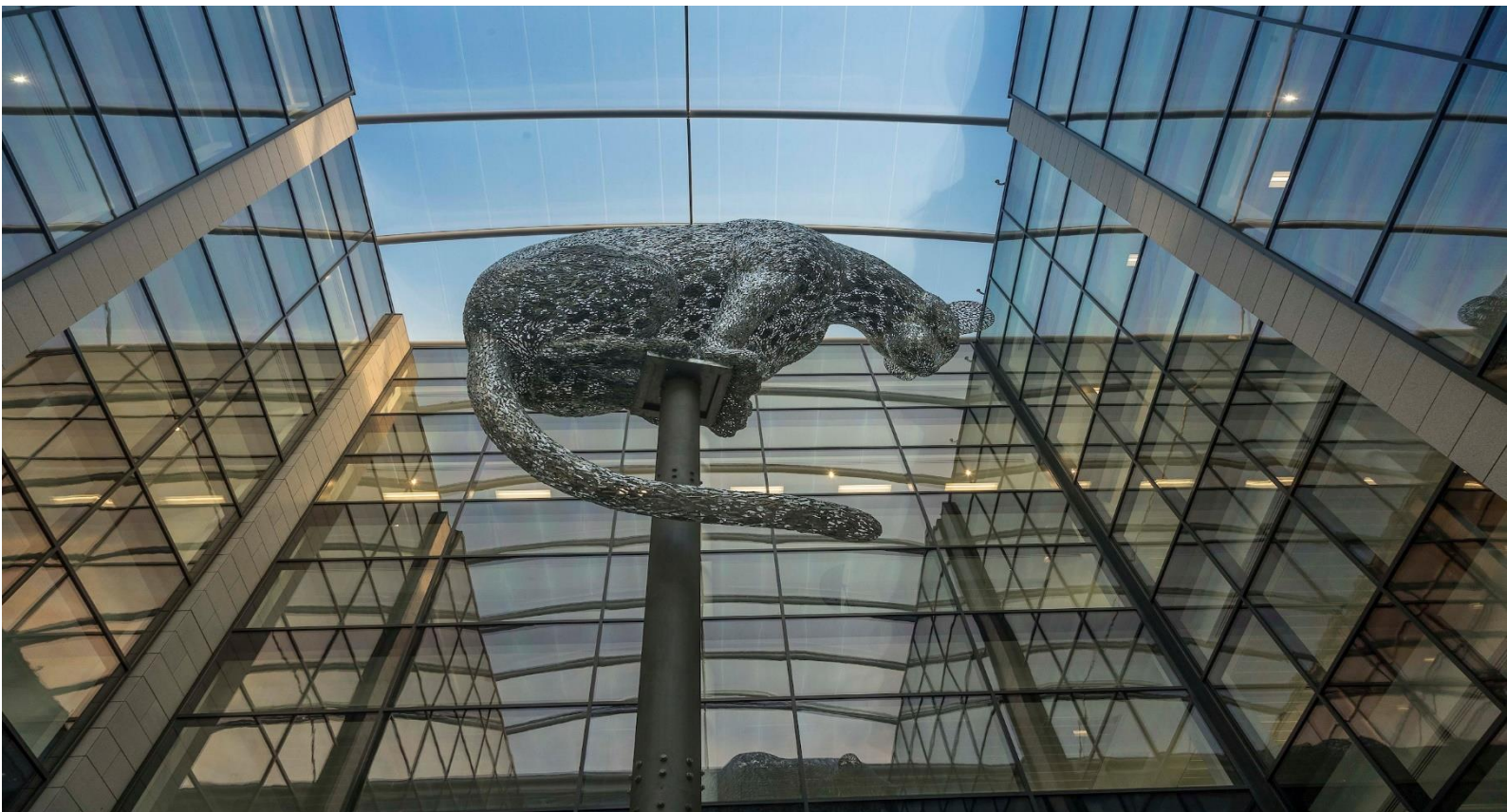
Work for 2020/21 onwards

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

- Training Plan
- Risk Management & Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Compliance Review
- Internal/External Audit Plan and updates
- Conflicts of Interest declarations
- Breaches of Law

LGPS Scheme Structure Review

The Scottish Scheme Advisory Board continue to work to look at the structure of the SLGPS and monitor the impact of pooling in England and Wales. A timeline for the outcome of this further scoping work is currently unclear. In the interim, the Pension Board continues to operate as normal.



PENSION BOARD – TERMS OF REFERENCE**INTRODUCTION**

- 1.1** Each Local Government Pension Scheme Manager in Scotland is required to establish a Pensions Board separate from the Pensions Committee that acts as the Scheme Manager.
- 1.2** The North East Scotland Pension Fund Pension Board is established under the provisions of sections 5 (1) and (2) of the Public Service Pensions Act 2013 and confirmed under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

OBJECTIVES

- 2.1** The Pension Board as detailed in regulations is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.
- 5.—(1) There shall be established for each Scheme manager a Pension Board with responsibility for assisting the Scheme Manager in relation to the following matters.*
- (2) Those matters are—*
- (a) securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*
- (b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*
- (c) such other matters as the 2014 Regulations may specify*
- 2.2** The Pension Board will determine the areas they wish to consider including, amongst others:
- Reports produced for the Pensions Committee
 - Seek reports from the Scheme Managers on any aspect of the Fund
 - Monitor investments and the investment principles/strategy/guidance
 - The Fund Annual Report
 - External voting and engagement provisions
 - Fund administrative performance
 - Actuarial reports and valuations
 - Funding policy
 - Any other matters that the Pension Board deem appropriate
- 2.3** The Pension Board is not a decision making body.
- 2.4** The Pension Board is not a scrutiny function.
- 2.5** The Pension Board will be collectively and individually accountable to the Pensions Committee

MEMBERSHIP

- 3.1** Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must not also participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.
- 3.2** There will be 4 trade union representatives appointed by the trade unions as follows:
- GMB
 - UCATT
 - UNISON
 - Unite
- 3.3** There will be 4 employer representatives appointed by the respective employer organisations as follows:
- Councils – 3 representatives
 - Scheduled bodies/Admitted bodies – 1 representative
- 3.4** Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.
- 3.5** Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below.
- 3.6** Advisors may attend meetings of the Pension Board in a non-voting capacity
- 3.7** No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

MEETINGS

- 4.1** The Chair of the Pension Board will be rotated on an annual basis between the member (trade union) and employer sides of the Pension Board.
- 4.2** Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers' sides of the Pension Board. All reasonable administration costs shall be met by the Fund.

- 4.3** The Pension Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.
- 4.4** The Pension Board may establish sub-committees.
- 4.5** While the statutory roles and function of the Pensions Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

DISPUTE RESOLUTION

- 5.1** If the Pensions Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pensions Committee is still competent.
- 5.2** In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:
- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
 - That the decision of the Pensions Committee could be considered illegal or contrary to regulations;
 - That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
 - That the decision is not in the interest of the continued financial viability of the Scheme or is against the principles of proper and responsible administration of the Scheme
- 5.3** If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the Fund website and included in the Fund Annual Report.
- 5.4** The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

TRAINING

- 6.1** All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.
- 6.2** The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.
- 6.3** The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

ACCESS TO INFORMATION

- 7.1** The Scheme Manager and Pension Board will together ensure that information is published about the activities of the Board including:
- the full terms of reference for the Pension Board, including details of how they will operate
 - the Pension Board appointment process
 - who each individual Pension Board member represents and
 - any specific roles and responsibilities of individual Pension Board members.
- 7.2** The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

North East Scotland **PENSION FUND**

Training Policy

March 2019

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Document	Training Policy
Draft/Review Date	11/03/2019
Approval Date	14/06/2019
Author & Team	Mairi Suttie and Hayleigh Weldon, Governance
Review Date	March 2020

Introduction

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

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing in their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

A Knowledge and Skills Framework was developed by CIPFA in 2010 along with accompanying guidance. The Fund has formally adopted the Framework, and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

All Pension Fund Committee and Board members to whom this policy applies are expected to continually demonstrate their own personal commitment to training.

Induction Process

On appointment to the Pensions Committee or Board, a member will attend an introductory briefing/training session and receive copies of the following documentation to assist in providing a basic understanding of the NESPF;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [Copy of the LGPS Regulations](#)
- [Copy of the Statement of Investment Principles and compliance with Myners Principles](#)

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

Training Agenda

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Training is provided to members of the Pensions Committee and Pension Board in respect of the following on a rolling basis;

Scheme Governance

- LGPS - Status and Legal Framework
- LGPS Regulations
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

Support Services

- Custody Services
- Service Organisation
- Role of the Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

Markets in Financial Instruments Directive (MiFID II)

Since the introduction of MiFID II from 3rd January 2018, financial institutions (including the LGPS) are required to 'opt up' to be classified under 'elective professional client' status, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

In order to maintain this status, the client (i.e. Pension Fund) needs to be able demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

Training Delivery

Each Committee and Board member is expected to undertake a minimum of 2 days of training each year.

Training is ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- members are invited to attend employer and scheme member events hosted by the Pension Fund
- Internally developed training days and pre/post meeting sessions
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training
- members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors
- use of the secure 'trustee' area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee/Board members.

The Pensions Regulator's E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are seven short modules covering:

- [Conflicts of Interest](#)
- [Managing Risk and Internal Controls](#)
- [Maintaining Accurate Member Data](#)
- [Maintaining Member Contributions](#)
- [Providing Information to Members and Others](#)
- [Resolving Internal Disputes](#)
- [Reporting Breaches of Law](#)

All members of the Pensions Committee and Pension Board are expected to complete the tPR Toolkit modules following appointment.

Review Arrangements

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown)
- agreement of an improvement plan; and
- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

This training policy will be reviewed annually, taking account of the results from any training needs analysis and emerging issues.

Costs

All training costs are met directly by the Pension Fund.

Further Information

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

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

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

Appendix I

Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

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

Appendix II

Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

PRINCIPAL RESPONSIBILITIES

1. Convener of the Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:

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

2. And to monitor:

- The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
- The costs of running the Pension Fund and Scheme
- Comments and feedback from stakeholders

3. And to approve:

- The annual report and accounts of the Fund(s)
- Audit reports on the performance of the Pension Fund Service
- Statements on Investment Principles, Governance, Administration and Communication
- The Risk Register and an annual risk analysis
- The medium term business plan and annual updates
- Training and development plans and updates
- Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

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

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

The vice convener of the Pensions Committee will also receive a copy of this guidance.

Compliance with the Job Description

1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS Governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the dedicated 'trustee' area of the Pension Fund website. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority Conference held annually in May which covers all aspects of the LGPS and the LGC Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national

conferences such as the PLSA or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

Risk Register



Pensions Dashboard

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.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Refence.

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)

4	Very Serious	●●	●●●	●	●		
3	Serious	●	●●●	●●●	●		
2	Marginal	●	●●●	●●●	●●		●
1	Negligible						
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Red = High Priority (urgent action required)

Orange = Medium Priority (assess adequacy of current controls, consider further action required to mitigate risk)

Green = Low Priority (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: COVID-19	<ul style="list-style-type: none"> Government and regulator guidance NESPF risk policy and register Updates/Communication between CO-Finance and Pension Manager Business Continuity plans in place Homeworking for Pensions Staff PAS performance reporting Internal/External audits Regular staff comms and training 	4	4	16	↔	TREAT		Laura Colliss, ongoing
	Causes: Global virus pandemic								
	Potential Impact: Failure to pay pensions, loss of staff due to illness, ability to meet regulatory requirements, financial impact on investment returns, covenant risk for employers								
NESPFO02	Risk: Lack of effective risk controls	<ul style="list-style-type: none"> NESPF risk register is reviewed and updated quarterly by senior management team Consideration by Pensions Committee & Board at quarterly meetings NESPF specific Risk Management Policy in place 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO03	Risk: Poor Governance		2	2	4	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Lack of robust and effective governance framework and supporting policies and procedures</p> <p>Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk</p>	<ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council's Scheme of Governance Committee Effectiveness Report to support good governance 						<p>June Committee meeting was cancelled due to COVID-19, Committee Effectiveness report will go to September meeting.</p>	
NESPF004	<p>Risk: Lack of performance measures</p> <p>Causes: Failure to develop performance reporting framework</p> <p>Potential Impact: Lack of transparency, poor performance could go unaddressed</p>	<ul style="list-style-type: none"> Statutory and local KPI's Pension Administration Strategy published quarterly Investment performance (against benchmark) reported to Committee quarterly 	2	3	6	↔	TREAT		Ongoing
NESPF005	<p>Risk: Failure of Pensions Committee and Pension Board to operate effectively</p> <p>Causes: Poor attendance/commitment to role, high turnover of members, lack of training</p> <p>Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk</p>	<ul style="list-style-type: none"> Publication of Pension Board Annual Report Training Policy reviewed annually and training register in place Nomination & Appointment procedure Annual Committee Effectiveness Report 	3	2	6	↔	TREAT	<p>19/20 Pension Board Annual Report approved, new Chair/Vice Chair appointed for 20/21.</p> <p>Normal Governance arrangements to recommence from August 2020</p>	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO06	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> ACC Disaster Recovery policy in place NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	2	2	4	↔	TOLERATE		Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPFO07	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> All staff have individual development plans which are reviewed regularly through CR&D Training register to monitor 2 full time training & development staff Internal 2 year training programme for benefit admin staff Future-focused staffing structure, subject to ongoing review 	4	2	8	↔	TREAT	Posts approved in March 2019 to be filled. Staff job profile review underway to ensure clear understanding of roles and training requirements. Office relocation delayed due to COVID-19.	Laura Colliss, December 2020
	Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								
	Potential Impact: Loss of service delivery, risk to succession planning								
NESPFO08	Risk: Pay and price inflation valuation assumptions either higher or lower	<ul style="list-style-type: none"> Quarterly funding updates to Committee (using FSM) Tri-ennial valuation Individual employer contribution rates 	2	2	4	↔	TOLERATE	Tri-ennial valuation 2020 in progress	Ongoing
	Causes: Economic factors								
	Potential Impact: Potential increase in employer contribution rates and liabilities								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF009	Risk: Failure to adhere to relevant pensions legislation and guidance	<ul style="list-style-type: none"> • Six monthly compliance review, with annual reporting to Pensions Committee and Board • Active participation at LGPS events, Testing Working Party for administration software updates • Established processes for staff training • Regular benefit admin team meetings to share knowledge 	3	3	9	↔	TREAT	Review completed June 2020	Ongoing
	Causes: Political and legislative changes, increased administrative complexity, staff training issue								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action								
NESPF010	Risk: Failure to comply with FOI or SAR requests	<ul style="list-style-type: none"> • Internal written procedures in place • FOI/SAR log to record & monitor 	3	1	3	↔	TREAT		Ongoing
	Causes: Missed statutory deadlines due to training or resource issues								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPF011	Risk: Conflicts of Interest	<ul style="list-style-type: none"> • Regular discussions between CO-Finance and Pension Fund Manager • Standing agenda item at meetings • Conflicts policy & register in place, with conflicts declarations issued annually 	2	4	8	↔	TREAT		Ongoing
	Causes: Competing professional and personal interests of staff, Committee and Board members								
	Potential Impact: Audit criticism, legal challenge, reputational risk								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF012	Risk: Requirement to complete GMP reconciliation	<ul style="list-style-type: none"> Dedicated GMP project team reporting to Operations Manager Regular updates to Committee and Board 	2	2	4	↔	TREAT	IPE regulations with effect 1 March 2020. Final file received from HMRC in June 2020, work to be finalised by end of year.	Gary Gray, December 2020
	Causes: End of contracting out due to reforms of state pension								
	Potential Impact: Failure to calculate future benefits correctly, audit criticism, financial loss								
NESPF013	Risk: Fraud/Negligence	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitting lump sum payments Pension payments signed off by benefits senior Participation in National Fraud Initiative exercise Overseas pensioner existence checking Breaches Policy & register Internal Audit control reviews 	2	3	6	↔	TREAT	Implementation of enhanced Admin to Pay module to provide secondary calculation checks as system requirement. Testing commenced January 2020. Implementation date delayed (from March) due to COVID-19.	Marie McLean, September 2020
	Causes: Dishonesty or human error by staff, scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk								
Investments									
NESPF014	Risk: Insufficient assets to meet the Funds long term liabilities	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates 	4	3	12	↔	TREAT	Tri-ennial valuation in progress, investment strategy review outcome to follow	Ongoing
	Causes: Failure of investment strategy or fund								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	managers to produce expected returns Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss	<ul style="list-style-type: none"> • Tri-ennial valuation and investment strategy review • Diversification of assets • Due diligence of fund managers • External advisor for specialist guidance on strategy 							
NESPF015	Risk: Failure to monitor investment managers and assets Causes: Lack of internal procedures Potential Impact: Audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> • Quarterly assessment and reporting of asset performance • Regular meetings with investment managers 	3	3	9	↔	TREAT		Ongoing
NESPF016	Risk: Failure of world stock markets Causes: Systemic Potential Impact: Increase in employer contribution rates, financial loss	<ul style="list-style-type: none"> • Diversification of Scheme assets • Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE		Ongoing
NESPF017	Risk: Negligence/Fraud/Default Causes: Dishonesty by fund managers, lack of care or human error Potential Impact: Financial loss, reputational damage	<ul style="list-style-type: none"> • Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports 	2	1	2	↔	TOLERATE		Ongoing
NESPF018	Risk: Failure of Global Custodian		4	1	4	↔	TOLERATE		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Financial market crisis, regulatory/political</p> <p>Potential Impact: Loss of assets or control of assets</p>	<ul style="list-style-type: none"> Regular meeting with custodian Receipt of SAS 70 reports and monitoring 							
NESPF019	<p>Risk: Failure to implement ESG policy</p> <p>Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy</p> <p>Potential Impact: Reputational damage</p>	<ul style="list-style-type: none"> Member training on roles and fiduciary duties Policy incorporated within SIP PRI membership 	2	3	6	↔	TREAT	Annual PRI signatory assessment completed	Ongoing
Accounting									
NESPF020	<p>Risk: Poor financial reporting</p> <p>Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues</p> <p>Potential Impact: Qualified accounts</p>	<ul style="list-style-type: none"> Comprehensive policies and procedures in place and review of <i>the Code</i> Attending CIPFA meeting and reviews Regular reconciliations e.g. fund managers, custodian Internal/External Audits 	3	2	6	↔	TREAT	Draft Annual Accounts approved by the UBC in June 2020. Audited accounts to September meeting.	Ongoing
Technical									
NESPF021	<p>Risk: Failure to secure and manage personal data in line with data protection requirements</p> <p>Causes: Cyber-attack, human processing error</p>	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed 	4	2	8	↔	TREAT	2 personal data breaches this quarter, both reported to DPO but did not require	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties	<p>regularly (Breaches, Data Protection, Systems Access and Retention Schedule)</p> <ul style="list-style-type: none"> Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 						<p>further reporting to ICO.</p> <p>Annual information governance refresher training completed by all staff.</p>	
NESPF022	Risk: Failure of the Fund's administration system	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 	3	2	6	↔	TOLERATE		Ongoing
	Causes: Outages, hardware and software failures and cyber attacks								
	Potential Impact: Staff downtime, loss of service delivery								
NESPF023	Risk: Failure to track member status and trace information	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT		Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								

Employer Relationship

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF024	Risk: Failure to monitor employer covenant	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) 	3	4	12	↔	TREAT		Ongoing
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
NESPF025	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	3	3	9	↔	TREAT		Ongoing
	Causes: Public service cuts to funding								
	Potential Impact: Pressure on cash flows								
NESPF026	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) Cost Cap mechanism introduced in LGPS regulations 	2	6	12	↔	TREAT		Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF027	Risk: Longevity	<ul style="list-style-type: none"> Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Tri-ennial valuation in progress	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF028	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> Internal escalation procedures Breaches policy and register Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board Ongoing training provided by dedicated ERT to Scheme employers Employer Briefings 	2	4	8	↔	TREAT		
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF029	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT Quarterly PAS reporting to Committee & Board Data quality improvement plan implemented 	2	2	4	↔	TREAT	Data quality improvement plan update to Committee in March 2020	
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	29 September 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Training
REPORT NUMBER	PC/SEPT20/TRA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	4.1 and 4.2

1. PURPOSE OF REPORT

- 1.1 To provide details of the training plan (2020/21) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 agree the proposed training schedule (as set out in items 3.3-8), subject to latest Scottish Government travel advice, and:
- Approve the travel of members to the training session in London
 - Approve the travel of members to attend external training opportunities
 - Approve the travel of members to attend LAPFF meetings;
- 2.2 note the updated Training Policy for Pensions Committee and Board members (as set out in Appendix I); and
- 2.3 note the requirement to have completed the Pensions Regulator online training in line with the Training Policy (see item 3.9).

3. BACKGROUND

- 3.1 There is a requirement under the Pensions Regulator (tPR) and CIPFA/Myners guidance that members sitting on Local Government Pension Scheme Committee and Board hold a certain level of knowledge and understanding.
- 3.2 The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the function of a member of the Pensions Committee or Board (see attached Training Policy).

Training Delivery and Content

- 3.3 Officers propose to deliver training over two set period during 2020/21, together with any industry externally delivered training when available.
- 3.4 Due to COVID-19 some of the proposed training may go 'virtual', being delivered online rather than 'in person', depending on how the situation evolves over the coming months and into early next year. The following proposed training sessions, to be agreed by Committee, will be subject to latest Scottish Government travel advice.
- 3.5 The first training session will take in London in early 2021 and will include presentations from the Fund's fund managers.
- 3.6 The fund manager presentations will discuss their investment process, how they manage money for their clients and looking forward, how they are going to continue to deliver the Pension Fund's strategy while providing an update on their business and any industry and economic insight.
- 3.7 A second training session will take place following this in March at the Fund's new office in Aberdeen.
- 3.8 Further external training opportunities are available, including but not limited to:

Scottish Local Government Pension Scheme Conference

Virtual Event, 1st and 8th October, Agenda (tbc)

LGC Investment Seminar Scotland

Virtual Event, 22-23 October (<https://investmentseminarscotland.lgcplus.com>)

Local Authority Pension Fund Forum (LAPFF) Conference

Location (tbc), 2-4 December 2020

- 3.9 In addition to the above, the Pensions Regulator have an e-learning toolkit for those involved in the governance and administration of a public service pension scheme, specifically aimed at local pension board members. The Pensions Regulator toolkit can be found at the following link:

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

Pensions Committee and Board members agreed to complete tPR's online toolkit as part of their individual training plans for 2019/20 (PC/JUN19/TRA) and provide evidence of this to the Governance Manager to record on the training register.

By the end of March 2020, the training register shows 3 members of the Pensions Board (and 1 substitute) and 4 members of the Pensions Committee have completed the training. Committee and Board members who have not

already done so are reminded to complete this training requirement as soon as possible as part of their personal training plans for 20/21.

3.10 Training attendance is reported in the annual Committee Effectiveness Report and respectively for members of the Board, in the Pension Board Annual Report.

3.11 Following roll out of the new Fund log and branding and as part of the annual document review, the Training Policy for the Pensions Committee and Board has been updated (Appendix I). Changes have been made to layout and presentation, as well as some minor amendments to wording for clarity e.g. responsibilities.

4. FINANCIAL IMPLICATIONS

4.1 Training costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

6.1 The risks associated with failure to ensure appropriate training are managed through the Pensions Fund's Risk Management Policy and Risk Register, which is updated and reported to the Committee on a quarterly basis.

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Compliance	Failure to acquire and retain adequate levels of knowledge and understanding would result in non-compliance with tPR Code of Practice and PSPA 2013.	M	Training Policy in place, with annual review.
Operational	Poor governance, inability of Pensions Committee and Board to operate effectively	M	Committee and Board meet at same time, with same agenda. Governance review carried out annually.
Reputational	Fund's reputation may be negatively affected by breach of regulatory duties and tPR action.	L	Issues will be identified through governance review and rectified.

7. OUTCOMES

7.1 The proposals in this report have no impact on the Council Delivery Plan.

8. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	Not required
Data Protection Impact Assessment	Not required

9. BACKGROUND PAPERS

None

10. APPENDICE

Appendix I, Training Policy

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund
nespf

Training Policy

August 2020

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DRAFT

Document	Training Policy
Review Date	August 2020
Approval Date	
Author & Team	M Suttie, Governance
Review Date	July 2021

Purpose Statement

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

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing in their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

Application & Scope

All Pension Fund Committee and Board members to whom this policy applies are expected to continually demonstrate their own personal commitment to training.

Induction Process

On appointment to the Pensions Committee or Board, a member will attend an introductory briefing/training session and receive copies of the following documentation to assist in providing a basic understanding of the NESPF;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [Copy of the LGPS Regulations](#)
- [Copy of the Statement of Investment Principles and Compliance with Myners Principles](#)

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

Training Agenda

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Training is provided to members of the Pensions Committee and Pension Board in respect of the following on a rolling basis;

Scheme Governance

- [LGPS - Status and Legal Framework](#)
- [LGPS Regulations](#)
- [Role of Elected Members](#)

- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

Support Services

- Custody Services
- Service Organisation
- Role of the Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

Markets in Financial Instruments Directive (MiFID II)

Since the introduction of MiFID II from 3rd January 2018, financial institutions (including the LGPS) are required to 'opt up' to be classified under 'elective professional client' status, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

In order to maintain this status, the client (i.e. Pension Fund) needs to be able demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

Policy Performance

Each Committee and Board member is expected to undertake a minimum of 2 days of training each year.

Training is ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions



- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training
- seminars and training events offered by the Fund's investment managers and advisors
- use of the secure 'trustee' area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee/Board members.

The Pensions Regulator's E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are seven short modules covering:

- Conflicts of Interest
- Managing Risk and Internal Controls
- Maintaining Accurate Member Data
- Maintaining Member Contributions
- Providing Information to Members and Others
- Resolving Internal Disputes
- Reporting Breaches of Law

All members of the Pensions Committee and Pension Board are expected to complete the tPR Toolkit modules following appointment.

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown)
- agreement of an improvement plan; and
- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

Supporting Procedures & Documentation

A Knowledge and Skills Framework was developed by CIPFA in 2010 along with accompanying guidance. The Fund has formally adopted the Framework, and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

This policy is supported by the policies and procedures that make up the wider governance framework and those prescribed by the Local Government Pension Scheme (Scotland) Regulations. Copies of which are available online at www.nespf.org.uk.

Responsibilities

All training costs are met directly by the Pension Fund.

The Pensions Committee will review this policy annually, or in the event of a policy revision and taking account of the results from any training needs analysis and emerging issues.

Day to day responsibility for the implementation of this policy sits with the Chief Officer-Finance and dedicated staff within the Pension Fund section.

Any questions or feedback on this document should be forwarded to the NESPF Governance Team at:

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

Email: governance@nespf.org.uk
Web: www.nespf.org.uk

Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

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

Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

PRINCIPAL RESPONSIBILITIES

1. Convener of the Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:
 - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
 - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - The appointment of investment and actuarial advisors and other third party services
 - The governance framework
 - The communication strategy of the Fund or Funds

2. And to monitor:
 - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
 - The costs of running the Pension Fund and Scheme
 - Comments and feedback from stakeholders

3. And to approve:
 - The annual report and accounts of the Fund(s)
 - Audit reports on the performance of the Pension Fund Service
 - Statements on Investment Principles, Governance, Administration and Communication
 - The Risk Register and an annual risk analysis
 - The medium term business plan and annual updates
 - Training and development plans and updates
 - Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

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

	<p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

The vice convener of the Pensions Committee will also receive a copy of this guidance.

Compliance with the Job Description

1. Pensions Legislative and Governance context

- 1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.
- 1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Conveners must commit to attending

a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority Conference held annually in May which covers all aspects of the LGPS and the LGC Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

- 2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority Financial Statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

- 3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

- 4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular

approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that may impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

- 5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Conveners have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

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

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

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