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

Town House,
ABERDEEN, 12 March 2020

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 20 MARCH 2020 at 10.30am.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

BUSINESS

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST

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

MINUTES OF PREVIOUS MEETINGS

- 4.1 Minute of Previous Meeting of 29 November 2019 (Pages 7 - 12)

COMMITTEE BUSINESS PLANNER

- 5.1 Business Planner (Pages 13 - 14)

NOTICES OF MOTION

- 6.1 There are currently no motions to the Pensions Committee

RISK MANAGEMENT

- 7.1 Strategy - PC/MAR20/STRAT (Pages 15 - 46)

INTERNAL AND EXTERNAL AUDIT

- 8.1 Internal Audit Plan 2020/2021 - IA/19/008 (Pages 47 - 60)
- 8.2 External Audit Annual Audit Plan 2020/2021 (Pages 61 - 74)
- 8.3 Local Government Pension Scheme supplement to the Local Government Financial Overview (Pages 75 - 82)

BUDGET AND ACCOUNTS

- 9.1 Budget Forecast & Projected Spend 2019/20 - PC/MAR20/BUD (Pages 83 - 90)
- 9.2 Statement of Accounts 2019/20 - Action Plan - PC/MAR20/ACCOUNTS (Pages 91 - 94)

LEGAL OBLIGATIONS

- 10.1 Review of Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements - PC/MAR20/GOV (Pages 95 - 102)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1 Asset and Investment Manager Performance Report - PC/MAR20/AIMPR
(Pages 103 - 134)

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

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DECLARATIONS OF INTEREST

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

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

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

OR

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

OR

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

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

OR

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

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

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 29 November 2019. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Bell, Cooke and Delaney (Pensions Committee); and Mr L Knox, Chairperson; Councillor McKelvie, Vice Chairperson; Councillor Allan; and Mr I Black, Mr K Luke, Mr N Stirling and Mr A Walker (Pension Board).

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

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

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

NOTIFICATION OF URGENT BUSINESS

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

Item 10 – Asset and Investment Manager Performance Report

The Committee resolved:-

to note the decision of the Convener.

The Board resolved:-

to note the decision of the Committee.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – items 9 (Procurement of Bulk Annuity for the ACC Transport Fund) and 10 (Asset and Investment Manager Performance Report).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned items so as to avoid disclosure of exempt information of the class described in paragraph 8 (item 9) and 6 (item 10).

PENSIONS COMMITTEE AND PENSION BOARD
29 November 2019

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 13 SEPTEMBER 2019

4. The Committee had before it the minute of its previous meeting of 13 September 2019.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

- (i) to note the reason for the delay to item 7 (Strategic Infrastructure Priorities and the Scottish Local Government Pensions Scheme); and
- (ii) to otherwise note the planner.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/NOV19/STRAT

6. 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 update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report provided an update on Pension Fund Annual Benefit Statements; documents which had been recently updated, namely (a) the Statement of Investment Principles, (b)

PENSIONS COMMITTEE AND PENSION BOARD

29 November 2019

the Data Protection Policy, (c) the Reporting Breaches of Law Policy, (d) the Personal Data Breaches Procedure Notes for staff; and the Risk Register and new Risk Management Policy; information in respect of upcoming overseas travel to be approved by Committee; the engagement undertaken by the Pension Regulator in respect of current governance and administration standards and practices; the final report from the Pensions Institute on the Local Government Pension Scheme structure review; and the admission of Inspire Catering Scotland LLP to the NESPF.

Appended to the report was the Pension Administration Strategy Quarterly Update for Quarter 2 2019/2020; the document revisions summary; the risk register for November 2019; and the new Risk Management Policy.

The report recommended:-

that Committee –

- (a) approve the revisions to the scheme policy documents including creation of a new NESPF specific risk management policy (as set out in 3.9.8 in the report); and
- (b) approve the travel for one appointed Advisory Committee Officer to attend the following:-
 - Partners Group, Denver, March 2020
 - RCP, Chicago, June 2020
 - Harbourvest, Boston, May 2020
 - Harbourvest, Boston, December 2020

At this juncture, the Clerk advised that in accordance with the Pensions Committee Terms of Reference 5.2, the Committee required to determine applications for Admitted Body status, and therefore proposed that Committee also be asked to approve the admission of Inspire Catering Scotland LLP to the NESPF, as set out in 3.10.2 of the report.

The Committee resolved:-

- (i) to note the update provided by the Chief Officer – Finance in respect of the work being undertaken to resolve the issue of I-Connect events not being processed, and to request that an explanation of the issue be included in the next Strategy report to the March 2020 meeting if the issue was not resolved by that date;
- (ii) to request that officers investigate if the risk scoring process information in the risk register was correct and if not, to ask that updated information be circulated to Members via email outwith the meeting;
- (iii) to approve the admission of Inspire Catering Scotland LLP to the NESPF; and
- (iv) to otherwise approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
29 November 2019

BUDGET FORECAST & PROJECTED SPEND - PC/NOV19/BUD

7. 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 detail of the Management Expenses Budget / Forecast and Projected Spend 2019/20 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that Committee note the update on the NESPF Management Expenses Budget / Forecast and Projected Spend 2019/20, shown in Appendix 1 to the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken at article 2 of this minute, the following items of business were considered with the press and public excluded.

PROCUREMENT OF BULK ANNUITY FOR THE ACC TRANSPORT FUND - PC/NOV19/ACCTF

8. With reference to article 14 of the minute of its meeting of 14 June 2019, the Committee had before it a report by the Director of Resources which advised of a departure from the previously approved OJEU procurement process in respect of the Strathclyde No.3 Fund / Aberdeen City Council Transport Fund merger.

The report recommended:-

that Committee note the alternative procurement route being undertaken in respect of the bulk annuity, as detailed in 3.4 to 3.8 of the report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

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The Convener intimated that he had directed in terms of Section 50(B)(4)(b) of the Local Government (Scotland) Act 1973, that the following item be considered as a matter of urgency to enable the Committee to review the current investment performance for the Pension Fund and meet fiduciary duties.

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

9. With reference to article 10 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided an overview of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 September 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 who highlighted particular points of interest in the report.

The report recommended:-

that Committee note the contents of the report.

The Committee resolved:-

- (i) to request that officers investigate the query in respect of superfast chargers for electric vehicles; and
- (ii) to otherwise note the report.

The Board resolved:-

to note the decision of the Committee.

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

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	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	20 March 2020								
4	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
5	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 three committee cycles		Jonathan Belford	Finance	Resources	1.2	D	
6	Internal Audit Plan 2020/21	To present the Internal Audit Plan for 2020/21		David Hughes	Internal Audit	Internal Audit	2.1		
7	Statement of Accounts	To provide high level information and key dates in relation to the 2019/20 Statement of Accounts		Laura Colliss	Finance	Resources	1.3		
8	Review of Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide an annual review of governance arrangements		Mairi Suttie	Finance	Resources	4.1 and 4.2		
9	External Audit Annual Audit Plan 2020/21	To present the External Audit annual audit plan		Rachel Browne	External Audit	External Audit	2.1		
10	Local Government Pension Scheme supplement to the Local Government Financial Overview	To present the supplement		Rachel Browne	External Audit	External Audit	2.1		
11	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
12	Budget Forecast & Projected Spend 2019/20	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
13	12 June 2020								
14	Committee Effectiveness Annual Report	To consider the annual committee effectiveness report		Jonathan Belford	Finance	Resources	GD 7.5		
15	Training Report	To provide details of the Training Plan 2020/2021 for the Pensions Committee and Pension Board of the NESPF		Laura Colliss	Finance	Resources	1.3		

	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									
16	Internal Audit Annual Report 2019/20	To present the Internal Audit Annual Report for 2019/20		David Hughes	Internal Audit	Internal Audit	2.1		
17	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
18	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
19	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
20	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
21	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
22	11 September 2020								
23	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
24	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
25	External Audit Annual Audit Report 2019/20	To present the External Audit Annual Audit Report 2020		Rachel Browne	External Audit	External Audit	2.1		
26	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
27	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
28	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
29	11 December 2020								
30	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
31	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
32	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
33	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
34									
35	ESG item to be added once discussion held around timescales / way forward								

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	20 MARCH 2020
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/MAR20/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS & MAIRI SUTTIE
TERMS OF REFERENCE	PENSIONS COMMITTEE REMIT 1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee: -

- 2.1 Note the data quality scores reported to the Pensions Regulator and the update to the Data Quality Improvement Plan for reassurance (3.10.1)

3. BACKGROUND

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

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

- 3.2 The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.
- 3.3 The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report service updates covering the six strategic areas will also be available via the secure website (<http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>) and email.
- 3.4 Also available on the Pension Fund website are all the Policy documents that govern the Pension Fund including its various strategies.

3.5 **INVESTMENT**

3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

3.5.2 **Firstbus Merger/Buy-in – Verbal Update**

A progress update will be provided to the Committee on the Firstbus merger/buy-in (Project Dallas)

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 *Budget/Forecast 2019/20 Report* *Statement of Accounts 2019/20 – Action Plan*

Separate Reports, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Local Government Pension Scheme Regulations**

- 3.7.1.1 Scottish Public Pensions Agency have launched a consultation to seek the views of stakeholders on changes to the valuation cycle. In 2019, the UK Government directed that the LGPS schemes' statutory valuations should move to a quadrennial (four yearly) cycle. Furthermore, the consultation seeks to assess the impact of changes introduced in the LGPS (Scotland) Regulations 2018, which provide administering authorities with the option of suspending an employer's liability to pay an exit payment when managing the process of an employer exiting the scheme.

Fund Officers will prepare a response on behalf of the Fund which will be submitted by the deadline of 9 March 2020.

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.8.2 **Enhanced Administration to Payroll (EA2P)**

Testing is now underway following delivery of the EA2P module into the Altair administration system test environment. Project completion and delivery into the Live environment is on course for March 2020. This will ensure we comply with audit requirement 2.4.8 of the internal audit Pensions System report (AC1827).

3.8.3 **NESPF website Update**

Following Committee approval in November 2018 (PC/NOV18/WEB) and a thorough procurement process, Officers have now appointed a provider to deliver the new NESPF website. As part of this, a branding exercise will be conducted. This involves the design of a new logo and brand guidelines to ensure a consistent and memorable look and feel to all Fund communication materials. The costs for the branding exercise will be met from the website budget approved by Committee in November. The new website is due to be launched in April/May 2020.

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 Staff Training 2019/20**

3.9.2.1 Individual staff training and development continued throughout 2019/20. This included external buy-in training by Mercer, as well internal training on customer service, concurrents (where a member has more than 1 employment), reportwriter and an annual GDPR refresher.

3.9.2.2 In addition, senior staff are due to attend an external training session on 5 March at the offices of one of our external legal providers covering a range of member and employer topics including death grants and member complaints through to admission agreements and exit payments. This training was provided free of charge as part of the ACC external legal services framework. A number of staff will also log in to the training by webinar.

Trainee Pensions Officers/Staffing

3.9.2.3 A TPO successfully completed their 2nd year exam in November 2019, becoming a fully qualified and highly trained Pensions Officer.

3.9.2.4 The Fund currently has one TPO in the training programme, with a further 2 to be recruited in 2020 to fill existing vacancies. Fund Officers are currently investigating the option to utilise one of these posts for a modern apprenticeship whilst the other is out for internal advertisement.

3.9.2.5 The current staffing structure was approved by Committee in March 2019 (PC/MAR19/STRAT).

3.9.3 Annual Governance Review

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

Separate report, provided

3.9.4 Fraud, Whistleblowing and Breaches of the Bribery Act

There have been no cases during the year 2019/20.

3.9.5 Annual Document Review

Scheme Policy documents will be reviewed following implementation of the new NESPF website and rebranding exercise. These will be brought forward to the next Committee meeting for approval.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Data Quality Improvement Plan

The Data Quality Scores for NESPF are reported to The Pensions Regulator as part of Annual Scheme Return. For 2018/19 the Fund scores were:

Common Data	98.3%
Scheme Specific Data	97.1%

The above scores reflect the amount of work undertaken by the Fund, in particular the Employer Relationship Team, to obtain monthly information and carry out regular reconciliation to clean up scheme data.

An update to the Data Quality Improvement Plan, approved by Committee in March 2019 (PC/MAR19/STRAT) is attached at *Appendix II*.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

Appendix III, Copy of Risk Register (February 2020)

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 3 Report 2019/20
Appendix II, Data Quality Improvement Report Update
Appendix III, Copy of Risk Register (February 2020)

11. REPORT AUTHOR CONTACT DETAILS

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Pension Administration Strategy



Quarterly Reporting | December 2019

1. NESPF performance from 1st April to 31st December

1.1 Key administration tasks

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

Administration Task	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	29	27	93.1%	96.6%	100.0%		0	0	93.1%
Notification of retirement estimate	10 days	790	787	99.6%	99.7%	99.9%	99.9%	1	16	97.6%
Notification of retirement benefits	10 days	1496	1463	97.8%	98.3%	99.0%	99.6%	6	23	96.3%
Notification of deferred benefits	10 days	893	862	96.5%	96.5%	96.5%	98.4%	14	28	93.6%
Notification of refund	10 days	941	936	99.5%	99.5%	99.6%	99.6%	4	52	94.3%
Notification of transfer in value	10 days	51	48	94.1%	96.0%	98.0%	98.0%	1	4	87.3%
Notification of transfer out value	10 days	307	249	81.1%	88.8%	92.8%	97.4%	8	3	80.3%
		4507	4372	97.0%				34	126	94.4%

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:

- *Percentage achieved remains at 97% as does the revised percentage at 94%.*

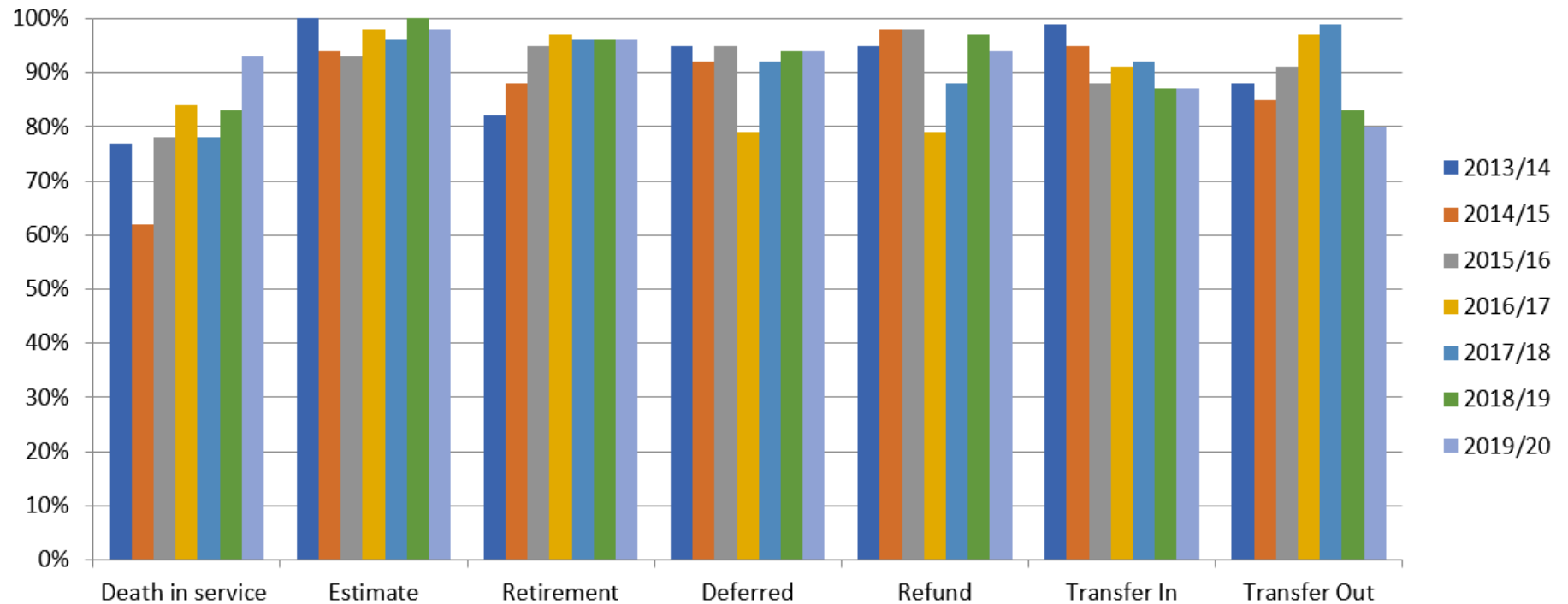
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *100% achieved for death in service and retirement estimates within 15 days*
- *34 completed in over 30 days, this amounts to less than 1% of completed cases.*

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:

- 126 cases were identified and contributed to the revised percentages
- 37 were identified in the second quarter which reduced to 25 in the third quarter.

1.2 Previous years comparison



2. Employer performance from 1st April to 31st December

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 (561,306)

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)	3279
Amendments (address, personal details, hours and absence)	16671
Leavers (exit and opt out)	3046
Contributions (employee, employer and additional)	178193
Salary	179035
Cumulative CARE Pay	170838
Works address	10244

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)

* Aberdeen City Council are prioritising i-Connect files with the agreement these will be submitted by March 2020 and we are working with them to ensure this is achieved.

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	Extract File									*			
Aberdeenshire Council	Extract File												
Bon Accord Care	Extract File									*			
Bon Accord Support	Extract File									*			
Grampian Valuation Joint Board	Extract File												
Moray Council	Extract File												
NESTRANS	Extract File												
Police Scotland (Aberdeen)	Extract File												
Robert Gordon University	Extract File												
Moray College	Extract File												
Scottish Water	Extract File												
Scottish Fire and Rescue Service	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												
Aberdeen Performing Arts	Online Return												
Aberdeen Sports Village	Online Return												
Aberlour Child Care Trust	Online Return												
Archway	Online Return												

City Moves Dance Agency	Online Return													
Alcohol & Drugs Action	Online Return													
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													
North East Scotland College	ALCARE													

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Data Quality Improvement Plan 2018/20

1. Introduction

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

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

Over the last 6+ years the NESPF have migrated towards receiving member and contribution information from participating employers on a monthly basis. This has had a huge impact on the quality of member data held by the Fund. The systems now in place, ensure member data is received in a timely manner and is provided in a valid and accurate format. This has not only improved the data held but will continue to ensure that the data remains at a high quality in the future.

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

As the 2020 triennial valuation approaches the high level of data quality held by the Fund will enable both the Fund and the actuarial team to have confidence in, not only being able to deliver the exercise in a timely manner, but also in the accuracy of the results received.

In addition, the NESPF worked actively on the requirement to reconcile Guaranteed Minimum Pensions held ahead of the 2019 HMRC deadline. This huge exercise has taken up staff time and Fund resources for the last three years, but the proactive approach has ensured that we are in a very positive position as the deadline approaches. Final calculations are currently being carried out to rectify the under and overpayments identified through the process but the project cannot as yet be finalised as further data from HMRC to carry out the final checks is outstanding.

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

2. NESPF Objectives

1. To maintain the accuracy of members records to ensure that benefits held and paid are correct
2. To meet the regulatory requirements of pension administration including the 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.

3. Data Types

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

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

4. Measuring Data Quality

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

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

If the number of flags is below this level, classify as green	5.0%
Otherwise of the number of flags is below this level, classify as amber	19.9%
If the number of flags is above this level, classify as red	20.0%

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

The Fund acknowledged that the UDE was limited to providing data relevant for valuation and therefore our scores were determined using the information from Mercers and additional in-house reporting. In order to receive more accurate data scores that could be compared against other administering authorities the Fund decided to contract with our system provider, Heywoods, to use their Data Quality Analysis Tool. The contract is for three years and carries out tests against the data held on our member database, Altair.

In November 2019 Heywood carried out the first of the three annual evaluations against the data held by the Fund. The overall scores, results and reports were provided quickly to allow the Fund to declare the data scores in the annual scheme return. The scores still reflected a high quality of data held by the Fund and the accompanying reports give the Employer Relationship Team detailed breakdowns of the errors held, the priority level for investigating the errors and an understanding of how the individual error types affected the scores. The data reports for both Common Data and Scheme Specific data can be made available to Committee and Board Members by contacting the Employer Relationship Team at employer@nespf.org.uk.

5. Data measured by NESPF

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

Last status event	Undecided leavers with inconsistency between member status and exit data
Address (includes Gone Away which are classed as missing data)	Pensioner members with no retirement date
Postcode	Pensioner members with zero pension
	Pensioner members with GMP expected based on service
	Dependant members with zero pension

6. Data Score

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

Data Type	2017	2018	2018	Target
Common Data	97%	97%	98.3%	100%
Scheme Specific Data	85%	94%	97.1%	100%

A contributing factor to the significant improvement in Scheme Specific Data between 2017 and 2018 has been the ongoing reconciliation of guaranteed minimum pension (GMP) values with HMRC as part of an ongoing exercise described in the Data Quality Improvement Plan.

The Employer Relationship Team seek to improve the scores further in the forthcoming year by investigating and fixing the errors identified in the Heywoods Data Quality Report following their analysis.

DATA QUALITY IMPROVEMENT PLAN

Objective	Data Type	Action	Timetable	Financial & Resource Implications
Address Tracing for gone away deferred, pensioner and frozen leaver members	Common	Around 2000 members are held on the system as 'gone away.' These members consist of deferred, pensioner and frozen refund members (no active members are held as 'gone away'.) The Fund will look to directly award a contract to a tracing organisation through the National Framework.	First Trace April 2020 (3 year contract)	Financial - Estimated cost of tracing exercise £2,500 (for first year) Resource – Administration staff to be utilised

Monthly Information from Employers	Common & Scheme Specific	Continue to promote i-Connect as the method of employers providing data. Improve reconciliation process to ensure data is of the highest quality	Ongoing	Financial – None (part of existing contract) Resource – ERT
General Data Cleanse and Quality Measurement	Common and Scheme Specific	Heywoods Data Quality Analysis Tool will be used to provide scores for the Annual Scheme Return. In addition it provides detailed reports on the errors found. Data cleanse can be carried out on the reports provided and will be particularly effective for historical data errors.	November 2019 – March 2022	Financial - 3-year contract £15,450 Resource – Benefits, ERT and admin staff to be utilised. Aspects of the cleanse being prioritised ahead of the valuation or the effect on members
Undecided Leavers – review of how status 2 members are managed and processed to reduce numbers on the system below 1000	Scheme Specific	Exercise to identify, monitor and prioritise undecided leavers who have not been processed in a reasonable time frame. Concerted effort to reduce the number of members prior to valuation (as at 31 March 2020.) Controls to be put in place for future i.e. deadlines, etc	December 2018 – March 2020	Financial – Unknown – project currently under consideration by senior management Resource – Benefits staff to be utilised
GMP Reconciliation - following the cessation of 'contracting out' there is a requirement for all Funds to carry out a GMP reconciliation for Active, Deferred and Pensioner members	Scheme Specific	Exercise undertaken in-house by NESPF	Full reconciliation nearing completion	Financial - None Resource – Benefits & Technical Staff
AVC Reconciliation	Scheme Specific	Reconcile AVC contracts held on the administration system Altair with information held by Prudential and Standard Life	Annual Reconciliation in line with year end	Financial – none Resources – ERT

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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 Reference.

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 028 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: 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 	4	1	4	↔	TREAT	New Fund specific risk management policy and risk register created in line with new CIPFA guidance 'Managing Risk in the LGPS' (2018)	Completed, approved by Committee (Nov'19)
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO02	Risk: Poor Governance	<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 New Committee Effectiveness Report (June 2019) to support good governance 	2	2	4	↔	TREAT	Committee ToFR reviewed January 2020 as part of annual ACC governance review, compliance report to Committee in March 2020.	Ongoing
	Causes: Lack of robust and effective governance framework and supporting policies and procedures								
	Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk								
NESPFO03	Risk: Lack of performance measures	<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
	Causes: Failure to develop performance reporting framework								
	Potential Impact: Lack of transparency, poor performance could go unaddressed								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF004	Risk: Failure of Pensions Committee and Pension Board to operate effectively	<ul style="list-style-type: none"> • Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Committee Effectiveness Report introduced (June 2019) 	3	2	6	↔	TREAT		Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk								
NESPF005	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								
NESPF006	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 	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 by summer 2020.	Laura Colliss, August 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								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		structure, subject to ongoing review							
NESPFO07	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 due March 2020	Ongoing
	Causes: Economic factors								
	Potential Impact: Potential increase in employer contribution rates and liabilities								
Governance									
NESPFO08	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		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								
NESPFO09	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								

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								
NESPF010	Risk: Conflicts of Interest	<ul style="list-style-type: none"> Regular discussions between CO-Finance and Pension Fund Manager Standing item at meetings Conflicts policy & register in place, with conflicts declarations issued annually 	2	4	8	↔	TREAT		
	Causes: Competing professional and personal interests of staff, Committee and Board members								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
Benefit Administration									
NESPF011	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. Rectification work ongoing and final file is due from HMRC.	Ongoing
	Causes: End of contracting out due to reforms of state pension								
	Potential Impact: Failure to calculate future benefits correctly, audit criticism, financial loss								
NESPF012	Risk: Fraud/Negligence	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitted lump sum payments Pension payments signed off by benefits senior Participation in National Fraud Initiative exercise 	2	3	6	↔	TREAT	Implementation of enhanced Admin to Pay module to provide secondary calculation checks as system requirement. Testing commenced	Neil Middleton, March 2020
	Causes: Dishonesty or human error by staff, Scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism,								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	legal challenge, reputational risk	<ul style="list-style-type: none"> Overseas pensioner existence checking Breaches Policy & register Internal Audit control reviews 						January 2020.	
Investments									
NESPFO13	Risk: Insufficient assets to meet the Funds long term liabilities	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates Tri-ennial valuation and investment strategy review Diversification of assets Due diligence of fund managers External advisor for specialist guidance on strategy 	4	3	12	↔	TREAT	Tri-ennial valuation due March 2020	Ongoing
	Causes: Failure of investment strategy or fund managers to produce expected returns								
	Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss								
NESPFO14	Risk: Failure to monitor investment managers and assets	<ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers 	3	3	9	↔	TREAT		Ongoing
	Causes: Lack of internal procedures								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO15	Risk: Failure of world stock markets	<ul style="list-style-type: none"> Diversification of Scheme assets 	4	2	8	↔	TOLERATE		Ongoing
	Causes: Systemic								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Increase in employer contribution rates, financial loss	<ul style="list-style-type: none"> • Tri-ennial valuation and investment strategy review 							
NESPF016	Risk: Negligence/Fraud/Default	<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
	Causes: Dishonesty by fund managers, lack of care or human error								
	Potential Impact: Financial loss, reputational damage								
NESPF017	Risk: Failure of Global Custodian	<ul style="list-style-type: none"> • Regular meeting with custodian • Receipt of SAS 70 reports and monitoring 	4	1	4	↔	TOLERATE		Ongoing
	Causes: Financial market crisis, regulatory/political								
	Potential Impact: Loss of assets or control of assets								
NESPF018	Risk: Failure to fulfil fiduciary duties with appropriate regard to ESG responsibilities	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP 	2	3	6	↔	TREAT	Revised SIP to Nov'19 meeting for approval. New UK Stewardship Code, ESG training undertaken Jan'20.	Graham Buntain, June 2020
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								
Accounting									
NESPF019	Risk: Poor financial reporting	<ul style="list-style-type: none"> • Comprehensive policies and procedures in place and review of <i>the Code</i> • Attending CIPFA meeting 	3	2	6	↔	TREAT		Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	with changes in the Code of Practice and other overriding changes, training issues Potential Impact: Qualified accounts	and reviews <ul style="list-style-type: none"> Regular reconciliations e.g. fund managers, custodian Internal/External Audits 							
Technical									
NESPF020	Risk: Failure to secure and manage personal data in line with data protection requirements Causes: Cyber-attack, human processing error Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 	4	2	8	↔	TREAT	Revised Breaches procedure and policy approved Nov'19. No further personal data breaches this quarter.	Ongoing
NESPF021	Risk: Failure of the Fund's administration system Causes: Outages, hardware and software failures and cyber attacks	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location 	3	2	6	↔	TOLERATE		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Staff downtime, loss of service delivery	<ul style="list-style-type: none"> Regular software updates Business continuity and disaster recovery plans in place 							
NESPFO22	Risk Failure to track member status and trace information	<ul style="list-style-type: none"> Tracing service in place (ATMOS) 	2	3	6	↔	TREAT		Ongoing
	Causes: Poor record keeping	<ul style="list-style-type: none"> Use of 'Tell Us Once' service 							
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action	<ul style="list-style-type: none"> Data quality improvement plan in place including measures to trace Existence checking 							
Employer Relationship									
NESPFO23	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								
NESPFO24	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								
NESPFO25	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy 	2	6	12	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Public service cuts to funding, increased pension contribution costs</p> <p>Potential Impact: Orphaned liabilities could fall to remaining employers</p>	<p>(within FSS)</p> <ul style="list-style-type: none"> • Cost Cap mechanism introduced in LGPS regulations 							
NESPF026	<p>Risk: Longevity</p> <p>Causes: Increasing life expectancy rates</p> <p>Potential Impact: Increase in employer contribution rates and liabilities</p>	<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 due March 2020	Ongoing
NESPF027	<p>Risk: Employer contributions not received, collected or recorded accurately</p> <p>Causes: Lack of staff resources, training issues</p> <p>Potential Impact: Orphaned liabilities could fall to remaining employers</p>	<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 	2	4	8	↔	TREAT	Reminder due in next Employer Bulletin on statutory responsibilities	Ongoing
NESPF028	<p>Risk: Failure to maintain member records; data incomplete or inaccurate</p> <p>Causes: Lack of staff resources, training issues</p>	<ul style="list-style-type: none"> • Monthly data from employers which is reconciled by ERT • Quarterly PAS reporting 	2	2	4	↔	TREAT	Data quality improvement plan update to Committee (March 2020)	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, TPR action	to Committee & Board • Data quality improvement plan implemented							

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 March 2020
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Plan 2020/21
REPORT NUMBER	IA/20/008
DIRECTOR	N/A
REPORT AUTHOR	David Hughes
TERMS OF REFERENCE	2.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2020/21.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2020/21.

3. BACKGROUND/MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to approve the Internal Audit plan relating to the North East of Scotland Pension Fund.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2020/21, along with the methodology for determining the areas to be reviewed, was approved by the Audit, Risk and Scrutiny Committee on 12 February 2020. This followed consultation with management through the Corporate Management Team and Extended Corporate Management Team.
- 3.3 The audit included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.
- 3.4 Internal Audit's work will be undertaken in compliance with Public Sector

Internal Audit Standards and Aberdeen City Council’s Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 12 February 2020.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

6.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. The purpose of this report is to seek approval for the Internal Audit plan.

7. OUTCOMES

7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or on the Design Principles of the Target Operating Model.

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council’s framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

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

9. APPENDICES

9.1 Appendix A – Internal Audit Plan 2020/21

9.2 Appendix B – Analysis of NESPF Risk Register.

10. REPORT AUTHOR DETAILS

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(01224) 664184

Appendix A

INTERNAL AUDIT PLAN 2020/21

NORTH EAST OF SCOTLAND PENSION FUND

Area	Scope	Objective	Link to RR
Pensions Payroll	Pensions payroll	To provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This will include testing of new and on-going pensions, and transfer and termination of pension payments.	NESPF RR 22

APPENDIX B

ANALYSIS OF RISK REGISTER

Key

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

NORTH EAST OF SCOTLAND PENSION FUND RISK REGISTER

as at 29 November 2019

Risk No.	Risk	Definition	NESPF Control Effectiveness Assessment	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
1	Lack of effective risk controls	Failure to implement risk management framework could result in operational, financial and reputational issues	Pension Fund Risk Register is reviewed and updated by management, and considered by Committee quarterly	Audit of Pensions Governance & Risk Management (March 2019)	None
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, adherence to Council's Scheme of Governance, and a new Committee Effectiveness report to support good governance.	2018/19 audit of Pensions Governance & Risk Management AC1725 Pension Fund Payroll October 2017; AC1620 Pensions Investment Strategy & Management May 2016.	None
3	Lack of Performance Measures	Failure to develop performance reporting framework may result in a lack of transparency and poor performance could go unaddressed.	The Fund has in place both statutory and local KPI's, the Pension Administration Strategy is published quarterly, investment performance (against benchmark) is reported to Committee quarterly.	Looked at partly in AC1620 Pensions Investment Strategy & Management May 2016 (reporting of fund managers' performance)	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
4	Failure of Pensions Committee and Pension Board to operate effectively	Poor attendance / commitment to role, high turnover of members, lack of training may result in non-compliance with regulatory requirements, inability to make decisions or policies, and reputational risk.	Publication of Pension Board Annual Report, training policy reviewed annually and training register in place, nomination and appointment procedure, and a new Committee Effectiveness report introduced.	Partially covered (training) in 2018/19 review of Pensions Governance	Review of annual reports as reported to Committee – no specific IA reporting.
5	Operational disaster, unable to access the workplace	A major incident / natural disaster could result in loss Service delivery and loss of service delivery, staff downtime.	ACC Disaster Recovery Policy in place, NESPF Business Continuity Plan to address loss / disruption to benefit administration system	ACC Business Continuity Planning (Aug 2017). ACC 2019/20 Internal Audit Plan has a review of Civil Contingencies that is due to be reported to the Audit, Risk and Scrutiny Committee in February 2020.	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
6	Failure to recruit, retain and develop staff	Limited pool of resources / competition with private sector, lack of training / development opportunities, resource drain from wider priorities could result in loss of Service delivery and risk to succession planning.	Individual staff training plans reviewed annually, training register in place, training staff and programme in place, future focused staffing structure subject to ongoing review.	ACC 2019/20 Internal Audit Plan has a review of Workforce Planning that is due to be reported to AR&SC in May 2020.	None
7	Pay and price inflation valuation assumptions either higher or lower	Economic factors could result in a potential increase in employer contribution rates and liabilities.	Funding updates reported to Committee quarterly (using FSM), tri-ennial valuation, individual employer contribution rates.	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
8	Failure to adhere to relevant pensions legislation and guidance	Political and legislative changes, increased administrative complexity, and staff training issues could result in audit criticism, legal challenge, reputational risk, financial loss / penalties	Six monthly compliance review and annual report to Committee, active participation at LGPS events, Testing Working Party for administrative software updates, established process for staff training, regular benefit admin team meetings to share knowledge.	Audit of Pensions Governance & Risk Management (March 2019)	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
9	Failure to comply with FOI or SAR requests	Missed statutory deadlines due to training or resource issues could result in audit criticism, legal challenge, reputational risk	Internal written procedures in place, FOI / SAR log to record and monitor	None	None
10	Conflicts of Interest	Competing professional and personal interests of staff, Committee and Board members could result in audit criticism, legal challenge, reputational risk	Regular discussions between CO-Finance and Pension Fund Manager. Standing item at meetings. Conflicts policy and register in place with conflicts declared annually.	Audit of Pensions Governance & Risk Management (March 2019)	None
11	Requirement to complete GMP reconciliation	End of contracting out due to reforms of state pension could result in failure to calculate future benefits correctly, audit criticism, financial loss	Dedicated GMP project team reporting to Operations Manager and regular updates to Committee and Board.	None	None
12	Fraud/Negligence	Dishonesty or human error by staff, Scheme members could result in overpayment / unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Segregation of duties for 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 and register, Internal Audit control reviews.	Audit of Pensions Payroll (October 2017).	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
13	Insufficient assets to meet the Fund's long term liabilities	Failure of investment strategy or fund managers to produce expected returns could result in increase in employer contribution rates, investment risk, audit criticism, legal challenge, and financial loss	Quarterly assessment of investment performance and funding updates, tri-ennial valuation and investment strategy review, diversification of assets, due diligence of fund managers, external advisor for specialist guidance on strategy.	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
14	Failure to monitor investment managers and assets	Lack of internal procedures could result in audit criticism, legal challenge and reputational risk	Quarterly assessment and reporting of asset performance and regular meetings with investment managers	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
15	Failure of work stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
16	Negligence / fraud / default	Dishonesty by fund managers, lack of care or human error could result in financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
17	Failure of Global Custodian	Financial market crisis, regulatory / political could result in loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	Audit of Pensions Investment Strategy & Management (May 2016) Planned audit of Investment Strategy and Performance in 2019/20	None
18	Failure to fulfil fiduciary duties with appropriate regard to ESG responsibilities	Lack of skills / knowledge, lack of transparency on practices or clear policy could result in reputational damage	Member training on roles and fiduciary duties and Policy incorporated within SIP.	Partially covered (training) in 2018/19 review of Pensions Governance.	None
19	Poor financial reporting	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 could result in qualified accounts	Comprehensive policies and procedures in place and review of the Code, attending CIPFA meeting and reviews, regular reconciliations eg fund managers, custodian, Internal and External audits.	None	None. This would be picked up by external audit.

Risk No.	Risk	Definition	NESPf Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
20	Failure to secure and manage personal data in line with Data Protection requirements	Cyber-attack, human processing error could result in audit criticism, legal challenge, reputational risk, financial penalties	Annual information governance training for staff, policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule), secure physical storage measures, admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3 rd party penetration testing etc	Public Records (Scotland) Act Compliance (Aug 2016). Data Protection (Sept 2016). GDPR (Sept 2018). 2019/20 Internal Audit Plan has a review of Information Governance that is due to be reported to the Audit, Risk and Scrutiny Committee in February 2020.	None
21	Failure of the Fund's administration system	Outages, hardware and software failures and cyber-attacks could result in staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location, regular software updates, business continuity plan in place.	Audit of Pensions System (March 2018).	None
22	Failure to track member status and trace information	Poor record keeping could result in incorrect pension payments made, incorrect assessment of actuarial liabilities, tPR action.	Tracing Service in place (ATMOS), use of "Tell Us Once" service, data quality improvement plan in place including measures to trace, existing checking.	Audit of Pensions Payroll (October 2017).	Proposed review of Payroll to test calculation and payment of new and on-going pensions, and transfer and termination of pension payments.

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
23	Failure to monitor employer covenant	Failure of internal procedures could result in orphaned liabilities falling on remaining employers.	Continued implementation of Covenant Assessment and Monitoring Policy (within FSS)	None	None
24	Changes in early retirement strategies by employers	Public service cuts to funding could result in pressure on cash flows	Management through Covenant Assessment and Monitoring Policy (within FSS)	None	None
25	Employers leaving Scheme / closing to new members	Public service cuts to funding, increased pension contribution costs could result in orphaned liabilities falling to remaining employers	Management through Covenant Assessment and Monitoring Policy (within FSS), Cost Cap mechanism introduced in LGPS regulations	None	None
26	Longevity	Increasing life expectancy rates could result in increase in employer contribution rates and liabilities	Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases	None	None
27	Employer contributions not received, collected or recorded accurately	Lack of staff resources, training issues could result in orphaned liabilities falling to remaining employers	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	Audit of Pensions System (March 2018).	None

Risk No.	Risk	Definition	NESPF Mitigating Controls	Previous Internal Audit Coverage	Proposed Inclusion in 2019/20 Internal Audit Plan
28	Failure to maintain member records; data incomplete or inaccurate	Lack of staff resources, training issues could result in incorrect pension payments made, incorrect assessment of actuarial liabilities, reputational damage, TPR action	Monthly data from employers which is reconciled by ERT, quarterly PAS reporting to Committee & Board, data quality improvement plan implemented	Audit of Pensions System (March 2018).	None

North East Scotland Pension Fund

Annual Audit Plan 2019/20



 AUDIT SCOTLAND

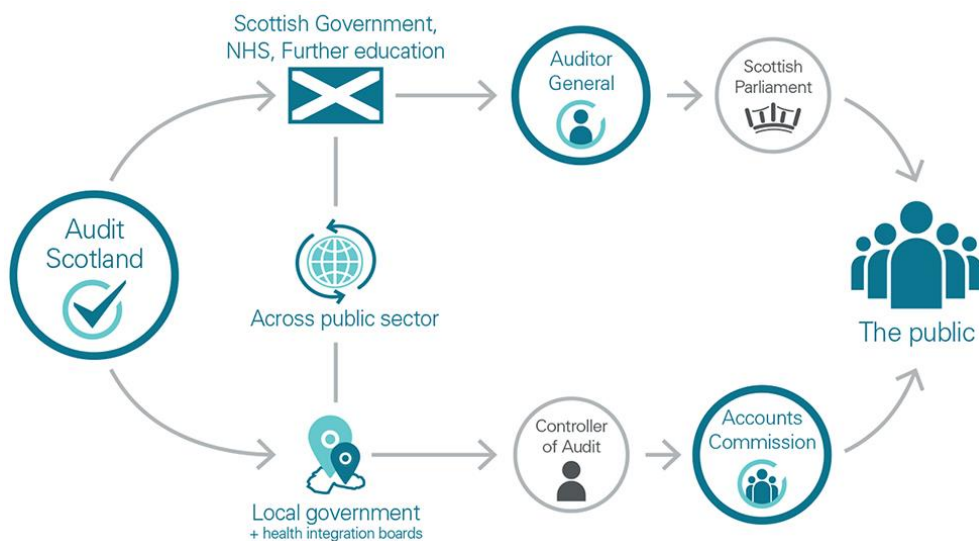
Prepared for Aberdeen City Council Pensions Committee

February 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.

Contents

Risks and planned work	4
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Risks and planned work

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

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

Adding value


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

Audit risks

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

Exhibit 1 2019/20 Significant audit risks

 Significant audit risk	Source of assurance	Planned audit work
Financial statement risks		
<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>Owing to the nature of this risk, assurances from management are not applicable in this instance.</p>	<ul style="list-style-type: none"> Detailed testing of journal entries. Review of accounting estimates. Focused testing of accruals and prepayments. Evaluation of significant transactions that are outside the normal course of business.
<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</p>	<p>The majority of investments are listed and traded on public stock exchanges which provide frequent valuations.</p> <p>Unquoted investments are valued by third parties including investment managers and</p>	<ul style="list-style-type: none"> Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments. Confirmation of valuations to valuation

	Significant audit risk	Source of assurance	Planned audit work
	<p>Pension Fund investments include investments such as unquoted equity and pooled funds, where valuations involve the application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>This subjectivity entails a risk of misstatement in the financial statements.</p>	<p>independent valuers who follow detailed professional, accounting and industry guidelines.</p> <p>Use of an experienced and respected Actuary to provide actuarial valuations.</p>	<p>reports and/ or other supporting documentation.</p> <ul style="list-style-type: none"> • Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary. • Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2019/20.
3	<p>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.</p> <p>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>All the assets, liabilities and records of Fund No.3 have been successfully transferred with the exception of a small residual balance which has been retained by Strathclyde Pension Fund to meet any remaining costs.</p> <p>The financial statements for the Transport Fund will be compiled using the same systems, sources and processes as in previous years.</p>	<ul style="list-style-type: none"> • Ongoing dialogue with officers around transfer progress. • Focused testing of balances transferred. • Assessment of the presentation and disclosure of financial statements against legislative requirements and guidance. • 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.

Source: Audit Scotland

5. As set out in ISA 240, there is a presumed risk of fraud in the recognition of income. There is a risk that income may be misstated resulting in a material misstatement in the financial statements. We have rebutted the risk of material misstatement caused by fraud in income recognition in 2019/20 for the following reasons:

- The split of responsibilities between the Fund, its fund managers, its custodian and the bank provide a clear separation of duties reducing the risks relating to investment income.
- Further controls are in place around contribution income which is paid over from employers.

6. In line with Practice Note 10, as most public sector bodies are net expenditure bodies, the risk of fraud is more likely to occur in expenditure. We have rebutted the risk of material misstatement caused by fraud in expenditure in 2019/20 for the following reasons:

- Investments are managed by external investment managers and recorded by the Fund's custodian.
- Pension benefits are the Fund's main expenditure stream. There is no real incentive for the Fund to manipulate the amount of contributions paid.
- Controls are in place to ensure the proper amounts of benefits paid.

7. Although we have rebutted these presumed risks of material misstatement arising from fraud, we will still undertake standard audit procedures around journal testing and cut-off for both income and expenditure.

Reporting arrangements

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

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

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

Exhibit 2 2019/20 Audit outputs

Audit Output	Target date	Committee Date
Annual Audit Plan	10 March 2020	20 March 2020
Annual Audit Report	1 September 2020	11 September 2020
Independent Auditor's Report	11 September 2020	11 September 2020

Source: Audit Scotland

Audit fee

11. The agreed audit fee for the 2019/20 audit of the Fund is £40,880 (2018/19: £40,000). In determining the audit fee, we have taken account of the risk exposure of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit. Our audit approach assumes receipt of the unaudited annual accounts, with a complete working papers package on 22 June 2020.

12. Where our audit cannot proceed as planned through, for example, late receipt of unaudited annual accounts or being unable to take planned reliance from the work of internal audit, a supplementary fee may be levied. An additional fee may also be required in relation to any work or other significant exercises outwith our planned audit activity.

Responsibilities

Aberdeen City Council Pensions Committee and Chief Officer - Finance

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

14. The audit of the annual accounts does not relieve management or the Aberdeen City Council Pensions Committee, as those charged with governance, of their responsibilities.

Appointed auditor

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

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

Audit scope and timing

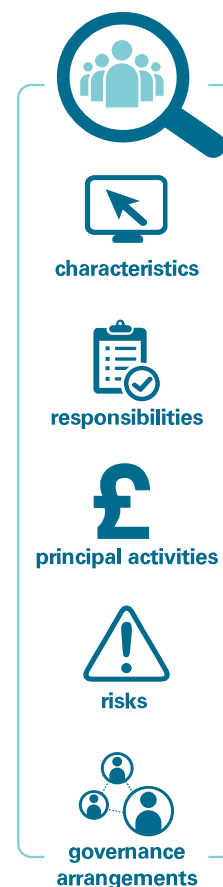
Financial statements

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

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

18. We will give an opinion on whether the financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2020 and the amount and disposition as at that date of its assets and liabilities
- have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted and adopted by the Code of Practice on Local Authority Accounting in the UK and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.



Statutory other information in the annual accounts

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

20. We also review the content of the pension fund annual report for consistency with the financial statements and with our knowledge. We consider whether the information is otherwise materially misstated. We report any uncorrected material misstatements in statutory other information.

Materiality

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

22. We calculate materiality at different levels as described below. The calculated planning materiality values for the Fund are set out in [Exhibit 3](#). Figures for the Transport Fund are based on the NESPF Transport Fund and Strathclyde Pension Funds Transport Fund for 2018/19.

Exhibit 3 Materiality values

Materiality	Main Fund	Transport Fund
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For 2019/20 it has been set at 1% of gross assets as at 31 March 2019 based on the latest audited accounts, which are the 2018/19 annual accounts.	£45 million	£3.2 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality this would indicate that further audit procedures should be considered. Using our professional judgement, we have calculated performance materiality at 75% of planning materiality.	£33.75 million	£2.4 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount. This has been calculated at 2.5% of planning materiality (with a maximum of £250,000 as Audit Scotland considers that the Scottish public would perhaps find it unreasonable that an amount beyond this maximum could ever be described as "clearly trivial").	£250 thousand	£80 thousand

Source: Audit Scotland

Lower specific materiality

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

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

Exhibit 4 Lower specific materiality values



Materiality	Main Fund	Transport Fund
Specific materiality - It has been set at 10% of benefits payable for the year ended 31 March 2019 based on the latest audited accounts for 2018/19. (Transport Fund figure is a combination of ACCTF & SPF Fund No.3, pro-rated for part-year of Fund No.3.)	£14 million	£0.8 million
Specific performance materiality – Using our professional judgement we have calculated performance materiality at 75% of the specific materiality.	£10.5 million	£0.6 million

Source: Audit Scotland

Timetable

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

Exhibit 5 Annual accounts timetable

 Key stage	 Date
Consideration of unaudited annual report and accounts by those charged with governance	12 June 2020
Latest submission date of unaudited annual report and accounts with complete working papers package	22 June 2020
Latest date for final clearance meeting with Pensions Manager and Aberdeen City Council Chief Officer - Finance	21 August 2020
Agreement of audited unsigned financial statements; Issue of Annual Audit Report including ISA 260 report to those charged with governance	11 September 2020
Independent auditor's report signed	11 September 2020

Source: Audit Scotland

Internal audit

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

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

Using the work of internal audit

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

29. Internal audit's planned 2019/20 audit review for the Fund is Investment Strategy and Investment Performance Management, to provide assurance in respect of compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers. We do not plan to place reliance on internal audit's work for our 2019/20 financial statements audit as the scope of this work will not reduce the level of our audit testing in support of our audit opinion on the financial statements. We will however take account of internal audit's findings to inform our wider Code responsibilities.

Audit dimensions

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

Exhibit 6

Audit dimensions



Source: Code of Audit Practice

Financial sustainability

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

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

Financial management

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

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

Governance and transparency

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

Pensions Committee and Pension Board members is key to this process. We will review, conclude and report on:

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

Value for money

34. Value for money refers to using resources effectively and continually improving services. We will review, conclude and report on whether the Fund can demonstrate:

- value for money in the use of resources
- that there is a clear link between money spent, output and outcomes delivered
- that outcomes are improving
- that there is sufficient focus on improvement and the pace of it.

Independence and objectivity

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

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

Quality control

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

38. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the Code of Audit Practice (and relevant supporting guidance) issued by Audit Scotland and approved by the Accounts Commission and the Auditor General for Scotland. To ensure that we achieve the required quality standards Audit Scotland conducts peer reviews and internal quality reviews. The Institute of

Chartered Accountants of Scotland (ICAS) have also been commissioned to carry out external quality reviews of our work.

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

North East Scotland Pension Fund

Annual Audit Plan 2019/20

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

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Scottish Local Government Pension Scheme 2018/19



ACCOUNTS COMMISSION 

1. This supplement accompanies our report [Local government in Scotland: Financial overview 2018/19](#) . It provides an overview of the Scottish Local Government Pension Scheme (SLGPS).

2. There are 11 main funds in Scotland, which cover all 32 councils and around 500 other employers. There are also a number of other funds – often ‘Transport Funds’ but unless otherwise identified, our comments refer to the 11 main funds. They range from one of the biggest pension funds in the UK (Strathclyde) to one of the smallest (Orkney).

Key messages

- SLGPS funding levels have reduced compared to last year and across Scotland the average funding level for 2018/19 is at 82 per cent. The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent.
 - Across the SLGPS, total contribution income from current members is increasingly less than the benefits paid. The difference is now -£75 million.
 - Investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.
 - Six pension funds didn’t meet their benchmark returns last year, but most of them exceeded their five-year benchmark.
 - A decision by the Supreme Court in June 2019 (the ‘McCloud Ruling’) came after the unaudited accounts were prepared. Funds requested revised reports from their actuaries in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the value of promised retirement benefits totalled around £500m.
 - Management expenses are under-disclosed and there is a complex relationship between risk, return and costs.
-

Valuations

Funding levels, on an accounting basis, have reduced compared with last year to 82 per cent

3. Triennial valuations by actuaries provide the basis for assessing the overall position of LGPS funds (funding basis) that affect future contribution rates and investment strategies. The last triennial funding valuation was at 31 March 2017. Actuaries also prepare an annual valuation on an accounting basis. This uses a lower discount rate for long-term liabilities and produces a more cautious result than the triennial valuation. Comparing the last two accounting basis valuations (at 31 March 2018 and 31 March 2019) shows that funding positions have generally reduced. The weighted average funding level across Scotland is now 82 per cent compared with 87 per cent last year.

The value of scheme liabilities increased by 13 per cent, more than the growth in assets of seven per cent

4. The funding level compares the scheme's net assets (investments) with its liabilities (future estimates of pensions liabilities valued at current prices using a discount factor). Total assets have increased, compared with last year by seven per cent to £47.7 billion. However, the value of liabilities has also increased, to a greater extent, by 13 per cent to £57.9 billion. Key factors in the valuation of the liabilities include:

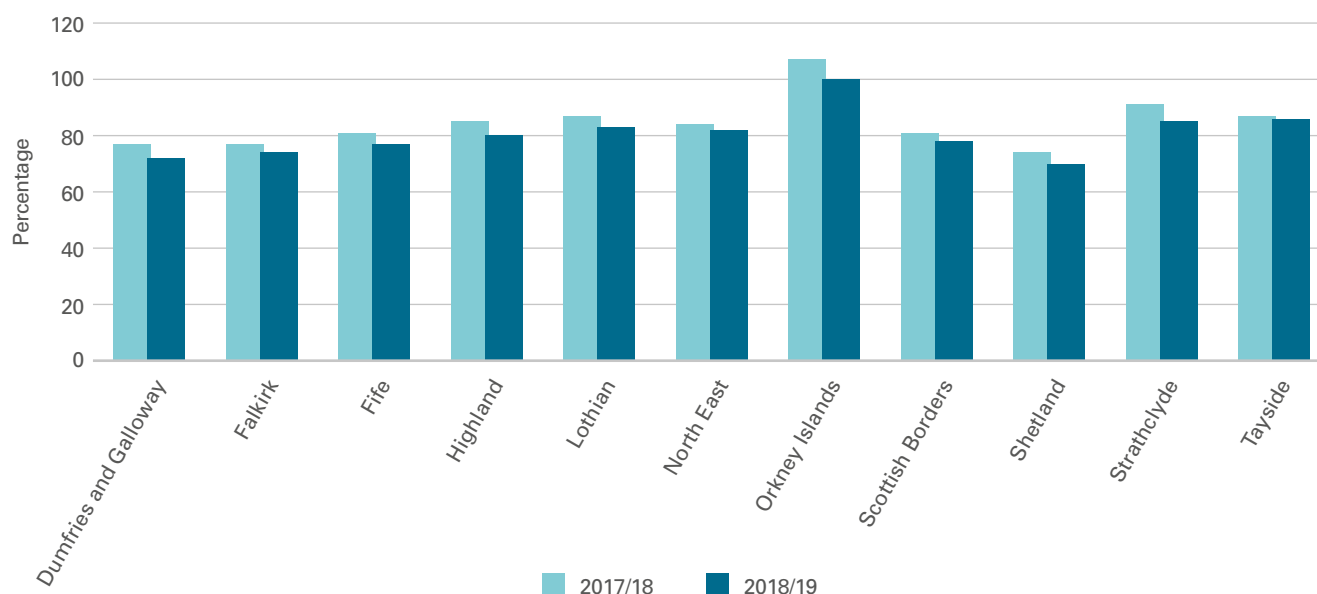
- the discount rate to convert future liabilities to current values – this is based on current 'high quality corporate bond' returns, in accordance with accounting standards
- life expectancy of members of the scheme
- inflation rate – pensions are increased annually based on the consumer prices index.

5. Typically, in 2018/19, the discount rate used in the actuaries' valuation of liabilities (2.4 per cent) was lower than in 2017/18 (2.6 per cent) ([Exhibit 1](#)), this increases the current valuation of future liabilities.

Exhibit 1

Valuation comparison between 2017/18 and 2018/19 on an accounting basis

Almost all funds identified lower funding levels this year.



Source: Audited financial statements of the pension funds 2018/19



Cash flows

Cash flows from dealing with members has become increasingly negative

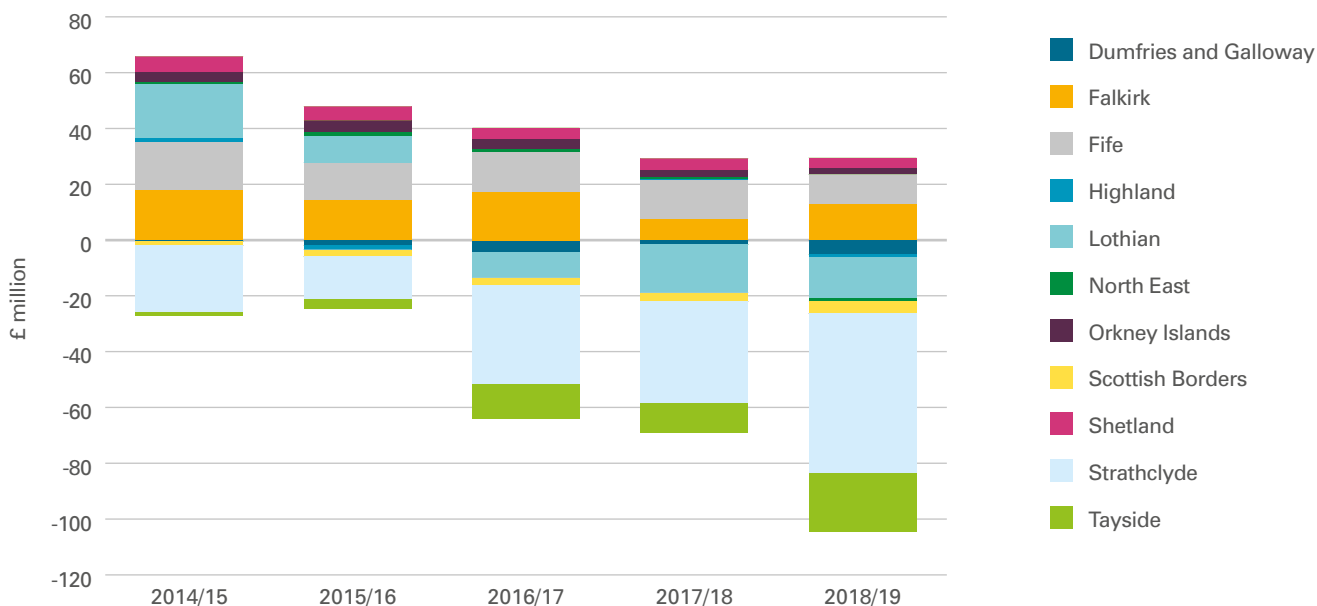
6. Membership of the SLGPS continues to grow. The numbers of both active employee members and pensioner members of the SLGPS have been increasing in recent years. This is largely a result of auto enrolment and employer severance schemes. Despite there being greater numbers of active members, this has not reversed the trend of negative cash flow from dealing with members as many of these new active members, added through auto-enrolment, are lower paid employees with lower contributions relative to pensions in payment.

7. Across the SLGPS, total benefits and administration costs exceed current contribution income. The difference is now -£75 million. This negative cash flow emerged in 2016/17 and has steadily grown (Exhibit 2). Seven funds now have negative cash flows compared to five in 2017/18. As funds mature, an element of pension payments is being made from investment returns, rather than being met from ongoing contributions from active members. It's important that funds manage the cash flow implications of this.

Exhibit 2

Cash flows from dealing with members in each of the 11 main SLGPS funds over the past five years

Cash flows from members are becoming increasingly negative.



Source: Audited financial statements of the pension funds 2018/19



Investment returns

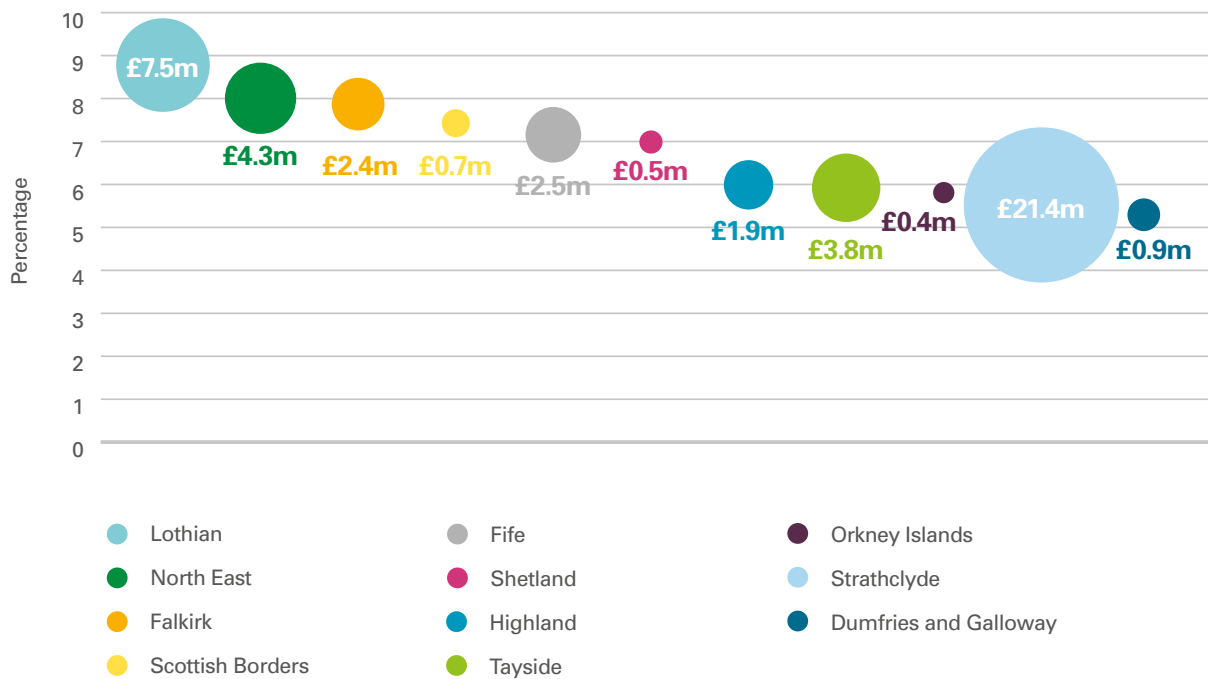
Annual investment returns were more consistent in 2018/19

8. Exhibit 3 illustrates that investment returns for each fund were between 5.3 and 8.8 per cent in 2018/19. These returns are more consistent across funds than in 2017/18.

Exhibit 3

Annual investment returns and fund size 2018/19

Investment returns across the SLGPS were between 5.3 and 8.8 per cent.



Source: Audited financial statements of the pension funds 2018/19 (investment returns net of investment expenses/average net investments)



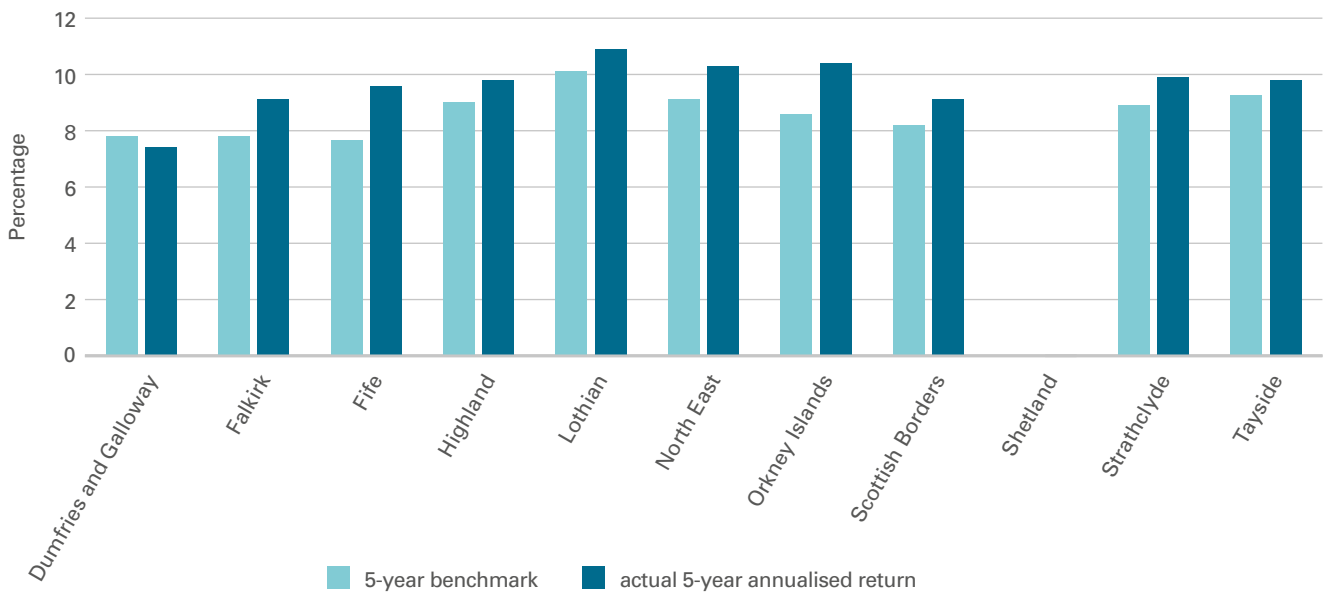
Six pension funds didn't meet their benchmark returns last year, but most of them exceeded their five-year benchmark

9. Variability of investment performance between funds can reflect differences in the type of assets that each fund holds, the way in which these are managed (passive or active) and the related risks. One way of assessing the returns in each fund is to consider how each fund has compared against its benchmarks (typically over 1 year, 3 years and 5 years). The benchmarks are set locally to reflect the different long-term investment requirements to support the future pension payments of each fund. Six pension funds reported that they had not achieved their benchmark returns over the last financial year. However, only one pension fund, Dumfries and Galloway, reported it had not achieved its five-year annualised benchmark. The five-year annualised benchmarks range from 7.8 to 10.1 per cent across the 11 main funds ([Exhibit 4](#)).

Exhibit 4

Comparison of five-year annualised investment returns of each fund

Most funds are exceeding their five-year annualised benchmark.



Note: Data not available for Shetland Pension Fund

Source: Audited financial statements 2018/19 and local auditor data



Investment strategies

Pension funds plan to reduce the value of their equity investments

10. In response to increasingly negative cash flow position noted above ([Exhibit 2, page 3](#)), most pension funds have been revising their investment strategies to place greater emphasis on cash-generating investments instead of value-generating investments. The actual investment portfolios are not currently consistent with these strategies. It can take some time for changes to take place. For example:

- Dumfries and Galloway Council Pension Fund reported that ‘a strategy review was presented to Pensions Sub Committee on 24 May 2018 and members agreed the change in investment strategy from the current allocation to a modest switch from equity investments into alternative return-seeking assets, to improve the risk/return profile of the Fund.’
- Falkirk Council Pension Fund reported that ‘the actual allocation at 31/03/2019 is at variance with the strategic allocation... Both Panel and Committee are content with this position noting ... that the allocation to Other Real Assets (eg Infrastructure) and Non Gilt Debt (eg Private Debt) depends on the availability of suitable investments’.

11. Notably most Funds are ‘overweight’ in equities by between 3 and 18 percentage points. However, two funds did not identify their current investment allocation against their target in their accounts. Most funds appear to be targeting reduced equity investments with a target investment of between 55 per cent and 65 per cent in future.

Significant events

Amendments to the accounts arising from legal and other judgements

12. In December 2018, the Court of Appeal upheld a claim from firefighters and judges that changes to their pension schemes were discriminatory based on age. The UK Government sought leave to appeal the decision (commonly known as the McCloud Ruling) to the Supreme Court. However, this was denied at the end of June 2019, after the unaudited accounts were prepared. This ruling impacts on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.

13. Following the decision, Funds requested a revised IAS19 report from their actuary in order to quantify the increase in estimated liabilities as a result of the ruling. The estimated combined increase in the actuarial present value of promised retirement benefits for all 11 Funds was around £500m. These revised assessments do not impact on the primary financial statements of the Funds. However, the relevant disclosure notes in the audited accounts were updated to include the revised values of promised retirement benefits.


Lothian Pension Fund merged the Lothian Buses Fund with main fund

14. Apart from the main 11 funds, there are a few other funds managed by councils, but the number of these separate funds is reducing. Following last year’s repatriation of the Tayside Transport Fund, this trend continued with Lothian Pensions’ Committee deciding in March 2018 to merge the Buses Pension Fund with the main Lothian Pension Fund. The merger took place on 1 February 2019 and resulted in the transfer of £0.5 billion of Buses Fund net asset values into the main fund, which at 31 March 2018, had a net asset valuation of £6.6 billion. The annual report notes that ‘the merger creates a bespoke investment strategy for Lothian Buses within the Lothian Pension Fund and will not affect member benefits and is expected to result in more efficiencies leading to lower costs’.


15. A planned transfer of the assets and liabilities, along with members, of the Strathclyde Pension Fund No. 3 Fund to the Aberdeen City Council Transport Fund is expected to take place during 2019/20.

Outlook

SLGPS structural review is ongoing

16. As we noted in last year's [pensions supplement](#) , the Scottish Scheme Advisory Board (SSAB) is currently consulting on the future structure of the SLGPS. The report included four options for consideration:

- retain the current structure with 11 funds
- promote cooperation in investing and administration between the 11 funds
- pool investments between 11 funds
- merge the 11 funds into one or more funds.

17. The review is still ongoing, with the SSAB publishing [consultation responses on its website](#)  including Audit Scotland's, which does not express a preference for any of the four options contained within this consultation exercise due to the important principle of the independence of the auditor of pension funds across the SLGPS.

Management expenses are under-disclosed and there is a complex relationship between risk, return and costs

18. The principle of value for money applies to all aspects of SLGPS operation, including the considerable cost of investment management and administration. The cost of investment management needs to be balanced with the potential for investment fund returns and risk which, when taken together, provide evidence of value for money.

19. [Exhibit 5 \(page 8\)](#) shows investment management and administration expenses. Across the 11 main funds, investment management expenses ranged from 0.24 to 0.83 with a median of 0.4 per cent, based on disclosures in the accounts. CIPFA guidance on investment management costs does not necessarily expect funds to include fees and expenses incurred within a pooled investment vehicle as a result of that vehicle's investment in other pooled funds in the Fund's financial statements. Therefore, the analysis is likely to understate the cost of management expenses.

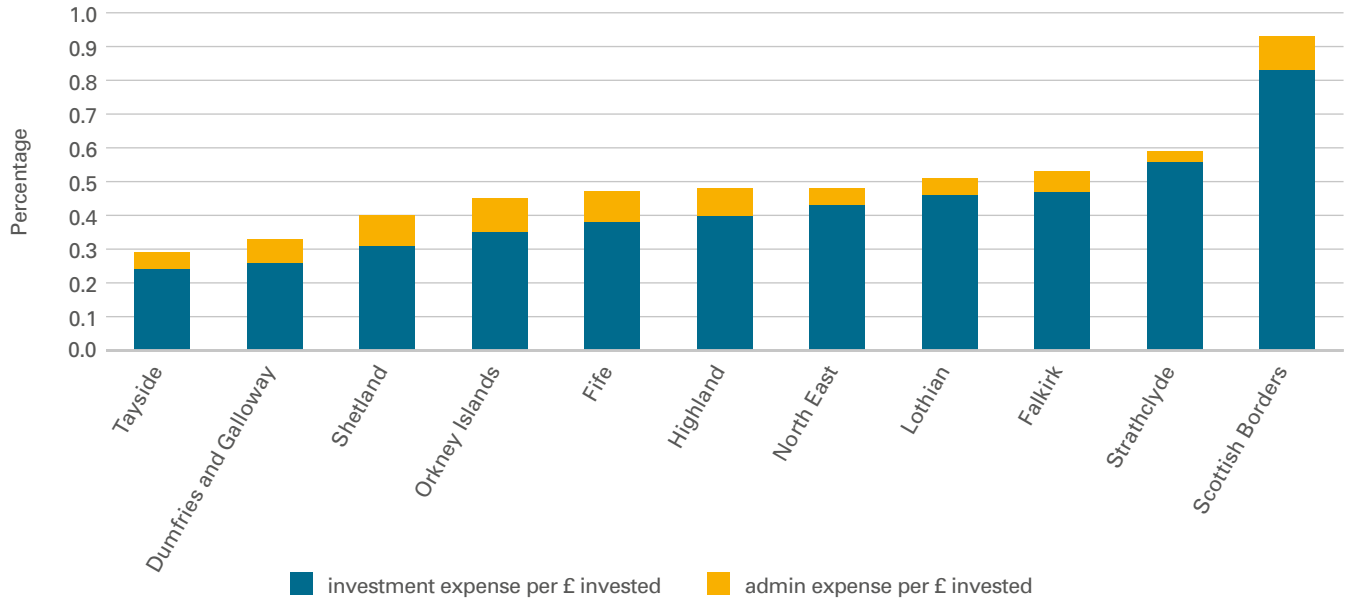
20. The margins are small, but the value of investments is significant and if the median position was achieved by all funds, this would save £36 million (16 per cent of current investment fees). However, this comparison does not take into account the complex relationship between risk and return and costs.

21. Strathclyde Pension Fund identifies that 'the level of fees and expenses paid by the Fund to individual investment managers is relative to the complexity involved in managing a particular investment asset and strategy, the associated risk and expected investment return'. Some funds will invest in passive mandates with lower investment expenses – but also lower returns and lower volatility. Some asset investment types have more significant management costs (for example infrastructure), but the extent of investment in these types of asset varies between funds according to their investment strategy.

Exhibit 5

Investment and administrative costs compared to average investment values 2018/19

Expenses are marginal but can vary according to the type of investments and mandates.



Source: Audited financial statements of the pension funds 2018/19 (investment management expenses and average assets invested)



ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	20 MARCH 2020
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	BUDGET/FORECAST & PROJECTED SPEND 2019/20
REPORT NUMBER	PC/MAR20/BUD
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MICHAEL SCROGGIE
TERMS OF REFERENCE	PENSIONS COMMITTEE REMIT 1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2019/20 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2019/20, shown in Appendix I.

3. BACKGROUND/MAIN ISSUES

3.1 BUDGET/FORECAST AND PROJECTED SPEND 2019/20

- 3.1.1 Appendix I shows the NESPF Budget 2019/20. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.
- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management, accommodation

and other overheads are apportioned to this activity and charged annually as expenses to the Fund.

- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.4 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.

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2018/19) and Fund Governance Policy Statement

10. APPENDICES

Appendix I, Budget/Forecast and Projected Spend 2019/20

11. REPORT AUTHOR CONTACT DETAILS

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Appendix I – 2019/20 BUDGET/FORECAST AND PROJECTED SPEND

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

	Notes	Full Year Budget 2019/20 £'000	Budget to 31/12/19 £'000	Actual Spend to 31/12/19 £'000	Accrual to 31/12/19 £'000	Amended Spend to 31/12/19 £'000	Over or (Under) to 31/12/19 £'000	Proj Annual Spend 2019/20 £'000	Proj Over or (Under) Spend 2019/20 £'000
Administrative Staff Costs	1	1,352	1,014	573	295	868	(146)	1,165	(187)
Information Technology		462	347	347	29	376	29	440	(22)
Supplies & Services		107	80	71	8	79	(1)	109	2
Accommodation		92	69	0	67	67	(2)	89	(3)
Printing & Publications	2	23	17	8	3	11	(6)	17	(6)
Administration Expenses Total		2,036	1,527	999	402	1,401	(126)	1,820	(216)

Note (Spend Variance \pm 5%):

1. Under spend – Budgeted FTE 37 versus Actual FTE 31.5
2. Under spend – Online provision of Benefit Statements.

Appendix I – 2019/20 BUDGET/FORECAST AND PROJECTED SPEND (continued)

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

	Notes	Full Year Budget 2019/20 £'000	Budget to 31/12/19 £'000	Actual Spend to 31/12/19 £'000	Accrual to 31/12/19 £'000	Amended Spend to 31/12/19 £'000	Over or (Under) to 31/12/19 £'000	Proj Annual Spend 2019/20 £'000	Proj Over or (Under) Spend 2019/20 £'000
Investment Staff Costs	1	236	177	103	55	158	(19)	211	(25)
Pension Fund Committee		13	10	3	1	4	(6)	13	0
Pension Board		4	3	1	1	2	(1)	4	0
External Audit Fee		41	31	0	30	30	(1)	40	(1)
Internal Audit Fee		10	7	0	7	7	0	10	0
Actuarial Fees	2	130	98	22	48	70	(28)	115	(15)
General Expenses	3	167	125	105	16	121	(4)	148	(19)
Oversight & Governance Expenses Total		601	451	234	158	392	(59)	541	(60)

Note (Spend Variance \pm 5%):

1. Under spend – see previous note.
2. Under spend – Actuarial activity directed more towards Project Dallas and that cost to be absorbed by the Transport Fund.
3. Under spend – Projection based upon current spend trend. Although, this spend trend is unlikely to be constant and may increase or decrease in response to actions taken elsewhere within the Pension Fund. However, if the trend of current spend continues, an under spend is anticipated. The under spend is largely associated with the reduction of fees paid for professional advice.

Appendix I – 2019/20 BUDGET/FORECAST AND PROJECTED SPEND (continued)

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

	Notes	Full Year Forecast 2019/20	Forecast to 31/12/19	Actual Spend to 31/12/19	Accrual to 31/12/19	Amended Spend to 31/12/19	Over or (Under) to 31/12/19	Proj Annual Spend 2019/20	Proj Over or (Under) Spend 2019/20
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Investment Management		11,380	8,535	2,145	6,698	8,843	308	11,790	410
Performance Fees		6,524	4,893	0	4,893	4,893	0	6,524	0
Direct Property Expenses	1	534	401	479	0	479	78	632	98
Transaction Costs	2	1,507	1,130	511	60	571	(559)	761	(746)
Custody Fees		138	103	61	37	98	(5)	136	(2)
Investment Management Expenses Total		20,083	15,062	3,196	11,688	14,884	(178)	19,843	(240)

Note (Spend ± 5%):

1. The Forecast for 2019/20 is based upon the Fund Manager's estimation for the year. The most significant movement is the projected level of repairs and letting/surveyor fees.
2. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an under spend.

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

Analysis of Transaction Costs for the period 1 April 2019 to 31 December 2019:

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	138,501.09	1,125.84	214,195.64	353,822.57
Pooled – Unit Trust	0	217,212.31	0	217,212.31
Grand Total (£)	138,501.09	218,338.15	214,195.64	571,034.88

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	20 MARCH 2020
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STATEMENT OF ACCOUNTS 2019/20 – ACTION PLAN
REPORT NUMBER	PC/MAR20/ACCOUNTS
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE REMIT 1.1 & 1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with high level information and key dates in relation to the 2019/20 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors.

2. RECOMMENDATION

- 2.1 That the Committee note the contents of the report for assurance.

3. BACKGROUND

- 3.1 The Statement of Accounts 2019/20 will summarise the Pension Fund's transactions for the period 1 April to 31 March and its financial position at the year-end 31 March 2020. It will be prepared in accordance with the Internal Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Code of Practice (SeRCOP). There are no changes to either of the codes in 2019/20 which will have any significant impact on the Statement of Accounts.
- 3.2 There are a number of key dates and these are summarised as follows:

31 March 2020	End of Financial Year 2019/20
12 June 2020	Pensions Committee
17 June 2020	Deadline for giving notice to the public of the right to inspect and object to Accounts
30 June 2020	Statutory deadline for submission of Draft Statement of Accounts to the Controller of Audit
July 2020	Advertising and Inspection of Accounts
31 July 2020	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
11 September 2020	Pensions Committee
30 September 2020	Deadline for submission of Audited Statement of Accounts to the Controller of Audit
31 October 2020	Deadline for submission of the Audited WGA to the Scottish Government
11 December 2020	Pensions Committee

3.3 12 June 2020

The Pensions Committee will receive the Draft Statement of Accounts 2019/20, including the Annual Report for overall scrutiny.

3.4 July 2020

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

3.5 11 September 2020

The Pensions Committee will receive Audit Scotland's combined ISA260 and 'Report to those charged with the governance of the 2019/20 audit' for debate and consideration, together with the Audited Statement of Accounts 2019/20 for signing.

4. **FINANCIAL IMPLICATIONS**

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

5. **LEGAL IMPLICATIONS**

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

6. MANAGEMENT OF RISK

- 6.1 The Pension Fund regularly updates its Risk Register in line with change and reports this quarterly to the Pensions Committee in line with its Risk Management Policy.

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

None

11. REPORT AUTHOR CONTACT DETAILS

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	20 MARCH 2020
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS
REPORT NUMBER	PC/MAR20/GOV
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MAIRI SUTTIE
TERMS OF REFERENCE	PENSIONS COMMITTEE REMIT 4.1 & 4.2

1. PURPOSE OF REPORT

- 1.1 To provide members with a review of the North East Scotland Pension Fund's (the 'Fund') compliance with the Public Service Pensions Act 2013 (PSPA) and the Pensions Regulator ('tPR') requirements during the financial year 2019/20.

2. RECOMMENDATION

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

3. BACKGROUND

GOVERNANCE FRAMEWORK REVIEW

- 3.1 A review of the Fund's governance framework is conducted on an annual basis. The purpose of the review is to assess current practices and procedures; ensuring the Fund has in place a robust governance framework and complies with legislation and best practice guidance.
- 3.2 In terms of Scheme compliance with legislation such as the Local Government Pension Scheme (Scotland) Regulations, the PSPA 2013 and tPR requirements (as set out in the Code of Practice 14 Governance &

Administration of Public Sector Pension Schemes) a review is carried out on a six monthly basis by Fund officers with annual reporting to the Pensions Committee.

Pension Board

3.3 The NESPF Pension Board is made up of equal numbers of member (4) and employer (4) representatives as follows:

- 1 x Aberdeen City Council
- 1 x Aberdeenshire Council
- 1 x The Moray Council
- 1 x Scheduled/Admitted Bodies
- 1 x Unison
- 1 x Unite
- 1 x GMB
- 1 x UCATT

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

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

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

Meeting Attendance

3.6 During 2019/20 the Pension Board met formally (and concurrently with the Pensions Committee on):

14 June 2019
13 September 2019
29 November 2019
20 March 2020

3.7 During 2019/20 there was an overall 83% attendance rate at meetings (up to December 2019). Unfortunately, one member of the Pension Board was unable to attend meetings or training during 2019/20 due to ill health. If we exclude this member then the overall attendance rate for 2019/20 increases to 95% (up to December 2019). High attendance levels, and active participation at both the quarterly meetings and training events, demonstrate a strong commitment to the ongoing effectiveness of the NESPF Pension Board. In addition, low turnover of members ensures knowledge and experience is retained. A further 3 members also nominated substitutes within their respective organisations during 2019/20.

3.8 The table below details meeting attendance during 2019/20:

	14/06/2019	13/09/2019	29/11/2019	20/03/2020*	Individual
Cllr Allan	✓	✓	✓	✓	100%
Cllr McKelvie	✓	✓	✓	✓	100%
Cllr Cowe	X	X	X	✓	25%
Ian Black	X	✓	✓	✓	75%
Morag Lawrence	✓	✓	✓ (sub)	✓	100%
Alan Walker	✓	✓	✓	✓	100%
Neil Stirling	✓	✓	✓	✓	100%
Liam Knox	✓	✓	✓	✓	100%

*projected attendance, to be confirmed in Committee Effectiveness Report to June meeting.

Training Attendance 2019/20

- 3.9 It is a statutory requirement under Schedule 4 of the PSPA 2013 that members of local pension boards have 'knowledge and understanding' of pensions law and are 'conversant' with Scheme regulations and Fund documents. The issue of training is approached carefully by both the administering authority and individual Board members.
- 3.10 The Board meets annually in June to review their annual report. This provides an opportunity for any issues around attendance to be addressed or gaps in training knowledge to be discussed.
- 3.11 During 2019/20 Pension Board members have continued to demonstrate a commitment to developing their 'knowledge and understanding' by attending training events covering key areas, with particular focus on ESG (environmental, social and governance) and Scheme governance.
- 3.12 Fund Officers maintain a training register to allow attendance to be monitored on an ongoing basis. The Training Policy, approved by Committee in June 2019 (PC/JUN19/TRA), sets out review arrangements to address poor attendance or failure to achieve/maintain the required level of knowledge and understanding.
- 3.13 The table below details training attendance for 2019/20 to date:

	Intro	24 Apr'19	3 Sept'19	13 Sept'19	24-25 Oct'19	7-10 Jan'20	Total
Cllr Allan		X	X	✓	X	X	1
Cllr McKelvie		X	X	✓	✓	X	2
Cllr Cowe*		X	X	X	X	X	0
Ian Black		✓	✓	✓	✓	✓	5
Morag Lawrence		✓	X	✓	✓	X	3
Alan Walker		✓	✓	✓	✓	X	4
Neil Stirling	✓	X	✓	✓	✓	✓	5
Liam Knox		X	✓	X	X	✓	2

* Notes: Unable to attend training during 2019/20 due to ill health

- 3.14 Board members are expected to carry out an annual personal assessment of their knowledge and understanding.

Costs of Operation 2019/20

- 3.15 The costs and expenses of the Pension Board are met as part of the administration costs of the Fund. The costs are principally travel related expenses to attend meetings and training events. The Pension Board continues to carry out its role in a cost effective manner, mindful of delivering value for money.
- 3.16 The table below details costs of operation for 2019/20 to date:

Travel	Cost (£'s)
Hotel	3,909.92
Train	963.35
Flights	1,220.68
Event Fee	133.50
Catering	51.50
Total	6,278.95

Costs of operation were up from 18/19, this was due to increased attendance at training opportunities and the decision to extend the London training event from 2 to 4 days. Costs for the Pension Board will be accounted for in the next Budget Report (PC/BUD).

3.2 COMPLIANCE REVIEW

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

Summary of the main findings:

- 3.2.2 Again the review found that the key internal controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively with the latest compliance review taking place in December 2019. A further review using tPR Scheme Assessment Tool confirms there are no areas for concern.
- 3.2.3 Internal Audit carried out a review of Pension Governance. Their report was presented to Committee in June 2019 and gave further assurance over the Pension Fund's Governance arrangements. 8 recommendations were made within the report, and the 6 agreed recommendations were completed during 2019.
- 3.2.4 Work continues to take place within the Fund to ensure it meets legislative and tPR requirements:

Elected Member and Board Knowledge and Understanding

- 3.2.5 As per the Pensions Regulator Code of Practice 14, Pension Board members must have knowledge and understanding of the law relating to pensions, and any other matters which are prescribed in regulations. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the pension board.
- 3.2.6 A knowledge and skills assessment was carried out late 2019 into early 2020. 14 responses were received in total, with a good split between Board and Committee members. The information gathered is currently being reviewed and will enable Officers to identify knowledge gaps and direct future training accordingly.
- 3.2.7 A new NESPF website will launch in April/May 2020. Although in the early stages of development, there will be potential going forward to utilise this resource for additional online learning through a dedicated trustee area.

Scheme Record Keeping

- 3.2.8 Poor data keeping can present both reputational and financial risks for a Pension Fund. A Data Quality Improvement Plan was approved by Committee in March 2019 (PC/MAR19/STRAT) and recent high scores reported to the Pensions Regulator demonstrate the Fund's ongoing commitment to ensuring data is of the highest quality.
- 3.2.9 Committee will receive an update on progress against the Data Quality Improvement Plan in March 2020, including details on the procurement of member tracing services to clean up 'gone away' member data ahead of the tri-

ennial valuation. This will help ensure the Fund continues to meet statutory requirements as set out in the Public Service Pensions Act 2013, and in data protection terms under the GDPR and DPA 2018.

Risk Management

3.2.10 Effective risk management is key to good governance. A new Fund specific risk management framework was approved by Committee in November 2019 (PC/NOV19/STRAT), including a revised risk register. This followed guidance issued by CIPFA in December 2018 and subsequent recommendations in Internal Audit Report IA/AC1923 Pension Governance.

Conflicts of Interest

3.2.11 Pension Board members are currently covered by the NESPF Conflicts of Interest Policy. Elected Members are covered separately by the Councillor's Code of Conduct. Both are recorded within the NESPF Conflicts of Interest Register. As part of the annual review of the Policy, Officers will also review the register to ensure key individuals are being captured.

Reporting Breaches of Law

3.2.12 A revised Reporting Breaches of Law Policy was approved by Committee in November 2019 (PC/NOV19/STRAT) to incorporate procedure changes in relation to personal data breaches. All NESPF staff undertake annual data protection refresher training.

GOING FORWARD

Scheme structure review

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

3.2.14 A working group, established by the Scheme Advisory Board, has now been tasked with scoping out the next stages for considering the 4 options (status quo, further collaboration, pooling or merger). A timetable for this scoping work is currently unknown.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

- 6.1 The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee. A NESPF specific risk management strategy was approved by the Pensions Committee in November 2019.

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

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

11. REPORT AUTHOR CONTACT DETAILS

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