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

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

Town House,
ABERDEEN, 17 June 2021

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in the **Council Chamber - Town House** on **FRIDAY, 25 JUNE 2021 at 10.30am.**

Members of the press and public are not permitted to enter the Town House at this time. The meeting will be webcast and a live stream can be viewed on the Council's website.

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 26 March 2021 (Pages 7 - 14)

COMMITTEE BUSINESS PLANNER

- 5.1 Business Planner (Pages 15 - 16)

NOTICES OF MOTION

- 6.1 There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

- 7.1 Internal Audit Annual Report 2020/21 - IA/21/007 (Pages 17 - 26)

- 7.2 Internal Audit Plan 2021/22 - IA/21/006 (Pages 27 - 30)

- 7.3 Internal Audit Report - Pensions Payroll - IA/AC2107 (Pages 31 - 46)

ANNUAL REPORT AND ACCOUNTS

- 8.1 Unaudited NESPF Annual Report & Accounts - PC/JUN21/ARA (Pages 47 - 176)

LEGAL OBLIGATIONS

- 9.1 Training - PC/JUN21/TRA (Pages 177 - 192)

SCRUTINY

- 10.1 Strategy - PC/JUN21/STRAT (Pages 193 - 254)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1 Asset and Investment Manager Performance Report - PC/JUN21/AIMPR
(Pages 255 - 286)

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

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DECLARATIONS OF INTEREST

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

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

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

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

OR

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

OR

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

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

OR

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

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

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 26 March 2021. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Cooke, Delaney, Henrickson, MacGregor and Sellar (as substitute for Councillor Wheeler) (Pensions Committee); and Councillor McKelvie, Chairperson; Mr N Stirling, Vice Chairperson; Councillors Allan and Cowe; and Mr I Hodgson, Mr L Knox, Mrs M Lawrence and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; and Gillian Woolman, 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.

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – items 10.1 (Accommodation) and 10.2 (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 paragraphs 8 and 9 (Item 10.1) and 6 (Item 10.2).

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST

2. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 11 DECEMBER 2020

3. The Committee had before it the minute of its previous meeting of 11 December 2020 for approval.

The Committee resolved:-

to approve the minute as a correct record.

PENSIONS COMMITTEE AND PENSION BOARD
26 March 2021

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

- (i) to note that the Committee Annual Effectiveness Report would now be presented to the December 2021 meeting of the Committee to enable sufficient data to be included due to the cancellation of meetings in 2020; and
- (ii) to otherwise note the planner.

The Board resolved:-

to note the decision of the Committee.

**NORTH EAST SCOTLAND PENSION FUND ANNUAL AUDIT PLAN 2020/21 -
REPORT BY EXTERNAL AUDIT**

5. The Committee had before it a report by External Audit which set out the North East Scotland Pension Fund Annual Audit Plan 2020/21. The report highlighted key audit risks and the planned audit work in respect of these, and set out the 2020/21 reporting arrangements to the Committee.

The Committee heard from Ms Gillian Woolman, External Audit, on the main points from the report.

It was noted that the Auditor General for Scotland, the Accounts Commission and Audit Scotland were responding to the risks to public services and finances from Covid-19 across the full range of audit work including annual audits and the programme of performance audits. Audit Scotland viewed 2020/21 as a transitional year, leading in future to audit timetables which were possible before Covid-19, and it was important to maintain a pragmatic and flexible approach which would enable change at short notice as new issues emerged, or if current risks changed in significance. Where this impacted on annual audits, it was noted that an addendum to the annual audit plan might be necessary.

The following risks were highlighted to be taken forward as part of the annual audit plan:-

PENSIONS COMMITTEE AND PENSION BOARD

26 March 2021

- Consideration of the risk of fraud, presumed to be a significant risk in any audit. This included consideration of the risk of management override of controls to change the position disclosed in the financial statements.
- The degree of subjectivity in the measurement and classification of certain investments and in the actuarial valuation. The report noted that the North East Scotland Pension Fund investments included investments such as property, unquoted equity and pooled funds, where valuations involved the application of judgement in determining appropriate amounts. The actuarial valuation depended on a number of assumptions about the future. These included investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. The Transport Fund insurance buy-in contract would be subject to an annual actuarial valuation. The report noted that this subjectivity entailed a risk of misstatement in the financial statements.
- The insurance buy-in contract to cover the cost of paying pensioners within the Transport Fund. The report noted that this was a new arrangement and additional audit procedures would be carried out to ensure that it was accounted for correctly.
- Scrutiny of the annual accounts and audit reports could be limited in comparison to other Pensions Committee reports and External Audit would encourage members to strengthen their scrutiny of the annual report and accounts as the Fund's primary vehicle to demonstrate stewardship of public funds.

The Committee resolved:-

- (i) to thank Ms Woolman for her presentation of the report; and
- (ii) to note the annual audit plan.

The Board resolved:-

to note the decision of the Committee.

BUDGET/FORECAST AND PROJECTED SPEND 2020/21 - PC/MAR21/BUD

6. The Committee had before it a report by the Chief Officer – Finance which provided details of the Management Expenses Budget/Forecast and Projected Spend 2020/21 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2020/21, shown in Appendix I.

The Committee resolved:-

to approve the recommendation.

PENSIONS COMMITTEE AND PENSION BOARD

26 March 2021

The Board resolved:-

to note the decision of the Committee.

INVESTMENT STRATEGY - PCMAR21/REVIEW

7. The Committee had before it a report by the Director of Resources which detailed the outcome of the investment strategy review prepared by officers following the outcome of the 2020 Actuarial Valuation. The report set out the details of the Fund's current investment strategy and made a number of recommendations on taking the strategy forward.

The report recommended:-

that the Committee approve the proposed investment strategy as set out in section 3.5 of the report, namely:-

Current Strategic Benchmark	Proposed Strategic Benchmark
Growth Assets 57.5% (+/- 5%)	Growth Assets 55.0% (+/- 5%)
Global Equities 45%	Global Equities 50%
Diversified Growth Funds 7.5%	
Limited Partnerships 5%	Limited Partnerships 5%
Income/Protection Assets 42.5% (+/- 5%)	Income/Protection Assets 45.0% (+/- 5%)
Bonds/Credit 15%	Bonds/Credit 22.5%
Property 10%	Property 10%
Infrastructure 10%	Infrastructure 10%
Index Linked 5%	
Other 2.5%	Other 2.5%

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
26 March 2021

2020 TRI-ENNIAL VALUATION RESULTS - PC/MAR21/VAL

8. The Committee had before it a report by the Director of Resources which provided details of the triennial valuation as at 31 March 2020 for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) in advance of the sign off by the scheme actuary in March 2021.

The report advised that the draft NESPF Funding Strategy Statement was brought to Committee in December 2020 and the final version of the report along with the ACCTF Funding Strategy Statement were appended at Appendix I and Appendix III for approval. The documents outlined the methodology and assumptions used to determine the value of the liabilities held within the Funds. Also appended to the report were the actuarial valuation reports which certified the outcome of the valuation exercise. It was noted that the report would be made available to all stakeholders and would be provided to the Scottish Government in accordance with the regulatory requirements.

The report recommended:-

that Committee –

- (a) approve the final Funding Strategy Statement for both the NESPF and the ACCTF which outlines the assumptions used in the calculation of the Fund liabilities for the triennial valuation as at 31 March 2020; and
- (b) note the Actuarial Valuation Reports which outline the overall results of the valuation including the funding levels for the NESPF and the ACCTF which will be the published following the sign off by the scheme actuary.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

STATEMENT OF ACCOUNTS ACTION PLAN - PC/MAR21/ACCOUNTS

9. The Committee had before it a report by the Director of Resources which provided high level information and key dates to the 2020/21 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors.

The report recommended:-

that the Committee note the report for assurance.

The Committee resolved:-

to note the report.

PENSIONS COMMITTEE AND PENSION BOARD

26 March 2021

The Board resolved:-

to note the decision of the Committee.

REVIEW OF NESPF COMPLIANCE WITH PSPA 2013 AND PENSION REGULATOR REQUIREMENTS - PC/MAR21/GOV

10. The Committee had before it a report by the Director of Resources which presented a review of the North East Scotland Pension Fund's compliance with the Public Service Pensions Act 2013 and the Pensions Regulator requirements during the financial year 2020/21, including detail on meeting and training attendance by Board members and costs of operation for the year.

The report recommended:-

that the Committee note the assurance provided in the report.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

ADMINISTRATION REVIEW - PC/MAR21/ADMIN

11. The Committee had before it a report by the Director of Resources which provided details of an administration review carried out by the scheme actuary (Mercer) and the North East Scotland Pension Fund to gain efficiencies and improve member outcomes. The review had been undertaken due to increasing workload, the impact of regulatory change, the impact of the McCloud age discrimination, and due to the continuing challenges of homeworking as a result of COVID-19.

The report recommended:-

that Committee consider the outcome of the review and note the recommendations set out in section 3.6 of the report which would be taken forward over the next 12 to 18 months.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

26 March 2021

STRATEGY - PC/MAR21/STRAT

12. 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.

The report provided an update on training which had been undertaken by Pension Fund staff; an update that there had been no fraud or whistleblowing cases throughout the year, nor breaches of the Bribery Act; and information on the completion of the Aberdeen City Council Transport buy-in. It was further noted that there had been minor amendments to the following documents around structure and wording to assist with clarity:-

- Systems Access Policy
- Governance Policy
- Overpayment of Pensions Policy
- Investment Policy and Myners Statement
- Governance Compliance Policy
- Risk Management Policy

The report recommended:-

that Committee note the updates to the Scheme policy documents as part of the annual document review.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken under article 1 of this minute, the following reports were considered with the press and public excluded.

ACCOMMODATION - PC/MAR21/ACCO

13. With reference to article 13 of the minute of its meeting of 13 September 2019, the Committee had before it a report by the Director of Resources which provided an update on the completion of the NESPF accommodation move approved by Committee.

The report recommended:-

that Committee note the report for reassurance.

PENSIONS COMMITTEE AND PENSION BOARD
26 March 2021

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/MAR21/AIMPR**

14. The Committee had before it a report by the Director of Resources which presented a review of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 December 2020.

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

The Committee and Board heard from Mr Buntain, Investment Manager, in respect of the detail contained within the report.

Members then heard an update from Mr Belford, Chief Officer – Finance in respect of the additional appendix which had been circulated.

The report recommended:-

that Committee note the contents of the report.

The Committee resolved:-

- (i) to thank Mr Buntain and Mr Belford for the updates provided at the meeting; and
- (ii) to note the report.

The Board resolved:-

to note the decision of the Committee.

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

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER								
	The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	25 June 2021								
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	1.4		
5	Training	To provide details of the training plan (2021/22) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.		Laura Colliss	Finance	Resources	4.1 and 4.2		
6	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
7	Internal Audit Annual Report 2020/21	To present the Internal Audit Annual Report for 2020/21		Colin Harvey	Internal Audit	Internal Audit	2.1		
8	Internal Audit Annual Plan 2021/22	To present the Internal Audit Annual Plan for 2021/22		Colin Harvey	Internal Audit	Internal Audit	2.1		
9	Internal Audit - Pensions Payroll	To present the results of the internal audit in relation to Pensions Payroll		Colin Harvey	Internal Audit	Internal Audit	2.1		
10	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
11	17 September 2021								
12	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
13	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
14	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
15	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
16	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
17	External Audit Annual Audit Report 2020/21	To present the External Audit Annual Audit Report 2020/21		Rachel Browne	External Audit	External Audit	2.1		
18	17 December 2021								
19	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
20	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Stephanie Dunsmuir	Governance	Commissioning	GD 8.5		
21	Investment Strategy Update	To provide an update on the investment strategy of the NESPF if required		Graham Buntain / Laura Colliss	Finance	Resources	5.2		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
22	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
23	March 2022								
24	Review of NESPF Compliance with PSPA 2013 and Pension Regulator Requirements	To provide Elected Members with a review of NESPF compliance with the Public Service Pensions Act 2013 and the Pensions Regulator requirements during the financial year 2020/21		Mairi Suttie	Finance	Resources	4.1 and 4.2		
25	External Audit Annual Audit Plan	To present the annual audit plan		Rachel Browne	External Audit	External Audit	2.1		
26	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the 2020/21 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Resources	3.1		
27	Internal Audit Annual Plan 2022/23	To present the Internal Audit Annual Plan for 2022/23		Colin Harvey	Internal Audit	Internal Audit	2.1		
28									

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2020/21
REPORT NUMBER	IA/21/007
DIRECTOR	N/A
CHIEF OFFICER	Colin Harvey Chief Internal Auditor (Interim)
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2020/21.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2020/21;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2020/21; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. BACKGROUND / MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.
- 3.2 The Internal Audit plan for 2020/21 was agreed by the Pensions Committee on 20 March 2020. The plan consisted of one audit although there were a number of audits undertaken in 2020/21 in relation to Aberdeen City Council which contributed to Internal Audit's understanding of the NESPF framework of governance, risk management, and internal control arrangements.
- 3.3 It is considered that sufficient work was completed during the year, or was

sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Audit Report. This is supplemented by review of other relevant documentation, including Pension Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).

- 3.4 The volume of work completed within Aberdeen City Council during 2020/21 is less than previous years, due to the impact of Covid 19 on the resources and capacity of the Internal Audit team and of audited Services. Whilst this leads to a reduction in the sources of assurance available on which to form an opinion, reliance has been placed on the previous body of work completed by Internal Audit, and reported progress with management implementation of agreed Internal Audit recommendations. Consideration has been given as to whether this amounts to a limitation of the scope of Internal Audit's activities, and it is considered that for 2020/21 a one-off reduction in the number of completed audits will not have a material impact. Should the situation extend to significantly impact work planned in 2021/22 and beyond, further consideration will be given to the level of assurance which Internal Audit can provide.
- 3.5 Internal Audit's annual opinion is attached as Appendix A, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Fund's framework of governance, risk management and internal control in the year to 31 March 2021.
- 3.6 The Public Sector Internal Audit Standards require that Internal Audit confirms to the 'Board' (in this case the Pensions Committee), at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit's independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and, Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.
- 3.7 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2020/21, except to the extent discussed at 3.4 above, there have been no such limitations.
- 3.8 Internal Audit Standards require that Internal Audit implement a system to monitor the implementation of agreed recommendations by management arising from its reports. Appendix B to this report shows the progress that management has made with implementing such recommendations.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

this report.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. APPENDICES

- 9.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2021.
- 9.2 Appendix B – Position with agreed recommendations included in NESPF Internal Audit reports.

10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor (Interim)
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(01467) 530701

Appendix A

Internal Audit Annual Report relating to the North East Scotland Pension Fund for the year ended 31 March 2021

As Chief Internal Auditor (Interim) of the North East Scotland Pension Fund, I am pleased to present my annual statement on the adequacy and effectiveness of the NESPF's framework of governance, risk management and control for the year ended 31 March 2021. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the Annual Governance Statement to be included in the Annual Accounts.

Opinion

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2021.

On balance, most of the audited areas were operating as anticipated. Areas of good practice, improvement, and procedural compliance have been identified and these have been detailed in individual assignment reports. Most recommendations made by Internal Audit during 2020/21 related to general improvements to procedures, and the requirement to evidence adherence to them.

However, as in previous years, some significant issues have been identified throughout the year. These included ensuring segregation of duties is being applied where appropriate, and compliance risks. One recommendation graded as "major" was made in the year, regarding clarification of the process and documentation involved in the review of investment options.

9 recommendations were made in reports concluded and agreed with the Service during 2020/21, however only 1 has been completed to date, and extensions of up to 1 year have been proposed. Until these actions are concluded, assurance over the investment management process is reduced.

Basis of Opinion

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

- The audit work completed by Internal Audit during the year to 31 March 2021;
- Previous years' Internal Audit work and annual reports;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the NESPF's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.

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

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

Sound internal controls

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

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

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

The Work of Internal Audit

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

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

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

**Colin Harvey,
Chief Internal Auditor (Interim),
North East Scotland Pension Fund
5 April 2021**

Appendix B

**POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF
INTERNAL AUDIT REPORTS
AS AT 24 MAY 2021**

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

Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.03.21	Confirmed Implemented by Service	Not implemented by original due date	
AC2015	Pensions Investment Strategy and Performance Management	September 2020	9	9	1	8	1 Major 5 Significant 2 Important

The position with the overdue recommendations is as follows:

Chief Officer	Recommendation	Grading / Due Date	Position
Pensions Manager	The Service should review reporting to demonstrate that management is taking appropriate action to move towards greater alignment with the Strategic allocation. 2.1.7	Significant March 2021	We have agreed a new investment strategy and we will report to committee in due course as to how the Fund will progress to its strategic benchmark. An extension to December 2021 has been requested.

Chief Officer	Recommendation	Grading / Due Date	Position
Pensions Manager	The Service should document the processes involved in developing and taking forward investment proposals. 2.2.9	Major December 2020	The Service will provide a copy of the next investment proposal to evidence this has been implemented, but it has not been possible to put a date on this as we do not know when the next change will be, although it is anticipated this will take place during 2021. An extension to December 2021 has been requested.
Pensions Manager	The Service should ensure all Officers involved in preparing and reviewing investment proposals have completed declarations of interest. 2.2.10	Significant December 2020	One officer has still to sign a declaration. An extension to June 2021 has been requested.
Pensions Manager	The Service should develop proportionate cashflow forecasting procedures. 2.2.12	Important December 2020	The Fund will put together a cash management policy/principles and include 2.2.20. Given current resources, an extension to December 2021 has been requested.
Pensions Manager	The Service should review options for short term cash deposits, and improve documentation regarding investments made with the Council. 2.2.16	Significant December 2020	The Fund has obtained legal advice and will instruct its advisors to draw up a formal agreement. An extension to September 2021 has been requested.
Pensions Manager	The Service should develop a protocol to cover selection and recording of disinvestment options. 2.2.20	Significant December 2020	The Fund will put together a cash management policy/principles under 2.2.12. Given current resources, an extension to December 2021 has been requested.

Chief Officer	Recommendation	Grading / Due Date	Position
Pensions Manager	The Service should review its ESG policies and reporting requirements. 2.3.15	Important March 2021	Officers provided a training session on ESG on 26 th February 2021 and further discussions at committee. Further work with the committee is required to agree and update the Fund's ESG policies and reporting requirements, this will continue through 2021. An extension to December 2021 has been requested.
Pensions Manager	The Service should review performance reporting to ensure the Committee is able to scrutinise and challenge Officers' decisions and performance as appropriate. 2.4.10	Significant March 2021	The review is ongoing and will be developed through 2021 once additional resources are in place. An extension to December 2021 has been requested.

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Plan 2021/22
REPORT NUMBER	IA/21/006
DIRECTOR	N/A
CHIEF OFFICER	Colin Harvey Chief Internal Auditor (Interim)
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2021/22.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2021/22.

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 2021/22, along with the methodology for determining the areas to be reviewed, was approved by the Audit, Risk and Scrutiny Committee on 24 February 2021. This followed consultation with management through the Risk Board.
- 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 24 February 2021.

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.

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

8. IMPACT ASSESSMENTS

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

9. APPENDICES

9.1 Appendix A – Internal Audit Plan 2021/22

10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor (Interim)
Colin.Harvey@aberdeenshire.gov.uk
(01467) 530701

Appendix A

INTERNAL AUDIT PLAN 2021/22 NORTH EAST OF SCOTLAND PENSION FUND

Subject	Scope	Objective	Discussion	Target Committee
Pensions System	Pensions System	To consider whether appropriate control is being exercised over the system used to administer the Fund, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems are accurate and properly controlled.	<p>Key controls over IT systems are reviewed on a cyclical basis to provide assurance over their application.</p> <p>Source: IA assessment of risk and periodic review of controls in respect of business systems.</p> <p>Pensions risk register: NESPF021 Risk: Failure to secure and manage personal data in line with data protection requirements; and NESPF022 Risk: Failure of the Fund's administration system</p>	Mar-22
Reporting Internal Audit outputs to Pensions Committee.	Reporting Internal Audit outputs to Pensions Committee.	To provide Pensions Committee with assurance regarding the areas examined by Internal Audit.	Internal Audit is required to report the outcomes of its work to the Committee, in compliance with Public Sector Internal Audit Standards.	As required

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2107 Pensions Payroll
REPORT NUMBER	IA/AC2107
DIRECTOR	N/A
REPORT AUTHOR	Colin Harvey
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

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

3. BACKGROUND / MAIN ISSUES

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

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

8. IMPACT ASSESSMENTS

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

9. APPENDICES

9.1 Internal Audit report AC2107 – Pensions Payroll.

10. REPORT AUTHOR DETAILS

Colin Harvey, Chief Internal Auditor (Interim)
Colin.Harvey@aberdeenshire.gov.uk
(01467) 530701



Internal Audit Report

Pension Fund

Pensions Payroll

Issued to:

Steven Whyte, Director of Resources
Jonathan Belford, Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Laura Colliss, Pension Fund Manager
Marie Mclean, Benefit Administration Manager
External Audit

EXECUTIVE SUMMARY

Background

The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.

As at 31 March 2020, the NESPF is the third largest LGPS Fund in Scotland in asset size at £4,367 million, with over 69,000 members (26,275 active paying members; 22,156 pensioners; 17,965 deferred members no longer paying into scheme; 3,021 frozen leavers due refund of contributions) and 50 participating employers. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen; as at 31 March 2020 it had 1,632 members and net assets of £308.8 million.

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

Objective

The objective of this audit was to provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This involved testing of new and on-going pensions, and transfer and termination of pension payments.

Assurance

In general, appropriate arrangements are in place to ensure the accuracy and appropriateness of payments, and pension payments reviewed were accurate on the whole. However, improvements to procedures have been recommended, particularly for trivial lump sums payments, where a sample payment reviewed was made in error, to a former scheme member.

Findings and Recommendations

NESPF has written procedures covering a number of aspects of payroll administration. However, procedures did not cover the use of a new payroll system module (Enhanced Admin to Payroll) used to establish pension payroll records, as agreed in the last Pensions Payroll Internal Audit, or the necessary checks prior to creating new pension payroll records. A recommendation graded Significant within the audited area was raised with the Service to ensure procedures are complete and up to date.

Two new pensions reviewed were not supported by employer paperwork confirming the date the employer reported the member joined the scheme; it was therefore not possible to verify the accuracy of the length of membership for the purposes of verifying pension benefits awarded. The Service advised information is provided to members at retirement so any historical data issues can be addressed. However, to avoid overpayments in error, a recommendation graded Significant within the audited area was raised with the Service to gain assurance from employers of the date members joined the pension fund, where employer returns are absent.

A one-off trivial lump sum reviewed, had scheme membership of less than two years,

meaning the member was ineligible for this pension payment. Instead, the former member's pension contributions should have been returned; this resulted in an overpayment. Recommendations graded Significant within the audited area were raised with the Service to review trivial lump sum payments to identify all payments to former members where length of service was less than the required two year minimum, to recover any related overpayments, and to implement a system of control to avoid reoccurrence of this issue.

A comprehensive system of checks is in place prior to processing pension payrolls for payment. Since home working commenced, as a result of Covid-19 restrictions, 'electronic signatures' have been in use to evidence review of pension calculations and payment checks. In general, checks were evidenced by electronic signatures however a January payroll had no evidence of review. Whilst electronic signatures are endorsed by the UK Government, it is acknowledged by the UK Government that there are issues on the security and technology of electronic signatures that require further consideration from suitably qualified experts. Issues include the fact these signatures can be copied and applied to documents by individuals other than the signatory in certain cases. A recommendation graded Significant within the audited area was raised with the Service to ensure it can demonstrate that segregation of duties has been applied in all relevant processes.

A sample of bank changes reviewed were supported. However, it was noted a number of changes were processed by a single officer increasing the risk of fraud or allegations of fraud. A recommendation graded Significant within the audited area was raised with the Service to ensure that changes to bank details are subject to review.

Management Response

The Service has established procedures covering the new module for establishing payroll records. The Service has also agreed to review trivial commutation lump sum payments for the last 12 months to identify any overpayments and to review its procedures in relation to these payments. Where fund start dates are absent from NESPF records, these will be sought from the respective employer when the member retires. In addition, Senior Pension Officers have been reminded of the requirement to evidence segregation of duties in relevant processes and the Service has agreed to review the processing arrangements for changes of bank details.

1. INTRODUCTION

- 1.1 The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme Regulations.
- 1.2 As at 31 March 2020, the NESPF is the third largest LGPS Fund in Scotland in asset size at £4,367 million, with over 69,000 members (26,275 active paying members; 22,156 pensioners; 17,965 deferred members no longer paying into scheme; 3,021 frozen leavers due refund of contributions) and 50 participating employers. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen; as at 31 March 2020 it had 1,632 members and net assets of £308.8 million.
- 1.3 The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.
- 1.4 The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, and the Fund is regulated by the Pensions Regulator.
- 1.5 The NESPF Pension Fund Manager reports to Aberdeen City Council's Chief Officer - Finance and is currently responsible for approximately 35 Pensions staff operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Systems.
- 1.6 The objective of this audit was to provide assurance that appropriate arrangements are in place to ensure the accuracy and appropriateness of payments made to scheme members. This involved testing of new and on-going pensions, and transfer and termination of pension payments.
- 1.7 The factual accuracy of this report and action to be taken with regard to the recommendations made have been agreed with Jonathan Belford, Chief Officer - Finance, Laura Colliss, Pension Fund Manager and Marie Mclean, Benefit Administration Manager.

2. FINDINGS AND RECOMMENDATIONS

2.1 Written Procedures

- 2.1.1 Comprehensive written procedures which are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.
- 2.1.2 NESPF has written procedures covering payroll pay runs, immediate payments, deferred pensions and leavers. There are also checklists in place for monthly tasks undertaken by the Service and payroll system procedures contained within the Altair Help files. The Service advised in February 2019, following the previous Pensions Payroll Internal Audit AC1725, that procurement of the “Enhanced Admin to Pay” payroll system module, required procedures to be updated to reflect new system functionality relating to the creation of new pension payroll records. However, revised procedures have yet to be formalised since this module went live in October 2020.
- 2.1.3 Pension benefits (lump sum payments and monthly benefits) are calculated by the pension payroll system following input of the retirement date and details of final pay by a Pensions Officer (PO). Completed calculation sheets are prepared by the PO and subsequently checked and signed as reviewed by the Senior Pensions Officer, prior to creating any new pensioner payroll accounts to enable payment. In addition, prior to the first pension payment a test payslip is also prepared by the PO and reviewed by the Senior Pensions Officer, with both officers signing the test payslip to indicate preparation and review respectively when satisfied with the accuracy of the test payslip. A procedure documenting the calculation checks has been drafted but has yet to be updated to cover test payslip checks.

Recommendation

The Service should ensure procedures are complete and up to date.

Service Response / Action

Agreed. Benefit processing procedures have been updated for EA2P including a video on how to use it. This has been done since the audit began so they were not available at the time of the audit.

Implementation Date

Implemented

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.2 Pension System and Benefit Calculations

- 2.2.1 The pension system is used for administration of scheme members’ accounts and for pensioner payroll payments. The pension system was reviewed by Internal Audit in report AC1827; agreed recommendations relating to system access and password controls, system requirements for review of pension calculations, and contingency planning have been addressed.
- 2.2.2 All eligible employees should be auto-enrolled into the Pension Fund when they start work, with superannuation contributions made from employees’ first pensionable pay. PEN 1 forms are submitted by employers to the NESPF for each new employee joining the Pension Fund; this includes relevant data required to be updated on the pension system, including the date employment began, date of birth, and marital status (for survivor

pensions).

- 2.2.3 The Service advised that the pension system is configured to calculate pension benefits in line with the Pension Regulations based on a member's date of birth, length of scheme membership, final FTE salary (for final salary elements of the pension benefits) and annual pensionable pay for the financial years since 2015/16 for the Career Average Earnings (CARE) element of the pension calculation. Any employer discretions, such as awarding additional years of membership, have to be applied to the system manually by a Pensions Officer.
- 2.2.4 Under the LGPS (Scotland) Regulations 2018, a member with a minimum of 2 years qualifying service who attains normal pension age is entitled to immediate payment of a retirement pension without reduction, if the member is no longer employed by the local government employer where the benefits were accrued. In general, pension benefits are calculated in line with the table below. There may also be specific adjustments to benefits in particular cases e.g. early / late retirement, reduced contributions (50/50 pension – half contributions for half the pension accrual) and employer discretions.

	Membership to 31 March 2009	Membership from 1 April 2009 to 31 March 2015	CARE Membership from 1 April 2015 to present
Pension	Final Pay/80 x membership up to 31/3/2009	Final Pay/60 x membership from 1/4/2009 to 31/3/2015	(Average Pensionable Pay since 1/4/2015)/49 x membership from 1/4/2015 to date of retirement
Lump Sum	Final Pay x 3/80 x membership up to 31/3/2009	No automatic lump sum	No automatic lump sum

- 2.2.5 In April each year, the value of the benefits accrued in scheme pension accounts is revalued in line with HM Treasury Revaluation Orders, which currently use the Consumer Price Index (CPI); the Technical Team are responsible for processing the necessary system update annually. The accuracy of ongoing pensions is considered further in section 2.7 below.
- 2.2.6 Retirees can opt to take a lump sum payment instead of annual pension benefits (£12 lump sum for every £1 of annual pension sacrificed) up to a maximum amount in line with the following calculation:
- $$12 \times (((\text{Unadjusted Annual Pension} \times 20) - (3 \times \text{automatic lump sum}))/56).$$
- 2.2.7 All employers using the NESPF are required to submit monthly reports via the iConnect portal. These submissions provide data at a scheme member level required to calculate pension benefits, including employee and employer pension contributions and employee pensionable pay for the calculation of CARE benefits. These iConnect submissions are uploaded to member accounts via an interface with the pension system. The Employer Relationship Team reconciles iConnect interface files submitted to a report of the total values uploaded to the pension system.
- 2.2.8 Reconciliations of interfaces were also reviewed as part of the Payroll System audit AC1827. In general reconciliations were completed regularly and discrepancies were being investigated and resolved. However, they were not being completed for one employer reviewed due to a technical problem generating the required iConnect data from that employer's payroll system; the issue has since been resolved.

2.3 New Pensioners

- 2.3.1 The pension system is configured to identify when a member has become eligible to claim payment of pension benefits. Current contributing scheme members are notified by letter when they reach normal retirement age, whilst deferred scheme members are notified when eligible for reduced benefit payments prior to normal retirement age. Employers are also required to notify the NESPF of retirements at least two months in advance of the retirement, using the PEN 6 form, detailing the date of retirement and type of retirement (Voluntary, Late, Flexible, Early Retirement with Employers Consent, Ill Health, Interest of Business Efficiency, Redundancy). Subsequently the employer is required to confirm the date of leaving and provide pay details relevant to pre-2015 benefits via the PEN 2 cessation form. Where early retirement is on the grounds of ill health, the employer must report Assumed Pensionable Pay via the PEN 2 form for the purposes of determining the ill health retirement pension enhancement and submit form PEN 3.1 Occupational Health Ill Health Retirement Certification - Active Member, which includes eligibility to retire confirmed by an independent registered medical practitioner.
- 2.3.2 No pension payments are made until the NESPF has received notification confirming the employee's decision to retire. When a member retires, calculations are completed by the Service to determine an estimated level of benefits available under the relevant scheme Regulations. A letter is sent detailing the estimated benefits and enclosing option forms to complete. The forms enclosed are: retirement declaration form, member marital status form; bank mandate; commutation option form; early payment form and HMRC declaration form. When the forms are returned, the member is also asked to provide copies of their birth certificate and, where applicable, relevant certificates for their spouse, e.g. spouse's birth and marriage certificate for a married member, and a spouse's death certificate for a widow(er) (where a death has not been notified to NESPF via the mortality tracing service).
- 2.3.3 Once all forms and required evidence have been submitted, and the relevant information has been received from the employer, the actual benefits are re-calculated and input onto the payroll system. These may vary from the original estimate due to changes and additional information obtained in the intervening period. Following review of the pension and retirement grant calculation sheet and the test payslip by the Senior Pensions Officer, a notification letter is sent to the member to let them know the final figures and payment dates.
- 2.3.4 A sample of 20 new pensions (5 who had reached normal retirement age, 5 early retirements, 5 ill health retirements, and 5 trivial commutation lump sums) was selected to ensure that pension benefits were correctly calculated, the retirement was supported by necessary documentation from the scheme member and employer, the pension benefits including lump sum had been correctly calculated, calculations were reviewed by a Senior Pensions Officer prior to award of benefits, the payments according to the pension payroll agreed to the related calculation, and the first pension payment was made timeously. It was also verified that benefits had been adjusted up or down by the appropriate factor for late and early retirements. In addition, where a retirement was due to ill health, it was confirmed that the opinion of a health professional supported the retiral and the relevant 'tier' of ill health was applied in accordance with the scheme. Where a retiree opted for a one-off trivial commutation lump sum it was confirmed pension benefits were less than or equal to £30,000 as required by the Finance Act 2004. With the exception of the following points, the results of testing were satisfactory.
- 2.3.5 NESPF is required to provide retirement estimates within 10 working days of receipt of all information required to calculate the pension, and pensions to be paid in the next available pay run after all relevant information has been received. All new pensions reviewed met this target however two new pensions reviewed experienced delays. One of these related to an early retirement on 1 June 2020 with the first pension payment not made until 14

August 2020 whilst the other related to an ill health retiral on 31 July 2020 with the first payment not made until 15 October 2020.

- 2.3.6 The Service advised the delay for the early retirement case was due to the employer providing the necessary information late, however late payment interest was incurred by NESPF of £66.96, which should only apply when NESPF is at fault (payment is made more than one month after all information received from the employer). The Service advised the ill health retiral was due to a delay receiving notification of the retiral from the employer and a delay by NESPF issuing the options to the member as a result of challenges experienced by NESPF related to Covid home working and an increase in retirals requiring to be processed at this time. Delays paying pensioners, particularly in the case of ill health retirals, risks reputational damage to NESPF.
- 2.3.7 The outcome of an administration review by the scheme actuary and NESPF was reported to the Pensions Committee on 26 March 2021. NESPF agreed to review recommendations to gain efficiencies and improve member outcomes, including: working with employers to improve final pay provision through the monthly i-Connect interface or a new cessation template; review processes with a view to simplify procedures and reduce the number of 'chasers' required; investigate ways of measuring work activity to provide management information for process improvements; and set targets for processing any backlog accumulating because of increasing workload and homeworking.
- 2.3.8 Two new pensions reviewed were not supported by a PEN 1 form or equivalent detailing the date the employer reported the member joined the scheme; it was therefore not possible to verify the accuracy of the length of membership for the purposes of verifying pension benefits awarded. The Service advised that whilst an attempt was made to upload all relevant new start paperwork to the pensions system, not all historic employer paperwork is available. This increases the risk of manual update errors relating to the system date when a member joined the scheme, which would affect the pension benefits awarded to the member and their death beneficiaries.

Recommendation

In the absence of employer returns stating the date a member joined the pension fund, assurance should be sought from the related employers of the date members joined the pension fund.

Service Response / Action

Agreed. This is a historical issue with the examples above being from an employer that had gone through a number of organisational changes and both were over 30 years. This does not affect current data collection practices.

All information on service is provided to the member at retirement so any historical data issues can be addressed at that time. However, all pre-CARE pensioner start dates will now be checked with the employer.

Implementation Date

August 2021 (new procedure to obtain start dates from employers of new pensioners where missing)

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

- 2.3.9 It was noted that Aberdeen City Council does not use the NESPF PEN 2 cessation form, but uses an adapted version of this form which does not capture assumed pensionable pay required to calculate ill health retiral benefits. However, Aberdeen City Council is

providing this information by email instead.

- 2.3.10 A new pension reviewed, which had been awarded as a one-off trivial lump sum, had scheme membership of less than two years, meaning the member was ineligible for a pension. The Service confirmed that the trivial lump sum commutation pension payment should not have been paid and instead the former member's pension contributions (which was lower) should have been returned. There is currently no system control to prevent a trivial commutation lump sum being calculated where an employee's service is less than the required minimum of two years.

Recommendation

a) Trivial commutation lump sums should be reviewed to identify all payments to former members where length of service was less than the required two year minimum, and any overpayments should be recovered.

b) A system of control should be established to avoid reoccurrence of the award of trivial commutation lump sums to ineligible members.

Service Response / Action

a) Agreed. The service will review payments for the last 12 months.

b) Agreed. These are checked as part of the process, unfortunately this one was missed. The service will review it procedures.

Implementation Date

December 2021

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

2.4 Cessations and Survivor Pensions

- 2.4.1 There are various ways in which the Service may be notified of a member / pensioner's death including by a relative of the deceased, by a solicitor etc. The Service also uses the services of an independent mortality screening service to perform monthly checks of death notifications relating to scheme members in receipt of payments. A copy of the death certificate is required except where a death has been identified by the screening service.
- 2.4.2 When notice is received that a pensioner has died, their pension payments are suspended in the system and pension account is closed by updating pensioner status to "7:Death". A letter is then issued to the next of kin or solicitor depending on the details held. This letter encloses the relevant forms for spouse, child, death grant and balance of pension payments depending on the circumstances of the death. The death certificate is also requested along with the spouse's certificates where relevant. Sometimes it is not known if there is a spouse or children depending on whether a member of the family has been in touch or if notification is via the screening service. Papers are checked for death notices to trace next of kin. Forms are issued once the appropriate information is known which require copies of member's death certificate, spouse's birth and marriage certificates and eligible children birth certificates. Once survivor details are gathered, a survivor's account is opened in the pensions system which is linked to the deceased's account.
- 2.4.3 In accordance with the LGPS (Scotland) Regulations 2018, where a pensioner dies before age 75 and in accordance with NESPF policy within 10 years of becoming a pensioner, a death grant is paid to the relevant survivor reduced by any commuted lump sum and / or pension payments made to the deceased member.

- 2.4.4 A sample of 5 deaths was selected from a pension system report provided by the Service. The associated records were reviewed to ensure that payments to the deceased member were suspended as soon as the Service was notified, the death was confirmed by the screening service / death certificate / Tell Us Once form; all of the required forms had been completed and returned; the calculations of benefits paid to survivors were checked and accurate.
- 2.4.5 Two of the deceased pensioners had previously transferred in service to NESPF from their respective prior employer's pension funds; prior scheme membership recorded in the pension system for calculation of pension benefits agreed to that reported by the respective employers.

2.5 Guaranteed Minimum Pension

- 2.5.1 A guaranteed minimum pension is the minimum level of pension that an occupational pension scheme has to provide for those employees who were contracted out of the State Earnings Related Pension Scheme (SERPS) on a salary-related basis, between 6 April 1978 and 5 April 1997. The amount is meant to equate to the SERPS pension the scheme member would have received had they not been contracted out of SERPS and is calculated by HMRC. To ensure GMP is accurate the Service advised its GMP records were reconciled to HMRC's records for relevant members in 2018, with the date of reconciliation recorded in each relevant members' pension system records. Four of the five deceased members referred to in paragraph 2.4.4 above were eligible for GMP and all had 2018 reconciliation dates recorded against their pension system record.
- 2.5.2 A complication of GMP is that from 6 April 1988 changes in legislation meant the Guaranteed Minimum Pension elements before and after this date are calculated in different ways. For scheme membership from 6 April 1978 to 5 April 1988, when the Guaranteed Minimum Pension becomes payable, the inflation increase for the GMP element for these years was paid with the state pension. For scheme membership from 6 April 1988 to 5 April 1997 the occupational pension scheme pays inflation increases in line with the consumer price index (CPI) up to a maximum of 3%, with the remainder of any CPI increase over 3% paid with the State Pension. This means the GMP element of pension accrues inflation in line with the increase in CPI up to a maximum of 3%, while the rest of the member's pension increases in line with CPI (no 3% cap). The Service advised the system is tested every time a new software update is applied and annually to ensure GMP inflation is operating as expected. The results of the most recent annual check of inflation applied by the system were adequately documented.

2.6 Write Offs

- 2.6.1 Depending on the timing of a pensioner's death, or on the timing of the notification of the death to the Service, an overpayment of pension benefits may be made. If the notification of the death of a pensioner is received after the payroll has been closed for monthly processing but before noon of the working day before a pension payment is due, the Service e-mails the bank to recall the payment for the deceased. Where notification is received after the pay-run an overpayment will be made.
- 2.6.2 In line with Aberdeen City Council's Financial Regulations, the Pension Fund Manager is authorised to write-off unrecoverable debts up to £10,000, the Chief Officer – Finance is authorised to write off debts up to £25,000, and the Pensions Committee has the authority to write-off unrecoverable debt above £25,000. The Service's debt write-off procedure requires all debts up to £100 to be automatically written off.
- 2.6.3 A register is maintained by the Service of all debts to be written off; these are reviewed annually by the Pensions Fund Manager for the purposes of approving write offs. The

Pensions Fund Manager approved the write off of 2019/20 debts recorded on the register on 6 July 2020; only 8 write-offs exceeded the £100 automatic write-off value and these were all less than £200.

2.7 On-going Pensions

2.7.1 Local Government Pension Scheme benefits for existing pensioners increase each April by the annual change in the consumer price index to September the previous year; the increase is on a pro-rata basis if the pensioner has only been in receipt of pension benefits for less than one year. If inflation is negative in any given year a pension decrease is not applied. The pension increase for April 2020 was 1.7%.

2.7.2 A sample of 20 on-going pensions was selected to ensure the pensions in the payroll system had been increased as required and that the correct amount was paid to the pensioner according to their pension payslip; this was the case.

2.8 Monthly Pay Run

2.8.1 There are five payroll pay groups (001- the main paygroup for all LGPS; CLL- Councillors; 009- Teachers Compensation (Teachers historic early retirement enhancements); N02- First Bus Aberdeen; N01- First Bus Strathclyde legacy payroll). According to the system payroll procedure notes, prior to processing the monthly pay runs for each pay group via BACS, a number of reports must be reviewed to identify any exceptions, including:

- Check for deaths to stop payments to deceased members
- Comparison of annual pension figures per the pensions administration system to relevant monthly payroll elements multiplied by 12. Discrepancies are then reported for investigation.
- Checks that financial codes are accurate (based on paygroup and member status)
- Checks for individuals with pensioner status not in pay group.
- Checks for people on payroll without pensioner status
- Run payroll calculations - highlights all gross and net pay errors >£3,500 per month. Notes required to explain e.g. first payment / tax refund
- Financial Summary Build report – used to check tax adjustments
- Payroll Reconciliation Reports – ensure no cheque payments in movement summary report
- Negative amounts check report – any negative amounts should be removed and investigated
- Payee status report – check all new pensioners picked up when compared to P45 file
- New Payees and Deletions Report
- Previous Employment Gross and Tax Report - shows all previous pay and tax that has been input during the current period
- Changes in gross pay by element since the previous month
- And a second financial code check for payments

2.8.2 Once the exception reports have been reviewed and any exceptions have been resolved / the related payments have been put on hold, the pay runs by pay group are processed for payment by BACS within the payroll system and a BACS Net Pay Certification report is produced by the payroll system for each pay group detailing the number of payments and the total value of payments. This is reconciled to a system generated Movement Summary schedule detailing payments due to be made. Once the BACS payments are processed by the Service, a BACS payment processing provider sends NESPF a BACS authorisation report which is then agreed to the payroll system BACS Net Pay Certification reports.

- 2.8.3 Three monthly pay runs (April 2020, October 2020 and January 2021) were reviewed to ensure BACS submissions were being processed and reviewed by separate authorised members of staff prior to payment, that the BACS payment processing provider BACS authorisation reports reconciled and agreed to the related payroll system BACS reports and that payments were made timeously. All pay runs tested were processed timeously and payments reported by the BACS payment processing provider agreed to the pension payroll system BACS Net Pay Certification reports.
- 2.8.4 However, it was noted the October 2020 and January 2021 pay runs had copied 'electronic signatures' applied to the BACS Net Pay Certification report to indicate which officers had prepared and reviewed pay runs for submission to BACS, and the January 2021 paygroup 009 had been processed by a single officer without review of the pension payroll system BACS Net Pay Certification report. Whilst the Service advised the payroll system is configured to only allow Senior Pension Officers to process the pay run for payment via BACS, a lack of review increases the risk of payment errors.
- 2.8.5 Copied signatures are also used to indicate review of pension calculations and test pay slips prior to creation of new pension accounts. As the signatures can be copied and pasted into the documents there is no way to verify that they have been applied by the authorised signatory themselves. There is therefore a risk of reviews and segregation of duties not having taken place, where it is indicated that they have.

Recommendation

The Service should ensure it can demonstrate that segregation of duties has been applied in all relevant processes.

Service Response / Action

Agreed. The service has always ensured and evidenced segregation of duties however given the period of this audit processes were adapted due to COVID-19 to ensure continued delivery of pensions.

The Pensions Regulator Covid-19 guidance advised that legal validity of electronic signatures has been endorsed by government, along with the legal team at Aberdeen City Council.

The service continues to monitor the enforced working arrangements and intends to revise procedures best on best practice in due course.

The Senior Pensions Officers have been reminded of the correct verification procedure.

Audit Position

Whilst the government endorses the use of electronic signatures it acknowledges there "are issues on the security and technology of electronic signatures that require further consideration from suitably qualified experts". The 'electronic signatures' used to evidence preparation and review of BACS Net Pay Certification Reports were officers' names in a signature-like font, which can be copied. However, it is acknowledged that alternative processes were in operation as a result of Covid-19 restrictions and procedures will now be reviewed.

Implementation Date

March 2022 (revised procedures)

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

- 2.8.6 Since the January 2021 paygroup 009 had been processed for payment without evidence of review, the exception reports, including member level pay run variances, were reviewed

to ensure there was evidence exception reports had been reviewed prior to payment; testing was satisfactory.

2.9 Changes to bank details

- 2.9.1 Changes and amendments to bank details and addresses are only made by the NESPF on receipt of a signed letter that includes the scheme member's pension reference number / NI number, or online through MyPension, which notifies the Service via email of the change, or via a report from the Bank informing of the change made by a member.
- 2.9.2 Once any changes are made, the NESPF sends a letter to the member confirming the change to verify that the details have been changed correctly.
- 2.9.3 A sample of 5 changes to bank details in 2020/21 was selected for testing, from a system report detailing where scheme members' details had changed, and checks were undertaken to ensure that the member had provided sufficient authorisation of the change, that the changes had been made timeously by Pensions staff, and that a letter was on file to the member to confirm the change of bank details in writing. The results of testing were satisfactory.
- 2.9.4 Separately all bank changes made during 2020/21 were reviewed to ensure separate officers updated the system and approved the changes. Fifty-two exceptions were noted where bank changes were applied to the payroll system without evidence of review.

Recommendation

The Service should ensure that changes to bank details are subject to review.

Service Response / Action

Agreed. When notified of a change of bank details all that is required is to check/update system then send a notification to the member confirming change made.

The 52 exceptions refer to when an officer has received changes made on Members Self Service (MSS), issued the confirmation and gone in and completed all the tasks including the checking task.

The MSS procedure will be reviewed.

Implementation Date

December 2021

Responsible Officer

Pension Fund Manager

Grading

Significant within audited area

AUDITORS: C Harvey
A Johnston
A McDonald

Appendix 1 – Grading of Recommendations

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

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Unaudited Annual Report and Accounts
REPORT NUMBER	PC/JUN21/ARA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee:-

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

3. BACKGROUND

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

- 6.1 There are no direct risk implications arising from the recommendation in this report.
- 6.2 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts to be approved no later than 30 September each year. Section 95 of The Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their final affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Funds, that officer is the Chief Officer – Finance of Aberdeen City Council.
- 6.3 There is a risk that any issues with the unaudited Annual Report and Accounts could impact on the ability of the administering authority to consider and approve the audited version by the September deadline.

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICE

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

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

Unaudited Annual Report & Accounts
For the period 1 April 2020 to 31 March 2021

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

Contents

Foreword	3
Management Commentary	5
1. About the North East Scotland Pension Funds	5
2. Administration 2020/21	6
3. Pensions Committee & Pension Board	7
4. Administration and Performance	12
5. Financial Performance	19
6. Economic and Market Background	25
7. NESPF Investment Strategy	29
8. ACCTF De-Risking Strategy and Performance	32
9. Risk	33
10. Funding Strategy Statement	34
11. Statement of Investment Principles	35
12. Environmental, Social and Governance Issues	36
13. Acknowledgement	40
Statement of Responsibilities	41
Annual Governance Statement	43
Governance Compliance Statement	48
Accounting Policies	50
North East Scotland Pension Fund Accounts	57
Aberdeen City Council Transport Fund Accounts	59
Notes To The North East Scotland Pension Fund Accounts	61
Notes To The Aberdeen City Council Transport Fund Accounts	95
Appendix 1 – Statement by the Consulting Actuary	118
Appendix 2 – Schedule of Employers	126

Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2020/21 Annual Report and Accounts.

The COVID-19 outbreak brought a difficult period of market volatility and the North East Scotland Pension Fund (NESPF), like many other investors, saw asset values drop. Despite this initial turbulence, the Fund rebounded strongly with total asset value increasing from £4,367m to £5,704m as at 31 March 2021.

The NESPF has a diversified portfolio of assets which helps spread the risk of exposure to any one investment area or stock. This ensured the financial impact at the start of the pandemic was minimal and allowed significant growth when investment markets began to stabilise and recover.

Meanwhile the asset value for the Aberdeen City Council Transport Fund (ACCTF) changed from £308.8m to £304.6m.

Like everyone else, the Funds had to sharply adapt and adjust to new ways of working as a result of the COVID-19 outbreak. With the majority of staff working from home, the Funds had to focus on key services and priorities to ensure business continuity.

However, in spite of an administratively challenging year, the Funds proceeded with several substantial projects. The Funds launch a new website and branding in Summer 2020.

In December, the Funds completed the long-awaited move to new offices. Delayed due to the pandemic, the move not only provides additional space to ensure staff can be in the office safely but will enable us to improve our efficiency, host visitors and events internally and provide a better space for the Funds to grow it's teams and services.

An actuarial valuation year, the Funds looked to repeat the success of previous valuations. Results showed funding levels of 103% for the NESPF and 114% for ACCTF, highlighting the strength and long-term security of the Funds.

The ACCTF completed and obtained a buy-in policy, securing liabilities for pensioner members of the Transport Fund. The buy-in is the first of its kind for the LGPS Scotland and marks the completion of a 2-year project which included the transfer of all members and assets from the Strathclyde No.3 Transport Fund to the ACCTF.

Looking ahead to 2021/22 while some uncertainties remain the Funds will continue to focus on improving services, particularly moving more processes online and implementing recommendations of the Administration Review that was conducted over the last 12 months.

Finally, I would like to thank both my colleagues on the Committee and Board, our advisors and Pension Fund staff. Despite a difficult period, I am proud of how the Funds have adapted to new ways of working, continuing not only to deliver and maintain key services but to also progress crucial projects. I thank them for their dedication and continued hard work during this exceptional year.

Councillor M. Tauqeer Malik
Pensions Committee Convener

Management Commentary

1. About the North East Scotland Pension Funds

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

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

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

The NESPF is open to all employees of the 10 scheduled bodies, except for those who are entitled to belong to another statutory pension Scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme in line with the body's individual admission criteria for staff.

The ACCTF was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen. In 2019/20, First Glasgow transferred from Strathclyde No. 3 Fund and joined the ACCTF.

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

As at 31 March 2021, the NESPF is the third largest LGPS Fund in Scotland in asset size, with over 70,000 members and 48 participating employers.

2. Administration 2020/21

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

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

During these unprecedented times, Officers kept in touch with all Committee and Board throughout this period providing updates where required. Board and Committee meetings resumed in September 2020.

3. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

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

Membership 2020/21

Councillor M. Tauqeer Malik (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Barney Crockett
Councillor Neil MacGregor
Councillor Philip Bell
Councillor John Cooke
Councillor Steve Delaney
Councillor Dell Henrickson
Councillor John Wheeler

Meeting Attendance in 2020/21

	12/06/20	29/09/20	11/12/20	26/03/21	Overall Attendance 2019/20
Cllr Malik	n/a	✓	✓	✓	100%
Cllr Reynolds	n/a	✓	X	✓	67%
Cllr Crockett	n/a	✓	✓	✓	100%
Cllr MacGregor	n/a	✓	✓	✓	100%
Cllr Bell	n/a	✓	✓	X	67%
Cllr Cooke	n/a	✓	✓	✓	100%
Cllr Delaney	n/a	✓	✓	✓	100%
Cllr Henrickson	n/a	✓	X	✓	67%
Cllr Wheeler	n/a	✓	✓	X	67%

Notes:

- June 2020 – due to the COVID-19 outbreak, the Committee and Board meeting was cancelled. Instead Pension Fund matters were considered by the Urgent Business Committee.
- March 2021 - Councillor Wheeler sent Councillor Philip Sellar in his absence.

Pension Board

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

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

Membership 2020/21

Unison

Morag Lawrence

(Substitute: Kenny Luke)

GMB

Neil Stirling (Vice Chair)

(Substitute: Brenda Murdoch:
Resigned April 2020)

Unite

Alan Walker

(Substitute: Graham Gavin)

UCATT

Liam Knox

Admitted/Scheduled Bodies

Mr Ian Black (Aberlour Child Care Trust)
Resigned July 2020

Mr Ian Hodgson (First Bus)
Joined September 2020

The Moray Council
Councillor John Cowe

Aberdeenshire Council
Councillor Alistair McKelvie (Chair) (Substitute: Councillor Alastair Bews)

Aberdeen City Council
Councillor Yvonne Allan (Substitute: Councillor Freddie John)

Meeting Attendance in 2020/21

	12/06/20	29/09/20	11/12/20	26/03/21	Overall Attendance
Cllr Yvonne Allan	n/a	✓	✓	✓	100%
Cllr Alistair McKelvie	n/a	✓	✓	✓	100%
Cllr John Cowe	n/a	✓	✓	✓	100%
Ian Black	n/a	n/a	n/a	n/a	n/a
Ian Hodgson	n/a	X	✓	✓	67%
Neil Stirling	n/a	✓	✓	✓	100%
Morag Lawrence	n/a	✓	✓	✓	100%
Alan Walker	n/a	✓	✓	✓	100%
Liam Knox	n/a	✓	✓	✓	100%

Notes:

- June 2020 – due to the COVID-19 outbreak, the Committee and Board meeting was cancelled. Instead Pension Fund matters were considered by the Urgent Business Committee.
- Ian Black resigned from Committee in July 2020.

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

In assisting with compliance, the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2020/21 no issues were reported by the Board to the Pensions Regulator.

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

Conflicts of Interest

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

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

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

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

Pensions Committee members are managed by the national Councillors' Code of Conduct. Due to the pandemic no training was delivered to Councillor's during 2020/21 by Aberdeen City Council.

Committee and Board Training 2020/21

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

Board members are also required to undertake 2 training sessions per year as detailed in the Training Policy. While typically the Funds deliver more than 2 training sessions per year, due to COVID-19 outbreak the number of sessions able to proceed was significantly reduced. However, the Funds were able to deliver training sessions and meet the Training Plan requirements. The training needs analysis conducted in 2019 will continue to be used to direct training in the coming year as the Funds continue to seek out training opportunities to support members.

In 2020/21, attendance for both Pensions Committee and Pension Board members' training is outlined below.

	22 – 23/10/20	01/10/20	08/10/20	Overall Attendance
Pensions Committee				
Cllr Malik	✓	✓	✓	100%
Cllr Reynolds	✓	X	X	33%
Cllr Crockett	X	X	X	0%
Cllr MacGregor	✓	✓	✓	100%
Cllr Bell	✓	✓	✓	100%
Cllr Cooke	✓	✓	✓	100%
Cllr Delaney	✓	X	X	33%
Cllr Henrickson	✓	✓	✓	100%
Cllr Wheeler	✓	✓	X	67%
Pensions Board				
Cllr Allan	X	X	X	0%
Cllr McKelvie	✓	✓	✓	100%
Cllr Cowe	X	✓	✓	67%
Ian Black	n/a	n/a	n/a	n/a
Ian Hodgson	n/a	X	X	0%
Neil Stirling	✓	✓	✓	100%
Morag Lawrence	✓	✓	✓	100%
Alan Walker	✓	X	✓	67%
Liam Knox	X	✓	X	33%

Notes:

- Ian Black resigned in July 2020 before any training sessions were conducted.

Training Topics

LGC Investment Seminar - 22 – 23 October 2020

A virtual seminar held over two days. This event covered a range of topics including:

- The implications of COVID-19 on investments
- Climate change and sustainability
- Infrastructure
- Collaboration between Funds

Scottish LGPS Conference 2020 - 1 October 2020 & 8 October 2020 -

An online conference with some presentations and panels covering:

- Pension administration
- Triennial valuations
- Governance
- Investment markets

4. Administration and Performance

This year's report focuses on the continued move towards digital communications and processes, administration performance, the actuarial valuation and the completion of a buy-in policy.

Rebrand and Website Development

2020/21 saw the Funds undertake an extensive rebrand exercise and develop a new website. The objective of this was to create a memorable brand identity that is current, inclusive and relatable.

The Funds wanted to reposition themselves to appeal to its wide membership, which resulted in the formation of a comprehensive set of brand guidelines including a new logo, colour scheme and tone of voice. The brand guidelines were subsequently applied across communications.

The Funds' website also underwent development to produce an intuitive, mobile-friendly and user-focused online space where our members could feel engaged and informed. As part of the website refreshment all content was reviewed, navigation was simplified and features such as interactive calculators and animations were installed. Further user-friendly features such as an improved search function and secure areas were also added to allow for quicker identification of required content.

The results of the website relaunch have exceeded expectations, with year on year comparison showing:

- 30.5% increase in users
- 40% increase in sessions
- 18% increase in average session duration
- 48% increase in page views

During 2020/21 the Funds utilised the website as a source of communication with its members by providing service updates and news articles and it will continue to promote the website as a useful tool to all members.

Going Digital

As the office remained closed with most staff working from home during 2020/21, members were encouraged to self-serve where possible by using the Funds' secure online portal, My Pension.

My Pension's updating features were widely promoted with members encouraged to make use of online forms to edit personal details and submit death grant nominations.

2020/21 saw the addition of an upload document option becoming available allowing documents to swiftly reach staff whilst easing the administration workload.

Membership of My Pension continues to grow and as at 31 March 2021 there were over 29,000 members registered for My Pension with 10,429 active members, 7,663 deferred members and 6,576 pensioner members signed up.

As at 31 March 2021, 38,595 (+16%) calculations have been performed via My Pension with 7,809 (+69%) updates processed on the system showing the increasing popularity and usage of the site.

Annual Benefit Statements

In 2019/20 the Funds issued all Annual Benefit Statements (ABS) digitally through My Pension. This was highly advantageous for the Funds and meant that in 2020/21, this could be repeated with further enhancements put in place. To alert members of the ABS availability, members were split into 3 categories:

- Those who were already registered during the 2019 ABS mailing would receive email notifications.
- Those who registered between 2019's ABS and 2020's ABS would receive a letter notifying them of their statement and the intention to email them in future years instead of writing.
- All unregistered members would receive a letter with an activation key allowing them to register online.

Moving ABS online has had numerous benefits, in particular it allows for further segmentation of members, so members only receive information relevant to themselves. Other benefits include reductions upon the environmental impact, paper usage, costs and time savings.

The overall percentage achieved for providing benefit statements to more than 42,000 active and deferred members prior to the 31 August deadline was 99.66% (99.86% in 2019/20).

Pension Administration Strategy

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

NESPF processing performance

Key performance measurement	Target	Work Volume	Target Achieved	2020/21	2019/20
Letter notifying death in service to dependent	5 days	43	31	72%	88%
Letter notifying retirement estimate	10 days	457	430	94%	98%
Letter notifying actual retirement benefit	10 days	1,755	1,325	75%	96%
Letter notifying deferred benefit	10 days	1,983	1,377	69%	91%
Letter notifying amount of refund	10 days	1,373	1,272	93%	95%
Letter detailing transfer in quotes	10 days	71	43	61%	84%
Letter detailing transfer out quotes	10 days	342	113	33%	76%

Impact of the pandemic

This year proved to be very challenging for administration because of the pandemic and majority of staff having to work from home. Volumes of work remained high and performance suffered as a direct result of homeworking.

Volumes for death in service (0) and transfers in (-6) were almost identical compared to 2019/20 with deceases for retirements (-317), refunds (-100) and transfers out (-90). There was a significant reduction for estimates (-572), although members were being encouraged to use benefit projectors in our secure portal, and a significant increase for deferred leavers (681).

Performance was down for all measurements however this was not unexpected as despite changing working practises and following industry guidance it simply takes longer to process benefits from home than it does in the office. Death in service and refund processing remained above 90% and retirals recovered from 62% at the end of first quarter to 77% for the whole year. Transfers and deferred benefits suffered the most because the priority was to process and pay death and retirement benefits timeously.

To address this, the Funds delivered transfer out quotations online so members can securely access information that will allow them to meet with their financial advisor and make an informed decision as to whether they want to proceed. We discovered in 2019/20 less than 25% of quotations provided resulted in benefits being transferred out of the Scheme. Work was carried out with our software supplier to automate deferred benefit processing and both developments will contribute to achieving performance levels of previous years however the biggest contributor to recovery will be when staff can safely return to the office.

Employer data provision

Participating employers continued to send good quality, timely monthly data in line with our requirements and this happened despite the majority of office staff working from home during the lockdown.

Communicating with Employers was maintained by the Employer Relationship Team (ERT) through email, quarterly bulletins and virtual online meetings. This allowed the team to continue providing a service and administering the scheme for the employers.

Administration Review

With workload increasing because of regulatory change, the McCloud age discrimination ruling and the challenges of homeworking, it was felt that the time was right to undertake a review of administration with the Scheme actuary.

Scope for the review was prepared by Mercer following consideration of a paper provided by the Fund and a meeting with officers. Fieldwork was to be carried out remotely with review samples provided via a secure portal.

The review had 4 key areas:

1. Process (weighted at 80%) – the review sample included a range of the most common administration tasks performed between February and September 2020.
2. Management information – the review sample included a range of quantitative and qualitative information.
3. People – the review sample included a variety of job roles, internal communications and documentation as well as output from meetings with staff and process walkthroughs.
4. Capacity analysis – was derived from data contained within task created and completed reports using estimated task completion times.

Work commenced at end of October and following 18 Microsoft Teams calls and 140 document uploads the final report was produced on 18 December 2020.

The report highlighted areas of strength including:

- Common and scheme specific data scores were very strong, indicating high data quality.
- System calculation automation is accurate and efficient for majority of processes.
- I-Connect is an efficient and effective tool for obtaining member data from employers in relation to CARE service and loading this to the pension administration system.
- The Funds can produce strong management information and reports that can provide estimates of effort, staff utilisation and provide an indication of process efficiency.

Key recommendations contained in the report included improved final pay provision, a calculation matrix to reduce volume of checking, implement bulk processing, review system generated documentation, reduce manual processes following automated updates, investigate centralised printing, review how documentation is uploaded to the system, improve management information, create formal process for staff to suggest change and continue to move processes online.

The Funds are committed to delivering improvements during the next 12 to 18 months that will increase operating efficiency and improve service provision.

Data Quality

The quality of data held by the Funds impacts on all aspects of funding, administration and calculation of benefits. Due to the method of data collection as well as the checking and reconciliation processes undertaken on a monthly basis information held on our database is of a consistently high quality. This ensures that the Funds, the participating employers and the members can have confidence in the calculated benefits and the accuracy of the valuation put on the liabilities by the Scheme actuary.

As part of the annual scheme return all LGPS funds are required to score the quality of their data. For accurate scores that are comparable to other funds, the Funds have contracted with Aquila Heywood to use their Data Quality Analysis Tool. The scores below were reported in the 2019 and 2020 annual scheme return:

	2019	2020
Common Data	98.3%	98.3%
Scheme Specific Data	97.1%	98.3%

Even though the scores remain high, work continues to improve and maintain data quality through the implementation of the Data Quality Improvement Plan. The plan, used in conjunction with the in-depth reports provided as part of the data analysis service contract with Heywood work towards meeting the following objectives:

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

The impact of COVID-19 has impacted on the ability to carry out some of the planned improvements in 2020. However, these exercises will be carried out upon the return to normal working practices.

Aberdeen City Council Transport Fund – Pensioner Liabilities Buy-in

In 2020 the Fund successfully completed and obtained a buy-in policy, securing liabilities for pensioner members of the Aberdeen City Council Transport Fund - the first of its kind for the LGPS Scotland. The buy-in, is an insurance policy that is a near exact match against some, or all of the pension liabilities held by the Transport Fund with administration of these pension benefits being maintained by the ACCTF.

The buy-in marks the completion of a 2-year project which included the transfer of all members and assets from the Strathclyde No. 3 Transport Fund to the ACCTF.

The complex process began after the single employer within both the No. 3 Fund and the ACCTF expressed their desire to reduce the risk associated with their LGPS pension liabilities and to streamline their administrative requirements. To achieve this, it was agreed that the Funds would merge, followed by a buy-in process to secure pensioner liabilities.

The merge was a substantial project and one of the key administrative tasks for the Fund in 2019. Not only did it involve close working partnerships with other Funds, employers and third parties but internally, it saw teams collaborate to guarantee the smooth transition of financial assets and data whilst ensuring affected members were kept fully informed and engaged throughout.

Following the successful merge, the procurement process for the buy-in commenced in early 2020. Despite being delayed due to the COVID-19 outbreak and the subsequent volatility of financial markets, the Fund entered into a contract with Rothesay Life Plc which provides greater certainty around funding and continues to reduce the risk exposure of this maturing Transport Fund.

Actuarial Valuation

The triennial exercise to value the liabilities held within the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund commenced at the start of 2020 in the middle of the uncertainty around the pandemic. The valuation as at 31 March 2020 was carried out by Mercer, the Scheme actuary, to determine the overall funding level(s) as well as determine the individual contribution rates for all participating employers within both Funds.

All work including determining the methodology and assumptions that were to be applied by the Scheme actuary, and the gathering and reconciliation of member data were all carried out whilst working from home adding extra complexity to the process. However, indicative results and suggested contribution requirements were available for employers in early November with the virtual financial forum being held later that month. This allowed the Employer Relationship Team to begin the process of communicating with the individual employers around the appropriateness of the assumptions used by the actuary, affordability and funding.






The valuation certificate was signed off by the Scheme actuary in March 2021 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels and the finalised rates were issued to all employers, provided to the Scottish Public Pensions Agency (SPPA) and published on the Funds website following the completion of the actuarial process.



Visit Scotland Consolidation

In accordance with a Direction of the Scottish Ministers issued on 25 August 2020 the assets and liabilities held within the NESPF for Visit Scotland were transferred to Lothian Pension Fund as the new responsible authority. This large scale exercise involving the majority of Scottish Funds took place over 2020/21 to ensure that all member records and pension payroll were transferred to the new provider with little or no impact to the members themselves. The NESPF members were transferred as part of phase one of the exercise therefore the administration and pension payroll became the responsibility of Lothian Pension Fund from September 2020.

The value of the assets held in respect of the transferred liabilities were agreed by the two Fund actuaries with the payment being made in March 2021.


5. Financial Performance

2020/21 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£143m	 Contributions Receivable	£11m
£168m	 Benefits Payable	£11m
£27m	 Management Expenses	£650k
£1,389m	 Net Return on Investments	£19m
£5,704m	 Net Assets of the Fund at the End of Year	£305m

Key Statistics		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
48	 Total Number of Employers	2
70,797	 Total Membership	1,604

2,071 

Votes at AGMs

43% 

All Fund Members Registered for MSS

34.1 

Staff Employed (FTE)

2,123

Members to Staff Ratio

North East Scotland Pension Fund Financial Summary

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Deductions)	(15,456)	(18,219)	(19,697)	(30,977)	(51,481)
Net Investment Income Change in Market Value Net Return on Investment	648,411	329,035	363,300	(71,648)	1,389,061
Net Increase/ (Decrease) in Fund	632,955	310,816	343,603	(102,625)	1,337,580
Fund Balance as at 31 March (Market Value)	3,814,748	4,125,564	4,469,167	4,366,542	5,704,122

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

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

Budget

	Note	Actual Spend 2020/21 £'000	Budget or Forecast* 2020/21 £'000	Over or (Under) Spend 2020/21 £'000
Administration Expenses	1	2,236	2,422	(186)
Oversight and Governance Expenses		713	685	28
Investment Management Expenses*	2	23,820	18,491	5,329
Management Expenses Total		26,769	21,598	5,171

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

1. Under spend – New staff posts some of which were recently filled and some yet to be filled.
3. Over spend – This is a forecast* rather than a traditional budget. This is largely due to the level of estimation and the extent of the unknown, especially given that the expenses are based upon an unpredictable market activity/value. However, the over spend is largely associated with the recovery in market value following the COVID-19 outbreak.

Membership Statistics

NESPF	2016/17	2017/18	2018/19	2019/20	2020/21
Active	25,329	25,568	25,892	26,275	26,287
Pensioners	19,111	20,023	21,029	22,156	24,016
Deferred	16,888	17,218	17,846	17,965	17,830
Frozen Leavers	2,232	2,435	2,759	3,021	2,664
Total	63,560	65,244	67,526	69,417	70,797

Active membership has continued to increase steadily over the last few years. This may be as a result of auto enrolment and the way employment records are held on payroll systems meaning that members may have multiple payroll records to reflect their different employment contracts. Pensioner records have increased dramatically as a result of changing regulations which allow members to access their pensions from age 55 onwards. A frozen leaver exercise to encourage members to take their unclaimed refund was carried out in early 2020 and has reduced the number of these records held.

Management Expenses

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Administration	1,563	1,638	1,634	1,822	2,236
Oversight and Governance	468	467	474	422	713
Investment Management	16,455	19,092	18,665	17,953	23,820
Total Management Expenses	18,486	21,197	20,773	20,197	26,769

Unit Cost Per Member

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Administrative Unit Cost per Member	24.59	25.11	24.20	26.25	31.58
Oversight and Governance Unit Cost per Member	7.36	7.16	7.02	6.08	10.07
Investment Management Unit Cost per Member	258.89	292.62	276.41	258.62	336.46
Total Cost per Member	290.84	324.89	307.63	290.95	378.11

Aberdeen City Council Transport Fund Financial Summary

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Deductions)	(1,731)	(2,669)	(1,900)	(7,024)	(758)
Net Investment Income Change in Market Value Net Return on Investment	15,454	2,774	7,129	(5,836)	18,860
Revaluation of Insurance Buy-In Contract	0	0	0	0	(22,320)
Net Increase/ (Decrease) in Fund	13,723	105	5,229	(12,860)	(4,218)
Transfer of Cash/Stock	0	0	0	216,388	0
Fund Balance as at 31 March (Market Value)	99,966	100,071	105,300	308,828	304,610

Membership Statistics

Transport Fund	2016/17	2017/18	2018/19	2019/20	2020/21
Active	61	48	42	77	71
Pensioners	423	434	429	1,373	1,372
Deferred	121	114	110	171	153
Frozen Leavers	9	9	9	9	8
Total	614	605	590	1,630	1,604

The increase in membership seen from 2018/19 to 2019/20 was as a result of the merge of the Strathclyde No. 3 Fund into the Aberdeen City Council Transport Fund. As the ACCTF is a closed admission and it is very mature in nature, the combined membership totals will therefore continue to reduce on an annual basis from 2020/21 thereon.

Management Expenses

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Administration	50	51	50	60	72
Oversight and Governance	38	72	31	49	131
Investment Management	157	868	231	181	447
Total Management Expenses	245	991	312	290	650

Unit Cost Per Member

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Administrative Unit Cost per Member	81.43	84.30	84.75	36.81	44.89
Oversight and Governance Unit Cost per Member	61.89	119.01	52.54	30.06	81.67
Investment Management Unit Cost per Member	255.70	1,434.71	391.52	111.04	278.68
Total Cost per Member	399.02	1,638.02	528.81	177.91	405.24

Remuneration Report

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

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

6. Economic and Market Background

During a very tumultuous year with the COVID-19 pandemic significantly impacting markets, the MSCI All World index ended the year up 16%. After a sharp decline in March, global equities rallied in the second quarter, the strongest quarter since 2009, and continued to rise during the second half of the year. Travel restrictions, social distancing measures, lockdowns and a transition to “working from home” became the new normal for millions of people around the globe. Positive vaccine news in the fourth quarter presented a turning point in the fight against COVID-19. The market responded positively as the MCSI All World index gained another 15% in Q4. Global stock markets made a strong start to 2021 with the MSCI All World index up 4.6%.

In contrast, bond markets sold off as investors focused on the prospects for higher inflation. The Biden administration’s investment plans overwhelmed any concern around the path of interest rates, but central bankers may have a difficult task ahead in balancing rising inflation and monetary policy. Rising bond yields undermined longer-duration sectors and value-related names outperformed in the later part of the quarter. Regionally, the US and UK led markets while Emerging Markets and Developed Asia lagged.

US Equities

The global spread of coronavirus shook financial markets with high levels of volatility and a historical sell-off in March. The S&P 500 rallied during the second half of the year with growth stocks driving market performance. Positive investor sentiment came from encouraging news about the development of COVID-19 vaccines, the election of President Biden, and the U.S. government’s passage of various stimulus packages. This optimism spilled into 2021; however, performance during the first few months of 2021 was characterised by value as it began to outperform growth in the market.

UK Equities

COVID-19 caused one of the most rapid falls in equity markets ever witnessed. At the height of the market sell-off, all assets fell amid fears around the stability of the financial system. Announcements of fiscal and monetary stimulus were ongoing and provided some respite throughout the period. The market rallied with November’s vaccine news and then again to the Brexit trade deal, with domestically focused areas of the market outperforming. Rising bond yields undermined longer-duration sectors and a rebound in cyclical earnings drove a rally in value-related areas of the market. This continued into the first quarter of 2021 optimism around recovery trumped concerns around virus variants.

European Equities

European markets were generally characterised by historically high volatility amid the pandemic. However, following positive vaccine news and roll-out, markets have seen the start of a significant recovery. In particular, the value sectors of the market led the recovery rally. Since then, markets have largely traded around high-level macro narratives regarding the re-opening of economies, vaccine roll outs and data, a likely earnings recovery as well as inflationary pressures and interest rate moves. Macro data remains strong and markets are optimistic about Europe's outlook as vaccine rollouts progress and the strength of the global consumer shines through.

Emerging Markets Equities

Much of 2020 was driven by shifts in investor sentiment surrounding COVID-19. Countries that were able to respond (and rebound) quickly, such as China and South Korea, dominated performance, while a lack of investor confidence caused many smaller markets to lag, despite material improvements in economic conditions. Towards the end of 2020 however, saw a major reversal in market support driven by a positive vaccination news and a more stable geopolitical environment, leading to a rotation from growth into cyclical value that has persisted into 2021.

Japanese Equities

The Japanese stock market fell due to high COVID-19 infection rates globally, geopolitical risk and the US-China relationship impacting markets. Toward the end of the 2020, the Nikkei Stock Average hit a 30-year high due to the enactment of additional fiscal policies in the US. The market has shown a resilient performance due to the distribution of vaccines outside Japan and the continuation of accommodative monetary policies in Japan and the US. Subsequently, there were some negative reactions to fluctuating US stocks and rising US interest rates. Despite the support of monetary easing policies around the world, it advanced toward mid-March owing to the commencement of the administration of vaccines in Japan, robust corporate earnings, and rising expectations for additional fiscal policies in the US.

Bonds

The second quarter of 2020 was broadly characterised by a rebound in investor sentiment following a historic sell-off in the second half of the first quarter. Developed market government bond yields were generally range-bound given the countering forces of significant debt issuance to fund large fiscal packages and ultra-accommodative easing from central banks, while euro-zone peripheral spreads compressed tighter on positive policy developments. Riskier assets rallied across asset classes and regions to pare back much of the losses from the first quarter which continued into the third quarter. This subsided in September amid concerns of policy fatigue and the sustainability of the pick-up in economic activity.

From a monetary policy perspective, the most significant development came from the US Fed and its newly announced flexible inflation rate. The forward guidance points to a willingness to allow inflation to run above 2% given the persistent tendency to undershoot, and so that inflation averages 2% over “some time”.

The year ended with strong performance in risk assets, capping off a remarkable turnaround from the first quarter. US Treasury yields sold off on the back of the US election outcome and positive vaccine news, while government bond yields were range-bound in other areas such as the UK, Germany and Japan.

Expectations of faster real economic growth driven by vaccination roll-out and easing lockdowns meant developed market government bonds yields were sold off sharply across regions including Australia, the UK, the US and Germany.

UK Property

The UK commercial Real Estate market was dominated by coronavirus-fighting measures which saw many businesses suffer extended closures and challenging trading conditions. According to the Centre for Retail Research, 52 retailers in 2020 entered into administration. We have seen a trend of online companies buying brands out of administration but leaving behind the physical stores, fuelling occupational demand in the industrial sector.

These impacts were crystallised when the Royal Institution of Chartered Surveyors and major valuers unanimously added a “Material Valuation Uncertainty” clause (MUC) to their real estate valuations. Majority of UK open-ended Real Estate funds suspended trading as they were prevented from being able to issue a ‘reliable’ NAV. Transaction volumes were down by c.80%, £3 billion in Q2 vs £15.4 billion in Q1. As more transactional evidence emerged it became possible for valuers to incrementally lift the MUC clauses on the most defensive assets and by September the MUC was lifted from virtually all remaining asset sub-sectors.

Offices saw vacancy rates increase at pace convincing occupiers to return space to the market. On average, London availability has risen by 30% in 2020, pushing one third of submarkets into double digit vacancy. As a result, we expect rents in Central London to fall in the first half of 2021 however regional central business district offices are expected to be more resilient.

Many of the risks that weighed on sentiment at the end of last year have in part been lessened in 2021, and we can look to a quicker, more complete recovery with a greater degree of confidence. The Q1 2021 performance of the MSCI/AREF UK All Balanced Property Fund Index has helped justify the positive outlook for UK Real Estate. Delivering a 2.2% total return in Q1, this has been the best quarterly return for the benchmark since Q4-17 and the strongest Q1 performance since 2015.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:			
FTSE All Share Index	26.7	3.2	6.3
FTSE All World Index	39.6	13.8	14.9
FTSE All World ex UK Index	40.0	14.2	15.1
FTSE North American Index	42.4	17.0	16.7
FTSE European (ex UK) Index	35.0	8.4	11.1
FTSE Japan Index	26.0	6.7	11.6
FTSE Developed Asia (ex Japan) Index	50.5	9.1	12.6
FTSE Emerging Markets Index	40.3	7.3	12.6
Bonds:			
BOFAML UK Gilts All Stocks	-5.6	2.5	2.9
ML UK Corporate Bonds	7.0	4.1	4.6
FTA Index Linked All Stocks	2.3	3.3	5.8
Source: Bloomberg			

7. NESPF Investment Strategy

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

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

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

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

Asset Structure 2020/21

Asset Class	Distribution as at 31 March 2020		Distribution as at 31 March 2021	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	65.5	57.5	68.8	55.0
Bonds / Credit	20.0	20.0	15.5	22.5
Property / Infrastructure	12.6	20.0	11.7	20.0
Cash / Other	1.9	2.5	4.0	2.5
Total	100.0	100.0	100.0	100.0

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

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

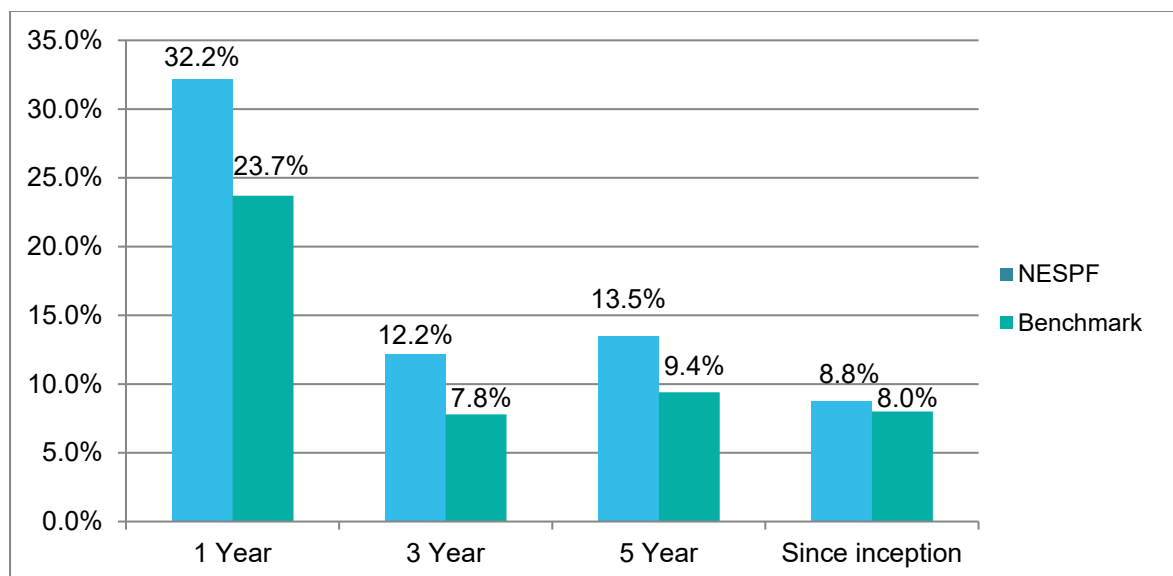
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been very strong, with a bounce back in valuations as optimism of coming out of lockdown and an economic recovery gathered momentum. Given that recovery in Equity valuations in particular, the Fund continues to re-balance and fold in investment gains made. The outperformance in the 1 year performance number of 32.2% versus benchmark of 23.7% is attributable to active management providing additional value to the Fund.

It is notable that the Fund continues to outperform the benchmark returns over all periods and comparators such as CPI and Average Earnings over the longer term. This provides assurance that the Fund's Investment Strategy works and will continue to deliver the required returns over the longer term.

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



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

Year Ending	2018/19	2019/20	2020/21	Since Inception Annualised
	%	%	%	%
CPI*	1.9	1.5	0.7	2.5
Average Earning*	3.2	2.4	4.0	2.8
NESPF Return	8.5	-1.8	32.2	8.8

*Source: Office of National Statistics

Investment Management Structure

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

8. ACCTF De-Risking Strategy and Performance

Over the course of last year, the Strathclyde Transport Fund (No.3 Fund) has formally merged with the Aberdeen City Council Transport Fund. Given the merger and strong asset performance over the last year, both funds have achieved their investment objectives of being a 100% funded. In terms of re-organising the merged Transport Fund, an insurance 'Buy-In' has been completed for both sets of liabilities which covers future benefit payments of those combined liabilities. Remaining assets have an interim investment strategy in place to manage volatility, whilst the exercise is being conducted into the best solution to align to the new target.

9. Risk

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

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

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

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

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

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

Risk Management

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

10. Funding Strategy Statement

The long term objective of the Funds is to achieve and maintain sufficient assets in order to pay all pension benefits as they fall due. The Funding Strategy Statement (FSS) addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The purpose of the FSS is therefore:

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

The FSS is required as part of Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2020 actuarial valuation, the FSS for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund were reviewed, with employers consulted on the revised version.

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

11. Statement of Investment Principles

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

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

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

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

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

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

12. Environmental, Social and Governance Issues

Responsible Investment & Engagement

As a long term investor, the Funds have a duty to engage with the companies we invest in on environmental, social and governance (ESG) issues, and to work with others to effect change on ESG issues.

What does this look like in practice?

There are several things that we as an investor can do to make changes for the better.

Collaboration

There are limits to the influence we can achieve as a single investor and we believe greater progress can be made through collaboration with other investors. Our main collaboration is with the Local Authority Pension Fund Forum (LAPFF) and our External fund managers.

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

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

1. Mining & Human Rights

Context - The mining sector has long faced challenges from investors on climate change. Along with CCLA and other investors, LAPFF played a role in developing the 2016 'Aiming for A' resolutions filed with AngloAmerican, Glencore, and Rio Tinto. However, the sector has also long faced human rights challenges. These challenges have been magnified in the last few years through the tailings dam collapses at Mariana and Brumadinho, and the destruction of culturally significant caves at Juukan Gorge in mid-2020.

Activities - The human rights implications of mining activities have started to increase in importance relative to climate impacts of mining companies.

One aspect of this awareness has emerged to social actors, including workers and communities. The other angle of this development is the increased role of community voice contributing to investor understanding of corporate conduct.

LAPFF specifically has focused on engaging with mining company chairs to ensure that they see effective community engagement as an important strategic consideration for their companies.

Outcomes - The result is increased pressure on mining companies to comply with international human rights standards, both legal and voluntary. This includes an imperative for mining companies to uphold the new Global Tailings Standard produced by the Principles for Responsible Investment, the UN Environment Programme, and the International Council on Mining and Metals.

Of particular relevance has been the provision in UN Guiding Principle 11, stating: 'The responsibility to respect human rights is a global standard of expected conduct for all business enterprises wherever they operate.'

For the first time, a group of investors have convened to discuss the mining sector and engagement with affected communities in order to help inform this standard of expected conduct. This group represents a powerful additional tool in investors' engagement toolkit with mining companies, one the Forum expects to yield significant benefits in both human rights and investment terms.

2. Climate Change

Context - The Forum was lead investor with ArcelorMittal for a couple of years through the ClimateAction 100+ collective engagement, and initial meetings suggested there was scope for a greater strategic and business focus on the required climate transition. The aim was to promote net zero target setting for the group and to support technologies and partnerships most suited to directly meeting these objectives.

Activities - A number of meetings have been held with ArcelorMittal over the course of the year, as well as the submission of questions to the AGM. An issue raised consistently in meetings with company representatives has been around the use of hydrogen in steelmaking to decarbonise the process.

Outcomes - It was thus welcome to hear that the company had produced its first steel with hydrogen from renewables in 2020 in Europe. The announcement during the year that the company will reduce CO2 emissions by 30% by 2030 in Europe was later followed by the setting of an objective for the group as a whole to be carbon-neutral by 2050.

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

Fund Managers

Through our fund managers we can engage with companies more directly by raising concerns and meeting with Senior Management and Executives. For example, our Fund Manager helped ensure further health and safety practices were implemented within one of the biggest automotive companies to increase protection of staff.

Fund managers report their engagements on a quarterly basis so we can monitor engagement activity.

Other ways the Pension Funds collaborate are by being members/signatories of the following ESG initiatives:

- Climate Action 100
- Carbon Disclosure Project
- UN Principles for Responsible Investment

Further information on these initiatives can be found on our website <https://www.nespf.org.uk/about/investment/responsible-investment/>

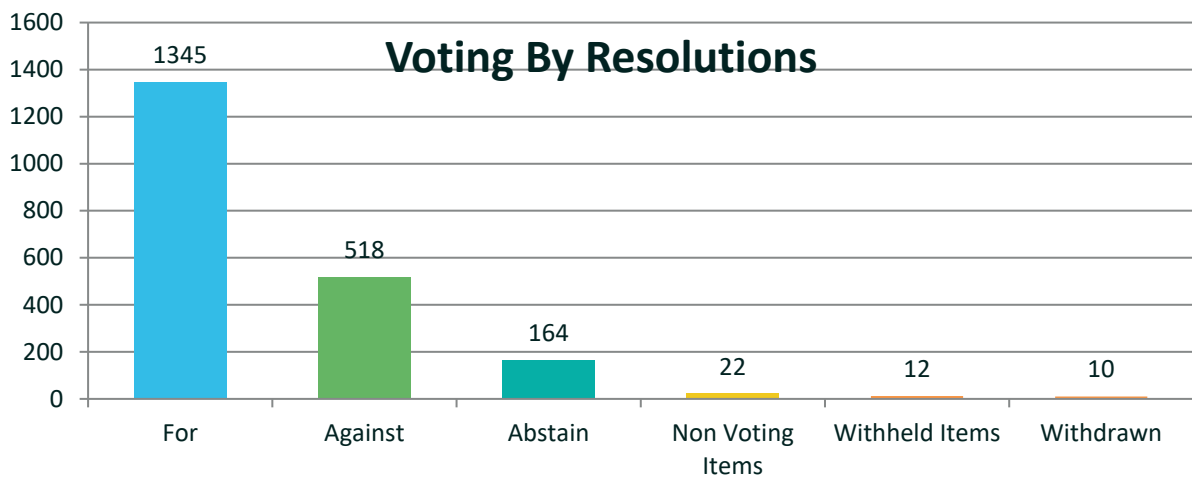
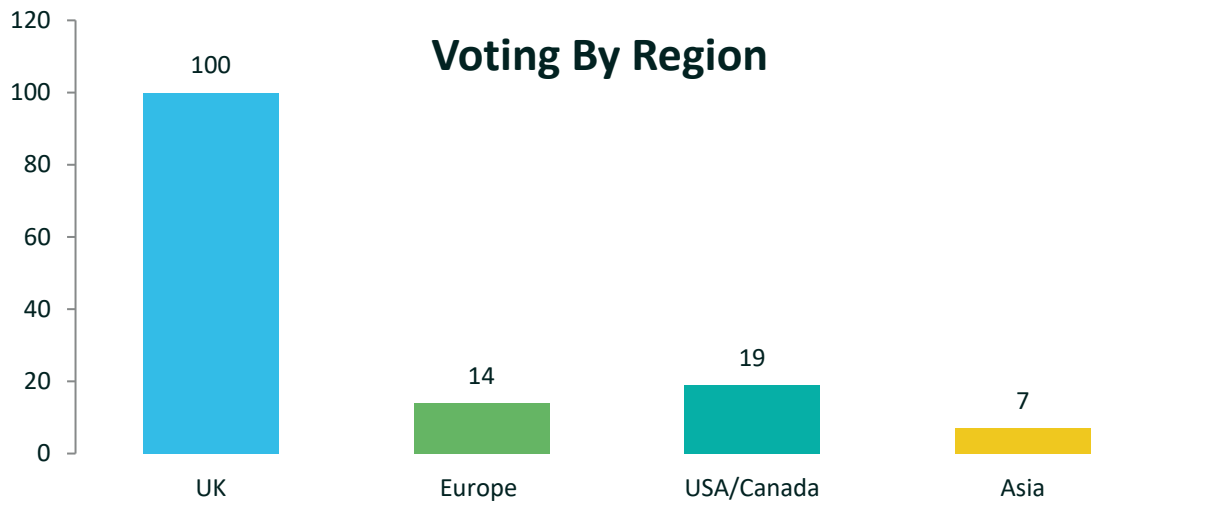
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

Voting

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

The Funds vote in-house on all our active managers holdings and over the last year have voted at 140 Annual General Meetings/Special meetings on 2071 resolutions. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

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



During the year to 31 March 2021, the main reasons for casting a vote against a resolution are listed below:

Annual Reports

- Vote on dividend or dividend policy not put to shareholders which is contrary to best practice.
- Concerns over sustainability policies and practice.

Share Issues/Re-purchase

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

Election of Directors

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

13. Acknowledgement

The production of the Unaudited Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2020/21 Unaudited Annual Report and Accounts.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor M. Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

25 June 2021

Statement of Responsibilities

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

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

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 25 June 2021.

Signed on behalf of Aberdeen City Council

Councillor M. Tauqeer Malik
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

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

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Unaudited Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2021.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
25 June 2021

Annual Governance Statement

Scope of Responsibility

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

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

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

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

Purpose of the Governance Framework for North East Scotland Pension Funds

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds during 2020/21 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

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

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

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

Following the COVID-19 outbreak, all Council Committees were suspended. The purpose of the Urgent Business Committee (UBC) is to determine business of an urgent nature which might otherwise have been reported to Full Council or other Committees and Sub-Committees.

During the period of suspension, both Committee and Board members were in regular contact with Officers to receive updates, demonstrating an ongoing commitment to the effective governance of the Fund. Board and Committee meetings resumed in September 2020.

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

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

Review of Effectiveness

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

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

Management Assurance

As the administration of the Pension Funds is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2020/21, no significant areas of weakness were highlighted.

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

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

Assurance from Internal Audit

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

The focus of internal audit was on the Pension Funds' Pension Payroll with the outcome to be reported to the September 2021 Pensions Committee together with any identified areas of good practice, improvement, and procedural compliance.

The Chief Internal Auditor's annual report concluded that in his opinion reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2021.

External Audit and Other External Scrutiny

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. In 2020/21, there were no significant issues to highlight on the Governance Compliance Statement.

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

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds. The annual review demonstrates that the governance and internal control environment operated effectively during the 2020/21 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor M. Tauqeer Malik
Pensions Committee Convener

On behalf of Aberdeen City Council

25 June 2021

Governance Compliance Statement

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

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

Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2020/21 financial year and its position at year end as at 31 March 2021.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £9,830,496 in 2020/21 (2019/20 £6,047,983).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2021 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

Additional Voluntary Contributions

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

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2021 was £604,765,207 (31 March 2020 £485,085,848).

Actuarial Present Value of Promised Retirement Benefits

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

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

Insurance Buy-In Contract

The insurance Buy-In Contract is included in the Net Assets Statements as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund.

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

Further details relating to the above amended standards are currently not yet available and it is therefore not known the level of impact, if any, on the Financial Statements.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	£'000
Contributions Receivable			
Employees' Contributions	2	30,857	32,047
Employers' Contributions	2	110,335	110,072
Transfer Values	3	2,811	1,369
Other Income		4	4
		144,007	143,492
Benefits Payable			
Retirement Pensions	4	114,657	129,178
Retirement Allowances	4	30,298	22,545
Death Gratuities	4	4,189	5,278
Contributions Refunded	5	571	328
Transfer Values	5	5,072	10,875
		154,787	168,204
Management Expenses	6a	20,197	26,769
Return on Investment			
Investment Income	7	56,316	55,224
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	(127,964)	1,333,837
Net Return on Investments		(71,648)	1,389,061
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		(102,625)	1,337,580
Opening Net Assets of the Fund		4,469,167	4,366,542
Net Assets of the Fund at the end of the year		4,366,542	5,704,122

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	£'000
Investment Assets			
Equities		1,372,264	2,258,827
Pooled Funds	9	2,124,895	2,311,825
Direct Property	13	348,750	361,325
Private Equity – Other		322,825	364,478
Private Debt		83,435	134,920
Funds held by Investment Managers		60,266	70,372
ACC Loans Fund Deposit	19	67,480	54,605
Investment Income Due		3,685	4,924
Investment Sales Amount Receivable		0	255
Total Investment Assets		<u>4,383,600</u>	<u>5,561,531</u>
Investment Liabilities			
Investment Purchases Amount Payable		(1,711)	(306)
Net Investment Assets		<u>4,381,889</u>	<u>5,561,225</u>
Long Term Assets	18a	81	467
Current Assets	18b	15,106	180,351
Current Liabilities	18c	(30,534)	(37,921)
Net Current Assets/(Liabilities)		<u>(15,428)</u>	<u>142,430</u>
Net Assets of the Fund at the end of the year		<u>4,366,542</u>	<u>5,704,122</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
25 June 2021

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	£'000
Contributions Receivable			
Employees' Contributions	2a	129	133
Employers' Contributions	2a	1,908	1,800
Other Income	2b	348	9,073
		2,385	11,006
Benefits Payable			
Retirement Pensions	3	7,061	9,816
Retirement Allowances	3	1,734	969
Death Gratuities	3	324	78
Transfer Value Paid	4	0	251
		9,119	11,114
Management Expenses	5a	290	650
Return on Investment			
Investment Income	6	224	480
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7a	(6,060)	18,380
Net Return on Investments		(5,836)	18,860
Revaluation of Insurance Buy-In Contract	13c	0	(22,320)
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		(12,860)	(4,218)
Transfer of Strathclyde Transport Fund Assets (Cash & Stock)	7b	216,388	0
Opening Net Assets of the Fund		105,300	308,828
Net Assets of the Fund at the end of the year		308,828	304,610

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	£'000
Investment Assets			
Bonds		164,934	60,164
Pooled Funds	8	135,282	13,248
Funds held by Investment Managers		8,304	22,599
ACC Loans Fund Deposit	16	429	2,010
Investment Income Due		148	55
Investment Sales Amount Receivable		0	0
Total Investment Assets		309,097	98,076
Investment Liabilities			
Investment Purchases Amount Payable		(675)	0
Net Investment Assets		308,422	98,076
Insurance Buy-In Contract		0	206,442
Lifetime Tax Allowance		269	242
Long Term Assets	15a	269	206,684
Current Assets	15b	909	796
Current Liabilities	15c	(772)	(946)
Net Current Assets/ (Liabilities)		137	(150)
Net Assets of the Fund at the end of the year		308,828	304,610

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
25 June 2021

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2020.

Information from the 2020 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£4,367,000,000
Liabilities	£4,254,000,000
Surplus	£ 113,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	103%
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Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 12 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 21.7% (the Primary contribution rate.) By spreading the surplus over 12 years the Secondary contribution rate for the whole Fund is -2.5% meaning that the average employer contribution rate is 19.2% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2020 Actuarial Valuation report. This sets out the contributions for each employer over the 3 year period to 31 March 2024.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2024. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2024 onwards will be revised as part of the next actuarial valuation as at 31 March 2023 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate (past service)	3.35% p.a.
Discount Rate (future service)	3.60% p.a.
Assumed Long Term Price Inflation (CPI)	2.10% p.a.
Salary Increases – Long term	3.60% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.10% p.a.

*Short term pay restraint was allowed for over the three years following the valuation.

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £6,003m (2020 £5,252m). Included within the calculation for 2021 is the estimated cost of extending GMP indexation to all members reaching State pension Age after 6th April 2021 in line with Government requirements. In addition, the figure shown includes the effect of transferring responsibility for pre 1986 pension increase liabilities of £8.7m to the ACCTF on 31 March 2021. These figures are used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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

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

Note 2: Contributions Receivable

By Category	2019/20	2020/21
	£'000	£'000
Employees' Normal Contributions	30,857	32,047
Employers' Normal Contributions	107,777	107,424
Employers' Deficit Recovery Contributions	2,558	2,648
Total Employers' Contributions	110,335	110,072
Total	141,192	142,119

By Authority	2019/20	2020/21
	£'000	£'000
Administering Authority	40,926	40,221
Scheduled Bodies	86,618	87,681
Admitted Bodies*	13,648	14,217
Total	141,192	142,119

*There is no longer a requirement to separate out Transferee Bodies for the above analysis. Therefore, Transferee Bodies (5,390 2020/21 and 4,921 2019/20) will be included within the total for Admitted Bodies.

Note 3: Transfers in from other Pension Funds

	2019/20	2020/21
	£'000	£'000
Individual Transfers	2,811	1,369
Total	2,811	1,369

Note 4: Benefits Payable

By Category	2019/20	2020/21
	£'000	£'000
Pensions	114,657	129,178
Commutation and Lump Sum Retirement Benefits	30,298	22,545
Lump Sum Death Benefits	4,189	5,278
Total	149,144	157,001

By Authority	2019/20	2020/21
	£'000	£'000
Administering Authority	41,103	40,249
Scheduled Bodies	94,819	103,910
Admitted Bodies*	13,222	12,842
Total	149,144	157,001

*There is no longer a requirement to separate out Transferee Bodies for the above analysis. Therefore, Transferee Bodies (1,814 2020/21 and 2,010 2019/20) will be included within the total for Admitted Bodies.

Note 5: Payment to and on Account of Leavers

	2019/20	2020/21
	£'000	£'000
Refunds to Members Leaving Service	565	341
Payments for Members Joining State Scheme	6	(13)
Individual Transfers	5,072	4,221
Bulk Transfers*	0	6,654
Total	5,643	11,203

*Bulk Transfer of Visit Scotland to Lothian Pension Fund

Note 6a: Management Expenses

	2019/20	2020/21
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,203	1,252
Information Technology	400	491
Supplies & Services	115	136
Accommodation	84	334
Printing and Publications	20	23
Administration Expenses Total	1,822	2,236
Pension Fund Staffing Costs – Investment	168	172
Pension Fund Committee	16	3
Pension Board	8	0
External Audit Fee	40	42
Internal Audit Fee	7	7
Actuarial Fees	49	321
General Expenses	134	168
Oversight and Governance Expenses Total	422	713
Investment Management	10,293	11,950
Performance Fees	6,048	9,830
Direct Operating Property Expenses	664	744
Transaction Costs	823	1,154
Custody Fees	125	142
Investment Management Expenses Total	17,953	23,820
Management Expenses Grand Total	20,197	26,769

Note 6b: Investment Management Expenses by Asset Class

2020/21	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Equities	4,880	8,386		1,074	14,340
Pooled Funds	629	267		80	976
Direct Property	1,026		744		1,770
Private Equity	4,194	1,067			5,261
Private Debt	1,221	110			1,331
Subtotal	11,950	9,830	744	1,154	23,678
				Custody Fees	142
				Grand Total	23,820

2019/20	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Equities	2,477	5,158		589	8,224
Pooled Funds	652			234	886
Property	1,056		664		1,720
Private Equity	5,131	890			6,021
Private Debt	977				977
Subtotal	10,293	6,048	664	823	17,828
				Custody Fees	125
				Grand Total	17,953

Note 6c: Analysis of Transaction Costs

Commission £'000	Fees/Tax £'000	2019/20 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2020/21 Total £'000
192	397	589	Equities	297	777	1,074
0	234	234	Pooled Funds	0	80	80
192	631	823	Total	297	857	1,154

Note 7: Investment Income

	2019/20 £'000	2020/21 £'000
Equity Dividends	25,573	20,825
Property Rental Income	17,442	16,634
Interest on Cash Deposit	1,395	160
Pooled Funds	7,506	8,018
Private Equity	670	3,223
Private Debt	1,946	6,695
Other (including P/L from Currency & Derivatives)	1,962	(196)
Total	56,494	55,359
Tax		
Withholding Tax – Equities	(178)	(25)
Withholding Tax – Pooled Infrastructure	0	(75)
Withholding Tax – Private Equity	0	(35)
Total Tax	(178)	(135)
Net Total	56,316	55,224

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2020	Purchases	Sales	Change in Market Value	Market Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities	1,372,264	501,526	(504,555)	889,592	2,258,827
Pooled Funds	2,124,895	538,272	(749,953)	398,611	2,311,825
Property	348,750	29,153	(18,715)	2,137	361,325
Private Equity	322,825	52,486	(51,681)	40,848	364,478
Private Debt	83,435	50,167	(1,331)	2,649	134,920
	4,252,169	1,171,604	(1,326,235)	1,333,837	5,431,375
Derivative Contracts					
FX Contracts	0	0	0	0	0
	4,252,169	1,171,604	(1,326,235)	1,333,837	5,431,375
Other					
Cash	127,746				124,977
Investment Income Due	3,685				4,924
Investment Sales Amount Receivable	0				255
Investment Purchases Amounts Payable	(1,711)				(306)
Net Investment Assets	4,381,889				5,561,225

Reconciliation of Movements in Investment and Derivatives (continued)

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Equities	1,688,329	146,422	(474,723)	12,236	1,372,264
Pooled Funds	1,979,846	441,993	(135,175)	(161,769)	2,124,895
Property	328,025	28,849	0	(8,124)	348,750
Private Equity	280,903	51,997	(42,637)	32,562	322,825
Private Debt	18,428	73,883	(6,007)	(2,869)	83,435
	4,295,531	743,144	(658,542)	(127,964)	4,252,169
Derivative Contracts					
FX Contracts	0	0	0	0	0
	4,295,531	743,144	(658,542)	(127,964)	4,252,169
Other					
Cash	178,671				127,746
Investment Income Due	5,799				3,685
Investment Sales Amount Receivable	664				0
Investment Purchases Amounts Payable	(890)				(1,711)
Net Investment Assets	4,479,775				4,381,889

Note 9: Analysis of Investments

	2019/20	2020/21
	£'000	£'000
Equities	1,372,264	2,258,827
Pooled Funds Breakdown:		
Bonds	790,122	746,001
Equities	847,033	1,170,458
Diversified Growth Funds	310,820	186,158
Infrastructure - Unit Trust	98,094	103,840
Infrastructure - Limited Partnership	78,826	105,368
Pooled Funds	2,124,895	2,311,825
Direct Property	348,750	361,325
Private Equity	322,825	364,478
Private Debt	83,435	134,920
Other Investments	755,010	860,723
Funds held by Investment Managers	60,266	70,372
ACC Loans Fund Deposit	67,480	54,605
Investment Income Due	3,685	4,924
Investment Sales Amount Receivable	0	255
Other Balances	131,431	130,156
Investment Assets Total	4,383,600	5,561,531
Investment Liabilities		
Investment Purchases Amounts Payable	(1,711)	(306)
Investment Liabilities Total	(1,711)	(306)
Net Investment Assets	4,381,889	5,561,225

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2021.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2021.

Note 11: Investments Analysed by Fund Manager

	31 March 2020		31 March 2021	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,234,017	28.3	1,450,740	25.4
Baillie Gifford	1,022,435	23.4	1,824,861	32.0
BlackRock Asset Management	388,970	8.9	504,659	8.8
BlackRock Diversified Growth Fund	158,096	3.6	186,163	3.3
Blackrock Renewable Power III	0	0.0	8,531	0.2
Baring Asset Managers	(3)	0.0	0	0.0
AAM Property (API)	370,869	8.5	387,485	6.8
AAM Property Residential	9,138	0.2	21,064	0.4
HarbourVest	136,620	3.1	157,903	2.8
Standard Life	22,567	0.5	18,717	0.3
ACC Loans Fund Deposit	67,480	1.5	54,605	1.0
Global Custodian	15,409	0.4	9,659	0.1
Partners Group	58,066	1.3	55,336	0.9
Maven Capital	1,541	0.0	1,492	0.0
Capital Dynamics	36,306	0.8	49,653	0.9
RCP Advisors	23,743	0.6	29,238	0.5
Unigestion	47,941	1.1	45,831	0.8
Invesco Diversified Growth Fund	152,724	3.5	0	0.0
Russell Multi Asset Credit	91,021	2.1	108,399	1.9
Russell Transition	312	0.0	16	0.0
Aviva Infrastructure	98,094	2.3	103,840	1.8
Hermes Infrastructure	78,933	1.8	96,945	1.7
Alcentra	53,683	1.2	69,260	1.2
Hayfin Direct Lending	29,752	0.7	65,659	1.2
Insight Credit	284,175	6.5	311,169	5.5
	4,381,889	100.3	5,561,225	97.5
Net Long and Current Assets				
Bank Account	27	0.0	164,003	2.9
Long Term and Current Debtors Less Creditors	(15,374)	(0.3)	(21,106)	(0.4)
Net Assets	4,366,542	100.0	5,704,122	100.0

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

Security	Market Value 31 March 2020	% of Net Investment Assets	Market Value 31 March 2021	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund	416,221	9.50	562,934	10.12
MPF UK Equity Pooled Fund	402,869	9.19	561,352	10.09
MPF UK Index Linked Gilts	206,888	4.72	326,454	5.87
Insight Investment Mgt Global Funds	284,175	6.49	311,148	5.59

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

Note 12: Stock Lending

	31 March 2020	Collateral Percentage	31 March 2021	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	305,518		384,346	
Total Exposure	305,518		384,346	
Total Collateral	329,942	108%	406,101	106%

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

Collateral is held at 106% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 13: Property Holdings

	2019/20	2020/21
	£'000	£'000
Opening Balance	328,025	348,750
Purchases	27,671	28,538
Construction	676	614
Subsequent Expenditure	502	1
Disposals	0	(18,715)
Net Increase in Market Value	(8,124)	2,137
Closing Balance	348,750	361,325

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

Unlike 2019-20, Savills' valuation of the Fund's property portfolio no longer includes a 'material valuation uncertainty' clause, as there is adequate quantum of market evidence that exists upon which to base an opinion of value.

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

	2019/20	2020/21
	£'000	£'000
Within One Year	17,266	16,722
Between One Year and Five Years	62,912	60,965
Later than Five Years	98,659	98,716
Total	178,837	176,403

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

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2020-21 has seen no adjustment being required for a credit loss allowance.

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2020			31 March 2021			
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
1,372,264			Equities	2,258,827		
2,124,895			Pooled Funds	2,311,825		
322,825			Private Equity	364,478		
83,435			Private Debt	134,920		
	127,746		Cash		124,977	
	3,685		Other Investment Balances		5,179	
	15,187		Debtors		180,818	
3,903,419	146,618		Subtotal	5,070,050	310,974	
			Financial Liabilities			
		(1,711)	Other Investment Balances			(306)
		(30,534)	Creditors			(37,921)
		(32,245)				(38,227)
3,903,419	146,618	(32,245)	Financial Instruments Total	5,070,050	310,974	(38,227)
			Non-Financial Instruments			
348,750			Property	361,325		
4,252,169	146,618	(32,245)		5,431,375	310,974	(38,227)
		4,366,542	Net Assets of the Fund			5,704,122

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

31 March 2020		31 March 2021
£'000	Financial Assets	£'000
(119,840)	Fair Value through Profit and Loss	1,331,700
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(119,840)	Net Gains and Losses on Financial Instruments	1,331,700
	Non-Financial Instruments	
(8,124)	Fair Value through Profit and Loss	2,137
(127,964)	Net Gains and Losses of the Fund	1,333,837

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 16a: Fair Value – Basis of Valuation

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2021	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,465,285		604,765	5,070,050
Non-Financial Assets at Fair Value through Profit and Loss		361,325		361,325
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,465,285	361,325	604,765	5,431,375

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

Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

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

	Market Value 31 March 2020	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000	£'000
Infrastructure – Limited Partnership	78,826	33,818	(912)	912	(7,276)	105,368
Private Equity	322,825	52,486	(51,681)	35,228	5,620	364,478
Private Debt	83,435	50,167	(1,331)	1,331	1,318	134,920
Total	485,086					604,766

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

Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2021.

	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Infrastructure – Limited Partnership	30%	105,368	136,978	73,758
Private Equity	30%	364,478	473,821	255,135
Private Debt	30%	134,920	175,396	94,444
Total		604,766	786,195	423,337

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

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.0%
Overseas Bonds	7.0%
UK Equities	15.9%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	30.0%
Private Equity	30.0%
Private Debt	30.0%
Property	13.0%
Cash	1.0%

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

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

Asset Type	Value as at 31 March 2021 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Bonds	326,453	7.0	349,305	303,601
Overseas Bonds	419,548	7.0	448,916	390,180
UK Equities	1,475,045	15.9	1,709,577	1,240,513
Overseas Equities	1,954,240	20.5	2,354,859	1,553,621
Pooled – Diversified Growth Funds	186,158	12.5	209,428	162,888
Infrastructure - Other	103,840	13.0	117,339	90,341
Infrastructure - Limited Partnership	105,368	30.0	136,978	73,758
Private Equity	364,478	30.0	473,821	255,135
Private Debt	134,920	30.0	175,396	94,444
Total	5,070,050		5,975,619	4,164,481

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	206,888	7.5	222,405	191,371
Overseas Bonds	583,234	7.5	626,977	539,491
UK Equities	991,938	16.5	1,155,608	828,268
Overseas Equities	1,227,358	20.5	1,478,966	975,750
Pooled – Diversified Growth Funds	310,821	12.5	349,674	271,968
Infrastructure - Other	98,094	13.0	110,846	85,342
Infrastructure - Limited Partnership	78,826	30.0	102,474	55,178
Private Equity	322,825	30.0	419,673	225,977
Private Debt	83,435	30.0	108,466	58,404
Total	3,903,419		4,575,089	3,231,749

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2020	As at 31 March 2021
	£'000	£'000
Cash and Cash Equivalents	127,746	124,977
Cash Balances	27	164,003
Bonds	790,122	746,001
Total	917,895	1,034,981

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2021	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	124,977	126,227	123,727
Cash Balances	164,003	165,643	162,363
Bonds	746,001	753,461	738,541
Total	1,034,981	1,045,331	1,024,631

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

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2021 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Asset Value as at 31 March 2021
	£'000	£'000
Overseas Quoted Securities	811,137	1,391,306
Overseas Unquoted Securities	359,274	435,719
Overseas Unit Trusts	791,417	982,482
Overseas Global Pooled Bonds	208,038	0
Total Overseas Assets	2,169,866	2,809,507

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 9.7%.

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

A 9.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2021	Potential Market Movement	
		+9.7%	-9.7%
	£'000	£'000	£'000
Overseas Quoted Securities	1,391,306	1,526,263	1,256,349
Overseas Unquoted Securities	435,719	477,984	393,454
Overseas Unit Trust	982,482	1,077,783	887,181
Overseas Global Pooled Bonds	0	0	0
Total	2,809,507	3,082,030	2,536,984

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

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme Investment Regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) loans fund are administered within the City Council treasury policy.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2021 was £288,980,000 (31 March 2020 £127,773,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2020	Balance as at 31 March 2021
		£'000	£'000
Liquidity Funds			
HSBC Liquidity Funds	AA-	34,412	40,450
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	67,480	54,605
HSBC	AA-	25,854	29,922
Subtotal		127,746	124,977
Bank Current Accounts			
Clydesdale Bank	A-	27	164,003
Total		127,773	288,980

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2021 the value of illiquid assets was £966,090,207 which represented 16.9% of the total net assets of the Fund (31 March 2020 £833,835,848 which represented 19.1% of the total net assets).

Note 18a: Long Term Assets

	31 March 2020	31 March 2021
	£'000	£'000
Merge – Transport Funds	81	467
Total Long Term Assets	81	467

Note 18b: Current Assets

	31 March 2020	31 March 2021
	£'000	£'000
Employees' Contributions due	2,498	2,601
Employers' Contributions due	7,513	7,946
Sundry Debtors	5,068	5,801
Subtotal	15,079	16,348
Bank	27	164,003
Total Current Assets	15,106	180,351

Note 18c: Current Liabilities

	31 March 2020	31 March 2021
	£'000	£'000
Sundry Creditors	19,744	33,990
Benefits Payable	10,790	3,931
Total Current Liabilities	30,534	37,921

Note 19: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Fund, the costs of which are reimbursed by the Fund.

The costs of these services for the North East Scotland Pension Fund amounted to £1,736,111 (2019/20 £1,534,042).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £54,605,000 (2019/20 £67,480,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £53,854 (2019/20 £870,248) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the North East Scotland Pension Fund. Two employees were identified and their financial relationship with the Fund (expressed as an accrued pension) is set out below:

		Accrued Pension 2019/20	Accrued Pension 2020/21
		£'000	£'000
Steven Whyte	Director of Resources	42	44
Jonathan Belford	Chief Officer - Finance	36	38

Governance

As at 31 March 2021, 9 members of the Pensions Committee and 7 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

Each member of the Pensions Committee and Pension Board is required to declare any financial and non-financial interest they have in the items of business for consideration at each meeting, identifying the relevant agenda items and the nature of their interest.

In 2020/21, Elected Members' had interests in Sport Aberdeen, Aberdeen International Youth Festival, Aberdeen Foyer, Aberdeen Sports Village, Grampian Valuation Joint Board and Aberdeen Endowments Trust.

Note 21: Contractual Commitments as at 31 March 2021

As at 31 March 2021 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	184,823	23,375
Standard Life	44,045	14,016
Partners Group	86,037	19,165
Maven (SLF)	6,308	44
Capital Dynamics	60,000	16,260
RCP Advisors	32,616	8,238
Unigestion	55,370	10,133
AAM Residential Property	30,000	8,908
Hermes Infrastructure	100,000	2,931
Alcentra EDL	85,185	22,849
Hayfin DLF	85,185	20,843
Blackrock Renewable	72,479	63,364
Total	842,048	210,126

Note 22: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Funds' Accounts.

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables. Standard Life and the Prudential do not provide this information by Fund.

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

2019/20	Income (AVCs Paid by Members)	2020/21
£'000		£'000
33	Standard Life	11
2,428	Prudential	1,355

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

Market Value	Additional Voluntary Contributions	Market Value
31 March 2020		31 March 2021
£'000		£'000
1,135	Standard Life	1,114
23,480	Prudential	19,713

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation of the scheme. Insurance bonds are drawn up in favour of the Pension Funds and payment will only be triggered in the event of an employer default. The scheme actuary has been requested to carry out a review of the bond requirement for four admitted bodies as a result of the completion of the triennial valuation as at 30 March 2020.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total the Fund has secured guarantees for 23 Community Admission Bodies and Transferee Admission Bodies currently participating in the scheme.

UK and European law require pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMP). To allow the government to continue to meet these requirements an interim solution was introduced. This means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increase on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. Recent

guidance has confirmed that the UK Government extend this for all members reaching State Pension Age after 5 April 2016.

The McCloud judgement, a legal decision around the Sargent/McCloud cases, has meant that protections put in place for older members when scheme changes were applied in 2015 were deemed as age discriminatory. The impact of this ruling has meant that it is likely that the underpin put in place to ensure that members have not lost out as a result of the introduction of the CARE scheme will be applied to younger members too. The government have outlined their intended approach to remedy this issue which will have a financial impact on the liabilities held.

The cost of both extending the GMP Indexation to all affected members and the increased benefits arising from the McCloud judgement has been taken into account by the scheme actuary when assessing the value of the liabilities for the valuation as at 31 March 2020. The combined effect of these has increased the past service liabilities by broadly £45 million and increased the Primary Contribution Rate requirement by 0.8% per annum from 2020 to 2022.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pensions obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are imbedded within the Funding Strategy Statement. For 2020/21 one employer terminated from the Fund. The assets and liabilities held for this employer were subsumed by the scheme guarantor with a calculated termination fee of zero due upon exit from the Fund. As at 31 March 2021 there are no participating employers in the process of terminating from the Fund.

Changes to the current regulations are expected in 2021 to provide administration authorities greater flexibility in their approach to participating employers exiting from the scheme. These changes seek to allow employers to meet the cost of the scheme over a period of time without accruing more liabilities.

Note 25: Investment Principles

A summary of the Statement of Investment Principles is available on our website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and following any change to the investment strategies of the Pension Funds.

Note 26: Critical Judgements in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty.

The items in the Net Assets Statement as at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £364 million. Private Debt £135 million. Pooled Infrastructure (Unquoted) £105 million. There is a risk that these investments may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 25 June 2021. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 28: Agency Arrangement for Administering Compensatory 'Added' Years

The North East Scotland Pension Fund administers compensatory 'added' years payments for those awarded up to 2011. The Fund acts as an agent of employing bodies, in respect of staff that have had their pension augmented under The Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998.

The cash flows in respect of the relevant employing bodies and associated payroll cost for those compensatory 'added' years payments are:

	2019/20	2020/21
	£'000	£'000
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,386	2,390
Aberdeenshire Council	1,380	1,381
Moray Council	720	707
Scottish Water	1,286	1,291
Other	310	289
Total	6,082	6,058
Associated Payroll Cost	4	4

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the Aberdeen City Council Transport Fund was provided as at 31 March 2020. Information from the 2020 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£309,000,000
Liabilities	£272,000,000
Surplus	£ 37,000,000

Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities	114%
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The valuation included the assets and liabilities transferred to the ACCTF from the Strathclyde No. 3 Fund during 2019/20.

Achieving the Solvency Funding Target

The calculated primary contribution requirement rate for the active membership of the ACCTF as of 31 March 2020 is 43.7%. However, the calculated surplus, including allowing for the impact of the McCloud judgement, is enough to offset this for their projected working lifetime. This has allowed the administering authority to agree that no employer contributions will be required for the period of 01 April 2021 to 31 March 2024. This reflects the certified rate outlined in the ACCTF Actuarial Valuation Report as at 31 March 2020.

Contribution requirements for the period from 1 April 2024 onwards will be revised as part of the next actuarial valuation as at 31 March 2023 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate	0.70% p.a.
Assumed Long Term Price Inflation (CPI)	2.25% p.a.
Salary Increases – First Aberdeen	2.75% p.a.
Salary Increases – First Glasgow	3.625% p.a.
Pension Increases in Payment	2.25% p.a.

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

Post Valuation Events

Following the merge of the Strathclyde No.3 Fund into the ACCTF, the Fund has entered into a buy-in arrangement with Rothesay Life Plc. This policy insures the pensions that

were in payment for both First Aberdeen and First Glasgow as at 19 November 2020. The policy is another step in the de-risking strategy for this maturing, closed Fund.

Historically, some First Aberdeen members were members of the NESPF whilst they were employed under the Grampian Regional Transport Authority. Following deregulation and the creation of the ACCTF responsibility for pension increase on the benefits accumulated before 26 October 1986 remained with the NESPF. The recharging of these benefits was carried out monthly on a £ for £ basis. For administrative ease First Group agreed that the responsibility for these liabilities could be transferred to the ACCTF and therefore a capitalisation payment of £8.7m was made in respect of the calculated value.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £238m (2020 £217m). These figures are used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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

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

Note 2a: Contributions Receivable

	2019/20	2020/21
	£'000	£'000
Employees' Normal Contributions	129	133
Employers' Normal Contributions	408	300
Employers' Deficit Recovery Contributions	1,500	1,500
Total Employers' Contributions	1,908	1,800
Total	2,037	1,933

	2019/20	2020/21
	£'000	£'000
Scheduled Bodies	2,037	1,933
Total	2,037	1,933

Note 2b: Other Income

	2019/20	2020/21
	£'000	£'000
Pre 1986 Monthly Payments (Ended Jan'21)	348	291
Pre 1986 Final Settlement	0	8,782
Total	348	9,073

Note 3: Benefits Payable

	2019/20	2020/21
	£'000	£'000
Pensions	7,061	9,816
Commutation and Lump Sum Retirement Benefits	1,734	969
Lump Sum Death Benefits	324	78
Total	9,119	10,863

	2019/20	2020/21
	£'000	£'000
Scheduled Bodies	9,119	10,863
Total	9,119	10,863

Note 4: Payment to and on Account of Leavers

	2019/20	2020/21
	£'000	£'000
Individual Transfers	0	251
Total	0	251

Note 5a: Management Expenses

	2019/20	2020/21
	£'000	£'000
Pension Fund Staffing Costs – Administration	40	42
Information Technology	12	15
Supplies and Services	4	4
Accommodation	3	10
Printing and Publications	1	1
Administration Expenses Total	60	72
Pension Fund Staffing Costs – Investment	8	9
Pension Fund Committee	1	0
External Audit Fee	1	1
Actuarial Fees	34	116
General Expenses	5	5
Oversight and Governance Expenses Total	49	131
Investment Management	163	427
Custody Fees	18	20
Investment Management Expenses Total	181	447
Management Expenses Grand Total	290	650

Note 5b: Investment Management Expenses by Asset Class

2020/21	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	£'000	£'000	£'000
Bonds	173	0	0	173
Pooled Funds	254	0	0	254
Subtotal	427	0	0	427
			Custody Fees	20
			Grand Total	447

2019/20	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	£'000	£'000	£'000
Bonds	62	0	0	62
Pooled Funds	101	0	0	101
Subtotal	163	0	0	163
			Custody Fees	18
			Grand Total	181

Note 6: Investment Income

	2019/20	2020/21
	£'000	£'000
Bonds	113	457
Pooled Funds	44	20
Interest on Cash Deposits	40	1
Other (including P/L from Currency & Derivatives)	27	2
Total	224	480
Tax -		
Withholding Tax – Bonds	0	0
Withholding Tax – Pooled Funds	0	0
Total Tax	0	0
Net Total	224	480

Note 7a: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2020	Purchases	Sales	Change in Market Value	Market Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Bonds	164,934	138,829	(246,596)	2,997	60,164
Pooled Funds	135,282	25,815	(163,232)	15,383	13,248
	300,216	164,644	(409,828)	18,380	73,412
Other					
Cash	8,733				24,609
Investment Income Due	148				55
Investment Sales Amount Receivable	0				0
Investment Purchases Amount Payable	(675)				0
Net Investment Assets	308,422				98,076

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	£'000	£'000	£'000	£'000
Bonds	27,793	145,755	(8,310)	(304)	164,934
Pooled Funds	76,192	223,147	(158,301)	(5,756)	135,282
	103,985	368,902	(166,611)	(6,060)	300,216
Other					
Cash	4,321				8,733
Investment Income Due	3				148
Investment Sales Amount Receivable	918				0
Investment Purchases Amount Payable	(3,999)				(675)
Net Investment Assets	105,228				308,422

Note 7b: Transfer of Strathclyde Transport Fund Assets

	2019/20	2020/21
	£'000	£'000
Cash	180,500	0
Pooled Investment – Unit Trust	35,888	0
Total	216,388	0

Note 8: Analysis of Investments

	2019/20	2020/21
	£'000	£'000
Bonds	164,934	60,164
Pooled Funds Breakdown:		
Bonds	66,554	13,248
Equities	35,360	0
Diversified Growth Funds	33,368	0
Pooled Funds	135,282	13,248
Cash Deposits	8,733	24,609
Investment Income Due	148	55
Investment Sales Amount Receivable	0	0
Other Balances	8,881	24,664
Investment Assets Total	309,097	98,076
Investment Liabilities		
Investment Purchases Amount Payable	(675)	0
Investment Liabilities Total	(675)	0
Net Investment Assets	308,422	98,076

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2020		31 March 2021	
	£'000	%	£'000	%
Schroders	103,888	33.7	95,250	97.2
Schroders (Transition)	204,105	66.2	816	0.8
ACC Loans Fund Deposit	429	0.1	2,010	2.0
Net Investment Assets	308,422	100.0	98,076	100.0

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

Security	Market Value 31 March 2020	% of Net Investment Assets	Market Value 31 March 2021	% of Net Investment Assets
	£'000		£'000	
Schroder SSF Sterling Liq Fund	3,516	1.1	13,248	13.5
UK Treasury 1.25% IL 22/11/2032	0	0.0	5,044	5.1
LGIM Active Corporate Bond	33,830	11.0	0	0.0
Schroder Pension Mgt Life DGF Series 8	21,703	7.0	0	0.0
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,924	5.2	0	0.0

Note 10: Stock Lending

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

Collateral is held at a minimum of 106% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

There was no stock lending in operation as at 31 March 2021.

Note 11: Financial and Non-Financial Instruments

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

31 March 2020				31 March 2021		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
164,934			Fixed Interest	60,164		
135,282			Pooled Funds	13,248		
0			Insurance Buy-In Contract	206,442		
	8,733		Cash		24,609	
	148		Other Investment Balances		55	
	1,178		Debtors		1,038	
300,216	10,059	0	Subtotal	279,854	25,702	0
			Financial Liabilities			
		(675)	Other Investment Balances			0
		(772)	Creditors			(946)
300,216	10,059	(1,447)		279,854	25,702	(946)
		308,828	Financial Instruments Total			304,610
0			Non - Financial Instruments	0		
300,216	10,059	(1,447)		279,854	25,702	(946)
		308,828	Net Assets of the Fund			304,610

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

31 March 2020		31 March 2021
£'000		£'000
	Financial Assets	
(6,060)	Change in Market Value of Investments	18,380
0	Revaluation of Insurance Buy-In Contract	(22,320)
(6,060)	Fair Value through Profit and Loss	(3,940)
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(6,060)	Net Gains and Losses on Financial Instruments	(3,940)
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
(6,060)	Net Gains and Losses of the Fund	(3,940)

Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

The values of the investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which Aberdeen City Council Transport Fund has invested.

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

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

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

Note 13a: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required
Insurance Buy-In Contract	Level 3	Provided by the Fund's Actuary allowing for estimated level pensions paid and the change in the discount rate used to value the Buy-In.	Key underlying inputs for the valuation are the discount rate and life expectancy.	Adjustments to discount rate and life expectancy.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2021	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	73,412	0	206,442	279,854
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	73,412	0	206,442	279,854

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2020	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	300,216	0	0	300,216
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	300,216	0	0	300,216

Note 13b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 13c: Reconciliation of Fair Value Measurements within Level 3

Bulk Annuity Insurance Buy-In Contract

	Total
	£'000
Opening Balance as at 1 April 2020	0
Stock Transfer	210,058
Cash Transfer	22,108
Level Pensions Paid by Insurer	(3,404)
Actuarial Revaluation	(22,320)
Closing Market Value as at 31 March 2021	206,442

Note 13d: Sensitivity of Assets Valued at Level 3

The key underlying inputs for the Insurance Buy-In Contract level 3 Valuation are the discount rate and the life expectancy. The impact of the changes as calculated by the Fund's Actuary is shown below:

		Valuation 31 March 2021	Valuation Increase	Valuation Decrease
Change in Assumptions	Adjustment	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	206.4	220.3	193.9
Life Expectancy Adjustment	(+/-) 1 Year	206.4	216.3	197.1

However, the value of the Insurance Buy-In Contract matches the insured liability, so in practice any variation in the asset value would have no effect on the Net Fund position.

Note 14: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2020/21 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	7.0%
Overseas Bonds	7.0%
UK Equities	15.9%
Overseas Equities	20.5%
Pooled – Diversified Growth Funds	12.5%

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

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

Asset Type	Value as at 31 March 2021	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	73,412	7.0	78,551	68,273
UK Equities	0	15.9	0	0
Overseas Equities	0	20.5	0	0
Pooled – Diversified Growth Funds	0	12.5	0	0
Total	73,412		78,551	68,273

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	231,488	7.5	248,850	214,126
UK Equities	15,924	16.5	18,551	13,297
Overseas Equities	19,436	20.5	23,420	15,452
Pooled – Diversified Growth Funds	33,368	12.5	37,539	29,197
Total	300,216		328,360	272,072

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2020 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2020	As at 31 March 2021
	£'000	£'000
Cash and Cash Equivalents	8,733	24,609
Cash Balances	733	758
Bonds	231,488	73,412
Total	240,954	98,779

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2021	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	24,609	24,855	24,363
Cash Balances	758	766	750
Bonds	73,412	74,146	72,678
Total	98,779	99,767	97,791

Exposure to Interest Rate Risk	Asset Values as at 31 March 2020	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	8,733	8,820	8,646
Cash Balances	733	740	726
Bonds	231,488	233,803	229,173
Total	240,954	243,363	238,545

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2021 and as at the previous year end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2020	Asset Value as at 31 March 2021
	£'000	£'000
Overseas Unit Trusts	19,436	0
Total Overseas Assets	19,436	0

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 9.7%.

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

A 9.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2021	Potential Market Movement	
		+9.7%	-9.7%
	£'000	£'000	£'000
Overseas Unit Trust	0	0	0
Total	0	0	0

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Potential Market Movement	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas Unit Trust	19,436	21,380	17,492
Total	19,436	21,380	17,492

Credit Risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme Investment Regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

Deposits made to the Aberdeen City Council (ACC) Loans Fund are administered within the Aberdeen City Council treasury policy.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2021 was £25,367,000 and at 31 March 2020 £9,466,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2020	Balance as at 31 March 2021
		£'000	£'000
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	429	2,010
HSBC	AA-	8,304	22,599
Subtotal		8,733	24,609
Bank Current Accounts			
HSBC	AA-	731	756
Clydesdale Bank	A-	2	2
Total		9,466	25,367

Liquidity Risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund ensures that it has adequate cash resources to meet its commitments. The Fund has immediate access to its cash holdings.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. There were no illiquid assets as at 31 March 2021 and 31 March 2020.

Note 15a: Long Term Assets

	31 March 2020	31 March 2021
	£'000	£'000
Insurance Buy-In Contract	0	206,442
Lifetime Tax Allowance	269	242
Total Long Term Assets	269	206,684

Note 15b: Current Assets

	31 March 2020	31 March 2021
	£'000	£'000
Employees' Contributions due	3	3
Employers' Contributions due	132	7
Sundry Debtors	41	28
Subtotal	176	38
Bank	733	758
Total Current Assets	909	796

Note 15c: Current Liabilities

	31 March 2020	31 March 2021
	£'000	£'000
Sundry Creditors	285	360
Benefits Payable	487	586
Total Current Liabilities	772	946

Note 16: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The cost of these services for the Aberdeen City Council Transport Fund was £57,854 (2019/20 - £53,751).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £2,010,000 (2019/20 - £429,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £426 (2019/20 - £2,590) for the Aberdeen City Council Transport Fund.

Note 17: Contingent Assets/Liabilities

UK and European law require pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMP). To allow the government to continue to meet these requirements an interim solution was introduced. This means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increase on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. Recent guidance has confirmed that the UK Government extend this for all members reaching State Pension Age after 5 April 2016.

The McCloud judgement, a legal decision around the Sargent/McCloud cases, has meant that protections put in place for older members when scheme changes were applied in 2015 were deemed as age discriminatory. The impact of this ruling has meant that it is likely that the underpin put in place to ensure that members have not lost out as a result of the introduction of the CARE scheme will be applied to younger members too. The government have outlined their intended approach to remedy this issue which will have a financial impact on the liabilities held

The cost of both extending the GMP Indexation to all affected members and the increased benefits arising from the McCloud judgement has been taken into account by the scheme actuary when assessing the value of the liabilities for the valuation as at 31 March 2020. The combined effect of these has increased the past service liabilities by broadly £2 million and increased the Primary Contribution Rate requirement by >0.1% per annum from 2020 to 2022.

Note 18: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However, they are not members of the Aberdeen City Council Transport Fund.

Governance

In 2020/21, one Board member had an interest in First Group plc.

Note 19: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Committee and in the light of any change to the investment strategy of the Pension Fund.

Note 20: Critical Judgements in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty.

The items in the Net Assets Statement at 31 March 2021 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 1.
Insurance Buy-In Contract	The Insurance Buy-In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note 13d Sensitivity Analysis.

Note 21: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 25 June 2021. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

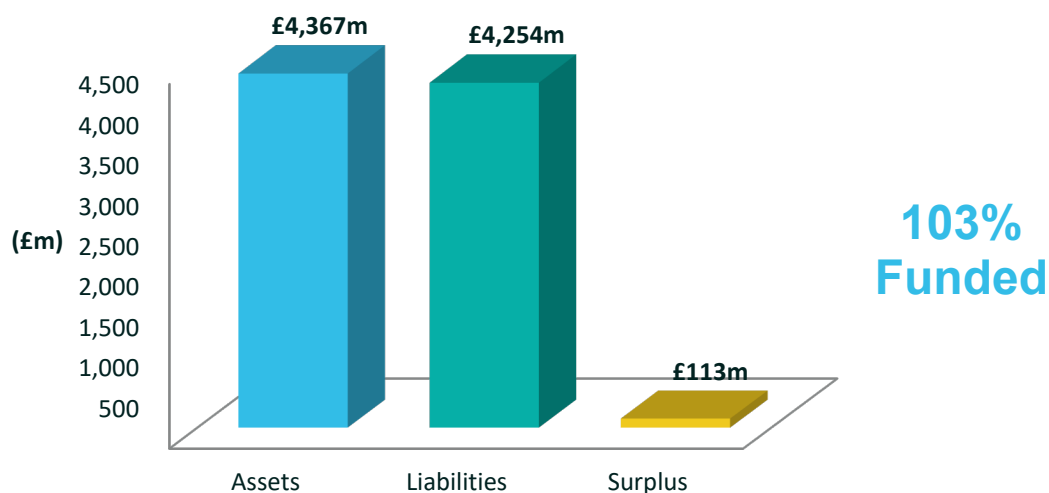
Appendix 1 – Statement by the Consulting Actuary

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2020 to determine the contribution rates with effect from 1 April 2021 to 31 March 2024.



Based on the assumptions adopted, the Fund's assets of £4,367 million represented 103% of the Fund's past service liabilities of £4,254 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £113 million.

The valuation also showed that a Primary contribution rate of 21.7% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average weighted spread period adopted is 12 years and the total initial surplus offset (the “Secondary rate” for 2021/22) is an offset of approximately 2.5% of pay per annum (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), including the estimated costs in relation to the McCloud judgement.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2021.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

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

	For past service liabilities (Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	3.35% per annum	3.60% per annum
Rate of pay increases (long term)*	3.6% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.1% per annum	2.1% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.1% per annum

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

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2023. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2024.

The McCloud Judgement

The “McCloud judgement” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2015. The above funding level and Primary contribution rate include an allowance for the estimated cost of the McCloud judgement.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2020. Both before and after this date we have seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which were considered as part of the valuation process, but will need to be kept under review. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events, and this was reflected in the valuation approach. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. Further flexibilities allowing for intervaluation contribution reviews are expected to be consulted on soon.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund’s promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.8% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.7% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint

The demographic assumptions are the same as those used for funding purposes (detailed in last year's statement in respect of the 31 March 2020 figures and updated to the 2020 valuation assumptions for 31 March 2021). Full details of 2020 valuation assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields decreased, from 2.4% p.a. vs 2.1% p.a. resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year. In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £5,252 million, including an estimate of the potential impact of the McCloud Judgement.

Interest over the year increased the liabilities by c£124 million. Allowing for net benefits accrued/paid over the period then increased the liabilities by c£33 million (this includes the impact of early retirements/augmentations). There was an increase in liabilities of £594 million made up of "actuarial losses" i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed. This also accounts for the incorporation of the 31 March 2020 actuarial valuation results into the IAS26 figures.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £6,003 million.

GMP Indexation

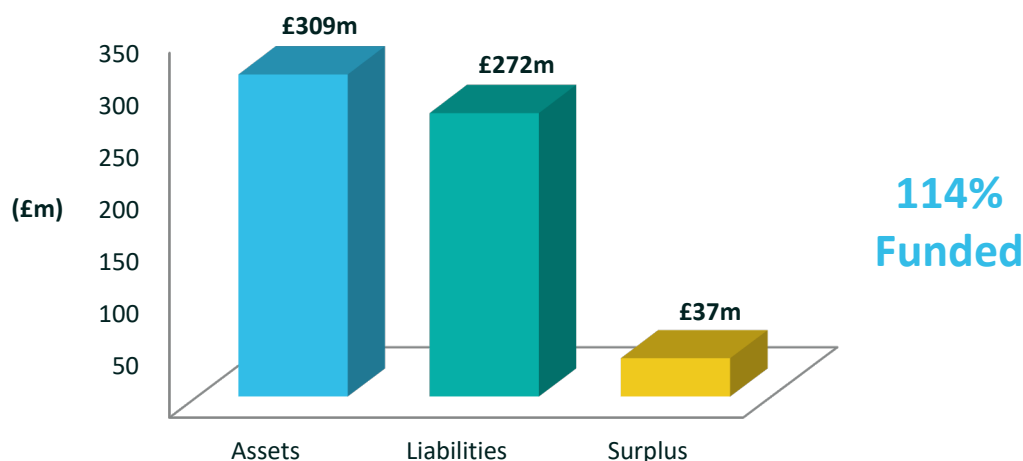
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Pre 1986 recharges

Previously recharges were passed from the ACCTF to the NESPF for c£350,000 p.a. The liabilities quoted above at 31 March 2020 are shown gross of the related liabilities which were recharged to the NESPF in respect of pre 1986 pension increases, whilst the liabilities shown at 31 March 2021 are net of these. This is because a capitalisation payment of £8.7m was made to the ACCTF on 30 March 2021 in respect of these, which means that they are now the responsibility of the ACCTF.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2020 to determine the contribution rates with effect from 1 April 2021 to 31 March 2024.



Based on the assumptions adopted, the Fund's assets of £309 million represented 114% of the Fund's past service liabilities of £272 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £37 million. The valuation also showed that a Primary contribution rate of 43.7% of pensionable pay per annum was required from the employer. Due to the rapidly declining payroll, admin expenses have been quoted as a £ amount separately meaning an additional £140,000 p.a. is payable on top of the above rate. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this. The FSS sets out the process for determining the recovery plan. The surplus at the last actuarial valuation date (including allowance for the estimated costs in relation to the McCloud judgement) is sufficient to offset the primary contribution requirements for the projected future working lifetime of the active membership. Therefore, the administering authority and employers have agreed that no employer contributions will be required for the period of the rate certificate.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2021.

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

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	0.7% per annum
Rate of pay increases (short term)	n/a
Rate of pay increases (long term)	2.75% per annum (First Aberdeen) 3.625% per annum (First Glasgow)
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.25% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.25% per annum

Note that the CPI assumption differs pre and post 2030. The pension increase and salary assumptions reference CPI. As such the above are broad single equivalent figures

The assets were assessed at market value (note that the buy-in occurred after the valuation date).

The next triennial actuarial valuation of the Fund is due as at 31 March 2023. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2024.

The McCloud Judgement

The “McCloud judgement” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2015. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate include an allowance for the estimated cost of the McCloud judgement.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2020. Both before and after this date we have seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has consequences in terms of funding and risk, which were considered as part of the valuation process, but will need to be kept under review. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events, and this was reflected in the valuation approach. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. Further flexibilities allowing for intervaluation contribution reviews are expected to be consulted on soon.

First Glasgow, pensioner buy-in transaction and pre 1986 recharges

First Glasgow Limited was admitted as an employer to the Fund in late 2019 and the 2020 valuation was therefore the first valuation of the ACCTF as a multi-employer Scheme. The Fund subsequently completed a £232m pensioner buy-in transaction with the Rothesay Life Plc in November 2020. This transaction insures the pension payments of 1,371 pensioners across both employers through a pensioner-only buy-in.

In relation to existing and former employees of First Aberdeen Ltd, pension increases in deferment and payment in respect of benefits accrued prior to 26 October 1986 were previously recharged monthly on a £ for £ basis to the North East Scotland Pension Fund (NESPF). This was because as part of the deregulation of transport services the liability remained with the Grampian Regional Transport Authority (a historic employer in the NESPF) and not First Aberdeen Ltd. Recharges passed to the NESPF were c£350,000 p.a.. The liabilities quoted at the 31 March 2020 are shown net of the liabilities which are recharged to the NESPF in respect of the pre 1986 pension increases, whilst the liabilities shown at 31 March 2021 are gross of these. This is because a capitalisation payment of £8.7m was made on 30 March 2021 in respect of these which means that they are now the responsibility of the ACCTF.

Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of pay increases (First Aberdeen)	2.6% per annum	3.2% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.8% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.7% per annum

The demographic assumptions are the same as those used for funding purposes (detailed in last year's statement in respect of the 31 March 2020 figures and updated to the 2020 valuation assumptions for 31 March 2021). Full details of 2020 valuation assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields decreased, from 2.4% p.a. vs 2.1% p.a. resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year. In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2020 was estimated as £217 million.

Interest over the year increased the liabilities by c£5 million. Allowing for net benefits accrued/paid over the period then decreased the liabilities by c£10 million (this includes the impact of early retirements/augmentations). There was an increase in liabilities of £26 million made up of "actuarial losses" i.e. the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed. This also accounts for the incorporation of the 31 March 2020 actuarial valuation results into the IAS26 figures.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £238 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2021

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2020	New Admissions	Ceased	Employers as at 31 March 2021
Scheduled Bodies	11	0	1	10
Admission Bodies	39	0	1	38
Total	50	0	2	48

Ceased during 2020/21:

- | | | |
|----|-------------------------------|-----------|
| 1. | Visit Scotland | Scheduled |
| 2. | Inspire Catering Scotland LLP | Admitted |

Participating Employers as at 31 March 2021:

- | | | |
|-----|---|-----------|
| 1. | Aberdeen City Council (Administering Authority) | Scheduled |
| 2. | Aberdeenshire Council | Scheduled |
| 3. | The Moray Council | Scheduled |
| 4. | Scottish Water | Scheduled |
| 5. | Grampian Valuation Joint Board | Scheduled |
| 6. | Scottish Fire and Rescue Service | Scheduled |
| 7. | Scottish Police Authority | Scheduled |
| 8. | North East Scotland College | Scheduled |
| 9. | Moray College | Scheduled |
| 10. | NESTRANS | Scheduled |
| 11. | Robertson Facilities Management (Shire) | Admitted |
| 12. | Bon Accord Care Ltd | Admitted |
| 13. | Bon Accord Support Services Ltd | Admitted |
| 14. | Aberdeen Heat & Power Ltd | Admitted |
| 15. | Station House Media Unit | Admitted |
| 16. | Aberdeen Sports Village | Admitted |
| 17. | Sport Aberdeen | Admitted |
| 18. | Robertson Facilities Management (City) | Admitted |
| 19. | Forth & Oban Ltd | Admitted |
| 20. | Alcohol and Drugs Action | Admitted |
| 21. | Idverde UK | Admitted |
| 22. | Citymoves Dance Agency | Admitted |
| 23. | Xerox (UK) Ltd | Admitted |
| 24. | Forth and Oban Ltd (Shire) | Admitted |
| 25. | Aberdeen Endowments Trust | Admitted |
| 26. | North East Sensory Services | Admitted |
| 27. | Aberlour Child Care Trust | Admitted |
| 28. | Fraserburgh Harbour Commissioners | Admitted |

29.	Peterhead Port Authority	Admitted
30.	Robert Gordon University	Admitted
31.	Robert Gordon's College	Admitted
32.	Aberdeen Cyrenians	Admitted
33.	Mental Health Aberdeen	Admitted
34.	Fersands & Fountain Community Project	Admitted
35.	SCARF	Admitted
36.	Inspire (Partnership Through Life) Ltd	Admitted
37.	Archway	Admitted
38.	St Machar Parent Support Project	Admitted
39.	Printfield Community Project	Admitted
40.	HomeStart Aberdeen	Admitted
41.	Aberdeen Foyer	Admitted
42.	HomeStart NEA	Admitted
43.	Pathways	Admitted
44.	Outdoor Access Trust for Scotland	Admitted
45.	Osprey Housing	Admitted
46.	Aberdeen Performing Arts	Admitted
47.	Sanctuary Scotland Housing Association Ltd	Admitted
48.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled
2.	First Glasgow	Scheduled

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Training
REPORT NUMBER	PC/JUN21/TRA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	4.1 and 4.2

1. PURPOSE OF REPORT

- 1.1 To provide details of the training plan (2021/22) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Agree the proposed training schedule (as set out in items 3.3-8), subject to latest Scottish Government travel advice, and:
- Approve the travel of members to the training session in London
 - Approve the travel of members to attend external training opportunities
 - Approve the travel of members to attend LAPFF meetings; and
- 2.2 Note the requirement to have completed the Pensions Regulator online training in line with the Training Policy (see item 3.9).

3. BACKGROUND

- 3.1 There is a requirement under the Pensions Regulator (tPR) and CIPFA/Myners guidance that members sitting on Local Government Pension Scheme Committee and Board hold a certain level of knowledge and understanding.
- 3.2 The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the functions of a member of the Pensions Committee or Board (see attached Training Policy).

Training Delivery and Content

- 3.3 Officers propose to deliver training over two set periods during 2021/22, together with any industry externally delivered training when available.

- 3.4 Due to the ongoing COVID-19 pandemic some of the proposed training may be delivered online rather than in person, dependant on how the situation continues to evolve. The following proposed training sessions, to be agreed by Committee, will be subject to latest Scottish Government travel advice.
- 3.5 The first training session will take place in London in early 2022 and will include presentations from the Fund's fund managers.
- 3.6 The fund manager presentations will discuss their investment process, how they manage money for their clients and looking forward, how they are going to continue to deliver the Pension Fund's strategy while providing an update on their business and any industry and economic insight.
- 3.7 A second training session will take place following this in March at the Fund's new office in Aberdeen.
- 3.8 Further external training opportunities are available, including but not limited to:

Scottish Local Government Pension Scheme Conference

Date, Agenda and Venue (tbc)

LGC Investment Seminar Scotland

21-22 October, Agenda and Venue (tbc)
(<https://investmentseminarscotland.lgcplus.com>)

Local Authority Pension Fund Forum (LAPFF) Conference

8-10 December 2021, Agenda and Venue (tbc)

- 3.9 In addition to the above, the Pensions Regulator have an e-learning toolkit for those involved in the governance and administration of a public service pension scheme, specifically aimed at local pension board members. The Pensions Regulator toolkit can be found at the following link:

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

Pensions Committee and Board members agreed to complete tPR's online toolkit as part of their individual training plans (PC/JUN19/TRA) and provide evidence of this to the Governance Manager to record on the training register.

- 3.10 At the time of writing this report, the training register shows 3 members of the Pensions Board and 4 members of the Pensions Committee have completed the training. Committee and Board members who have not already done so are reminded to complete this training requirement as soon as possible as part of their personal training plans for 21/22. There are seven short modules to complete and a new optional module covering pensions scams.

3.11 Training attendance is reported in the annual Committee Effectiveness Report and respectively for members of the Board, in the Pension Board Annual Report.

3.12 The latest version of the Training Policy for the Pensions Committee and Board is attached at Appendix I.

4. FINANCIAL IMPLICATIONS

4.1 Training costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

6.1 The risks associated with failure to ensure appropriate training are managed through the Pensions Fund's Risk Management Policy and Risk Register, which is updated and reported to the Committee on a quarterly basis.

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Compliance	Failure to acquire and retain adequate levels of knowledge and understanding would result in non-compliance with tPR Code of Practice and PSPA 2013.	M	Training Policy in place, with annual review.
Operational	Poor governance, inability of Pensions Committee and Board to operate effectively	M	Committee and Board meet at same time, with same agenda. Governance review carried out annually.
Reputational	Fund's reputation may be negatively affected by breach of regulatory duties and tPR action.	L	Issues will be identified through governance review and rectified.

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICE

Appendix I, Training Policy

11. REPORT AUTHOR CONTACT DETAILS

Name	Laura Colliss
Title	Pensions Manager
Email Address	LColliss@nespf.org.uk
Tel	01224 264158



North East Scotland Pension Fund
nespf

Training Policy

August 2020

Contents

Purpose Statement	3
Application & Scope	3
Training Agenda	3
Policy Performance	4
Supporting Procedures & Documentation.....	5
Responsibilities	6
Appendix I Knowledge and Skills Framework	7
Appendix II Convener of the Pensions Committee	8

Document	Training Policy
Review Date	August 2020
Approval Date	September 2020
Author & Team	M Suttie, Governance
Review Date	July 2021



Purpose Statement

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

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing in their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

Application & Scope

All Pension Fund Committee and Board members to whom this policy applies are expected to continually demonstrate their own personal commitment to training.

Induction Process

On appointment to the Pensions Committee or Board, a member will attend an introductory briefing/training session and receive copies of the following documentation to assist in providing a basic understanding of the NESPF;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [Copy of the LGPS Regulations](#)
- [Copy of the Statement of Investment Principles and Compliance with Myners Principles](#)

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

Training Agenda

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Training is provided to members of the Pensions Committee and Pension Board in respect of the following on a rolling basis;

Scheme Governance

- [LGPS - Status and Legal Framework](#)
- [LGPS Regulations](#)
- [Role of Elected Members](#)



- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

Support Services

- Custody Services
- Service Organisation
- Role of the Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

Markets in Financial Instruments Directive (MiFID II)

Since the introduction of MiFID II from 3rd January 2018, financial institutions (including the LGPS) are required to 'opt up' to be classified under 'elective professional client' status, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

In order to maintain this status, the client (i.e. Pension Fund) needs to be able to demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

Policy Performance

Each Committee and Board member is expected to undertake a minimum of 2 days of training each year.

Training is ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions



- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training
- seminars and training events offered by the Fund’s investment managers and advisors
- use of the secure ‘trustee’ area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

The Pensions Regulator’s E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are eight short modules covering:

- Conflicts of Interest
- Managing Risk and Internal Controls
- Maintaining Accurate Member Data
- Maintaining Member Contributions
- Providing Information to Members and Others
- Resolving Internal Disputes
- Reporting Breaches of Law
- Pensions Scams (optional)

All members of the Pensions Committee and Pension Board are expected to complete the tPR Toolkit modules following appointment.

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown)
- agreement of an improvement plan; and
- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

Supporting Procedures & Documentation

A Knowledge and Skills Framework was developed by CIPFA in 2010 along with accompanying guidance. The Fund has formally adopted the Framework, and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

This policy is supported by the policies and procedures that make up the wider governance framework and those prescribed by the Local Government Pension Scheme (Scotland) Regulations. Copies of which are available online at www.nespf.org.uk.

Responsibilities

All training costs are met directly by the Pension Fund.

The Pensions Committee will review this policy annually, or in the event of a policy revision and taking account of the results from any training needs analysis and emerging issues.

Day to day responsibility for the implementation of this policy sits with the Chief Officer-Finance and dedicated staff within the Pension Fund section.

Any questions or feedback on this document should be forwarded to the NESPF Governance Team at:

Resources
Level 1, 2MSq
Marischal Square
Broad Street
Aberdeen
AB10 1BL

Email: governance@nespf.org.uk

Web: www.nespf.org.uk

Knowledge and Skills Framework

This framework identifies the level of knowledge required by members to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pensions Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> • General and scheme pension legislation • Scheme governance • Pension regulators and advisors • Legislative framework • Risk 	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> • Audit and accounting regulations and requirements 	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> • Understanding public procurement • Supplier risk management 	2	3
Investment Governance <ul style="list-style-type: none"> • Investment strategy • Financial markets 	2	2
Investment performance and risk management <ul style="list-style-type: none"> • Fund performance • Performance of advisors • Performance of the Committee • Performance of support services and advisors 	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> • Valuations • Outsourcing 	2	3

Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

PRINCIPAL RESPONSIBILITIES

1. Convener of the Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:
 - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
 - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - The appointment of investment and actuarial advisors and other third party services
 - The governance framework
 - The communication strategy of the Fund or Funds

2. And to monitor:
 - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
 - The costs of running the Pension Fund and Scheme
 - Comments and feedback from stakeholders

3. And to approve:
 - The annual report and accounts of the Fund(s)
 - Audit reports on the performance of the Pension Fund Service
 - Statements on Investment Principles, Governance, Administration and Communication
 - The Risk Register and an annual risk analysis
 - The medium term business plan and annual updates
 - Training and development plans and updates
 - Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

PERSONAL SPECIFICATION

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

	<p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

The vice convener of the Pensions Committee will also receive a copy of this guidance.

Compliance with the Job Description

1. Pensions Legislative and Governance context

- 1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.
- 1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date

knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority Conference held annually in May which covers all aspects of the LGPS and the LGC Investment Seminar held in the autumn giving a focus on investment management. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:

- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

- 2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority financial statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

- 3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

- 4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that may impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

- 5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Convener have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 June 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/JUN21/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee: -

- 2.1 approve the updated NESPF Business Plan 2021/24 and the updated Statement of Investment Principles Policy as set out in item 3.9.4; and
- 2.2 approve the additional posts of 1 x Senior Pension Officer – Employer Relationship, 1 x Senior Pension Officer – Systems, 1 x Pension Officer – Training & Development and 3 x Trainee Pension Officer – Benefit Administration as set out in item 3.9.6.

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
 - Systems
 - Governance
 - Employer Relations
- 3.2 The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.
- 3.3 The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and

recommendations. To support this report service updates covering the six strategic areas will also be available via the secure website (<http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>).

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

3.5 **INVESTMENT**

- 3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

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

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

3.6 **ACCOUNTING**

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

Separate Report, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **GMP Indexation Update**

The Government has now published its response to the consultation on Guaranteed Minimum Pension (GMP) Indexation in Public Service Pension Schemes. The response concludes that the Government has decided to discount conversation as a long-term policy solution and make the interim solution a permanent solution for GMP indexation. This means that NESPF will be directed to provide full indexation to those members (including survivors) with a GMP (or inherited GMP in the case of a survivor), reaching State Pension Age (SPa) beyond 5 April 2021.

3.8 **SYSTEMS**

- 3.8.1 Performance reporting is provided on a quarterly basis.

Appendix I, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

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

3.9.2 Breaches of Law

3.9.2.1 A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 26 new breaches of law recorded in the NESPF breaches register during 20/21. The majority were scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions.

3.9.2.2 The Pension Fund will continue to engage with scheme employers during 21/22 and build on the training and support already provided.

3.9.2.3 Following assessment none of the above breaches were deemed to be of ‘material significance’ to require reporting to the Pensions Regulator.

3.9.2.4 In line with UK Data Protection legislation certain personal data breaches must be reported to the Information Commissioners’ Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 20/21.

3.9.3 Pensions Committee and Board Training

Separate report, provided

3.9.4 Document Update

The following documents have been updated and are available in the secure member of the trustee area of the NESPF website:

- NESPF Business Plan 2021/24
- Statement of Investment Principles

Appendix II, NESPF Business Plan 2021/24

3.9.5 Staff Training

3.9.5.1 The Fund had 2 Trainee Pensions Officers during the 20/21 year. On successful completion of the 2nd year exams, a TPO will progress to become a fully qualified Pensions Officer. Two further Trainee Pensions Officers were recruited and joined the training programme in April 2021 to fill existing vacancies within the Benefits Administration Team.

3.9.5.2 Pensions Staff continued to pursue individual training throughout the year as agreed as part of the new Continuous Review and Development (CR&D) process. All staff successfully completed their annual refresher training in relation to Information Governance.

3.9.6 Staffing Update

An update on current NESPF staffing resources and proposed changes to the structure.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Aberdeen City Council Transport Fund (ACCTF)

3.10.2 Following on from transacting on the buy-in arrangement with Rothesay and the completion of the 2020 valuation process there are further steps to be undertaken within the maturing ACCTF to align the funding requirements, balance the risk profile and streamline the administration.

3.10.3 As part of the valuation process a considerable ‘real’ surplus has been identified within the Fund. This is as a result of the merge of the Strathclyde No.3 Fund into the ACCTF in 2019 and the removal of risk to the Fund via the buy-in arrangement. It is possible for the Fund to release some of the calculated surplus under the LGPS (Scotland) Regulations 2018 and pay this back to the participating employer as a refund. This can be achieved by collapsing one of the two admission agreements currently held within the Fund and paying the surplus as an exit credit. The team therefore intend to enter into discussions with the scheme actuary to determine a reasonable approach for calculating the potential surplus due whilst also ensuring that the long term liabilities can be met. Once we have a proposal for this approach we will be able to discuss this further with First Group and determine the next steps.

3.10.4 Following initial discussions with First Group a full report will be brought to Committee in September 2021 around the surplus refund which will be subject to Committee approval.

3.10.5 Long term intentions for the ACCTF would be to transfer the liabilities to the Main Fund to further reduce risk and reduce the administrative burden. This would fall in line with the approach taken by other Scottish administering authorities around their closed Funds.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

5.1 There are a number of legal implications arising from implementation of the strategy which have been identified and addressed as set out in this report.

6. MANAGEMENT OF RISK

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

Appendix IV, Copy of Risk Register (May 2021)

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update
Appendix II, NESPF Business Plan 2021/24
Appendix III, Recruitment Update – June 2021 and Benefit Administration – case for increasing resources
Appendix IV, Copy of Risk Register (May 2021)

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting March 2021

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

1.1 Key administration tasks

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

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	33	31	93.9%	97.1%	97.1%	97.1%	1	10	72.1%
Notification of retirement estimate	10 days	431	430	99.8%	99.8%	99.8%	100.0%	0	26	94.1%
Notification of retirement benefits	10 days	1504	1325	88.1%	94.4%	96.8%	98.2%	27	251	75.5%
Notification of deferred benefits	10 days	1529	1377	90.1%	92.1%	93.5%	94.0%	93	454	69.4%
Notification of refund	10 days	1338	1272	95.1%	97.2%	99.3%	99.7%	4	39	92.4%
Notification of transfer in value	10 days	54	43	79.6%	81.5%	83.3%	85.2%	8	17	60.6%
Notification of transfer out value	10 days	309	113	36.6%	41.0%	43.6%	49.5%	154	33	33.0%
		5198	4591	88.3%				287	830	76.2%

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:

- *The overall percentage of 88.3% for the year compared with 97% for 2019/20 shows the impact the pandemic and home working has had on performance despite introducing new working practices and following industry guidance.*

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:

- *287 cases taking more than +20 days to complete compared with 62 during 2019/20 again shows the impact the pandemic has had on performance as it takes longer to process pension benefits when working from home.*

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:

- *The overall revised percentage of 76.2% for the year compared with 93.5% for 2019/20 again shows the impact of the pandemic plus 830 cases were reported as due to be completed compared with only 232 in 2019/20.*

Performance – additional information about performance achieved during pandemic:

- *Number of active member deaths was identical to previous year however deaths processed from all statuses increased by 140.*
- *Estimate percentage remained high although number of requests decreased by more than 500.*
- *Amount of retrials processed in 2020/21 was the third highest ever recorded after 2018/19 and 2019/20 evidencing increasing workload.*
- *Retiral revised percentage recovered from 61.9% at end of first quarter to 75.5% for the year.*
- *Refund volume and percentage remained consistent with previous year performance.*
- *Deferred and transfer performance suffered as the focus had to be on paying benefits.*

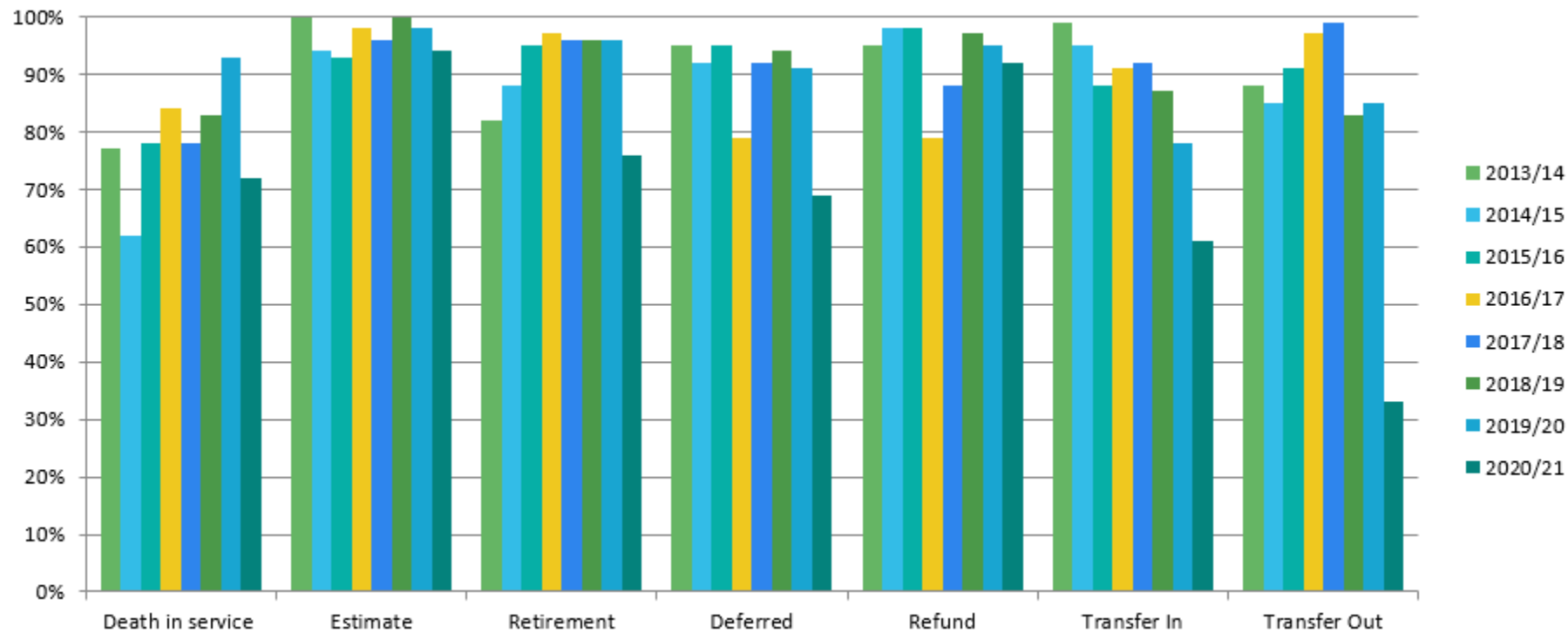
Guidance – guidance received for benefit administration during a pandemic from The Pension Regulator:

- *Priority should be processing and paying death and retirement benefits.*
- *Encourage members to use electronic communication such as online portals and emails.*
- *Legal validity of electronic signatures has been endorsed in a statement from government.*
- *Flexibility of additional time to issue transfer quotations.*

Actions – actions taken by NESPF to deal with challenges of the pandemic and increasing workload:

- *New working practices were introduced following guidance issued.*
- *Members were encouraged to use online benefit projectors rather than requesting estimates.*
- *Review of administration processes was carried out with scheme actuary to identify further efficiencies.*
- *Transfer out quotations made available online from March 2021.*
- *Bulk processing of deferred benefits expected to be ready for June 2021.*
- *Investigating making deferred retiral options available online later in the year.*

1.2 Previous years comparison



2. Employer performance from 1st April to 31st March 2021

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 (955,185)

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)	3,723
Amendments (address, personal details, hours and absence)	20,923
Leavers (exit and opt out)	2,796
Contributions (employee, employer and additional)	311,294
Salary	311,218
Cumulative CARE Pay	299,893
Works Address	5,338

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 2021)

* Moved to another LGPS for administrating or employer has terminated from the fund

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

Aberdeen Sports Village	Online Return												
Aberlour Child Care Trust	Online Return												
Archway	Online Return												
City Moves Dance Agency	Online Return												
Alcohol & Drugs Action	Online Return												
Fersands and Fountain	Online Return												
First Aberdeen	Extract File												
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												
Inspire Catering Scotland LLP	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 Pension Fund

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Pension Service Business Plan

June 2021

Contents

Introduction 2

Service Description 6

Summary of Performance 8

Service Assessment 10

Service Business Plan 18

Future Service Improvement /Transformation Plan28

Document	Pension Service Business Plan
Draft/Review Date	June 2021
Approval Date	
Author & Team	Laura Colliss
Review Date	June 2023



Introduction

Welcome to the Pension Fund Business Plan for 2021/24. This document sets out our plans to build on our strengths and internal capabilities to drive transformation through the service, involve our staff and customers in delivering a first-class service to Pension Fund stakeholders.

The Plan covers a three-year planning cycle from 2021/24 with a focus on 2021/22 and will be subject to regular reviews and updates in line with the development of the Local Government Pension Scheme and Aberdeen City Council as the administering authority for the Pension Fund.

The Pension Fund Business Plan builds on our objective:

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

North East Scotland Pension Fund and Aberdeen City Council Transport Fund

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

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

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

Employers within the North East Scotland Pension Fund include the administering authority, Aberdeenshire Council and Moray Council along with 7 further scheduled bodies, and 38 admission bodies.

The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

COVID-19

Over the last 12-18 months the Fund has completed a number of major projects despite the impact of COVID, while still delivering business as usual.

However, service delivery has been impacted given the majority of us have been working from home which is reflective in the key performance measurements that follow.

Delivery of this plan is dependent on the continual review and recruitment of resources to provide an efficient and cost effective scheme to all stakeholders.

Pension Fund Section

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

The Pension Fund Section is divided into 6 teams:

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

- Delivery of an investment strategy, having due regard to risk and return within the Funds' objectives and liability requirements
- Corporate, Social and Economic Governance
- Review and appointment of new investment managers
- Performance Monitoring

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

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

The Benefit Administration Team is responsible for over 70,000 scheme members and the calculation of scheme benefits covering,

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

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

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

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

- Maintenance and upgrade of the Altair administration and payroll system
- Scheme technical reporting
- Participation in national testing of new software releases
- Apply revaluation and pensions increase
- Production of annual benefit statements and pension saving statements

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

- Committee reporting
- Tendering
- Document control
- Staff training
- Freedom of Information requests
- Communication
- Maintenance and development of the Pension Fund website
- Maintenance and upgrade of Member Self Service
- Preparation of the Pension Fund annual report

Service Description

What services do you provide, and to whom?

Customer Relationships

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

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

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

Challenges ahead

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

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

Examples of these measures include:

- To resource the Pension Fund to meet changes across all sections of the Fund
- Investment in measures to deliver training, support and technology to improve our services

- The creation of working groups within the Fund to deliver specific projects such as Buy in, Actuarial Valuations, Investment strategy review and changes coming from the McLeod judgement
- Enhanced communication tools

Improving our efficiency

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

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

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

To fulfil this approach, we will:

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

Summary of Performance

Key achievements for 2018 – 20

Business Priorities	Achievement	Evidence
Digitalisation	✓	Deferred Benefit Statement delivered on line, 2018/19. All Annual Benefit Statements on line via Members Self Service portal, 2019/20
Corporate Governance	✓	Quarterly ESG reporting. 2018/19
Investment Strategy	✓	Strong investment returns
Collaboration	✓	Successful merger of the Strathclyde No.3 Fund into the Aberdeen City Council Transport Fund.
Monthly data	✓	All NESPF employers providing monthly data via iconnect.
Data Quality	✓	High percentages reported to tPR for common and scheme specific data in 2019 and 2020 scheme returns.
New Website	✓	Successful rebrand and delivery of Pension Fund website in 2020

KPI performance

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

Key performance measurement 2020/21

NESPF key performance measurements	Target	2018/19	2019/20	Amount	Achieved	2020/21
Letter notifying death in service to dependent	5 days	84%	88%	43	31	72%
Letter notifying retirement estimate	10 days	99%	98%	457	430	94%
Letter notifying actual retirement benefits	10 days	96%	96%	1,755	1,325	76%
Letter notifying deferred benefits	10 days	97%	91%	1,983	1,377	69%
Letter notifying amount of refund	10 days	98%	95%	1,373	1,272	93%
Letter detailing transfer in quotes	10 days	88%	84%	71	43	61%
Letter detailing transfer out quotes	10 days	85%	76%	342	113	33%

¹ Amended to Regulation 57 of the LGPS (Scotland) Regulations 2018

Service Assessment

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

Political	Economic
<ul style="list-style-type: none"> • National and international geopolitical outlook • International political outlook • COSLA • Policy changes affecting scheme employers impacting on financial pressures • Local political impact and reputational factors • SAB scheme review • Brexit 	<ul style="list-style-type: none"> • Global economic outlook • Market Volatility • Currency Risk • Interest Rate Risk • Inflation Risk • Regional economic strategies • Aberdeen locality – impact on recruitment • EU relations/funding for scheme employers
Social	Technological
<ul style="list-style-type: none"> • Responding to demographic change 	<ul style="list-style-type: none"> • New technological developments • Social media • Digital strategy • Mobile/flexible working • Upgrades to our existing software products and standards
Legal	Environmental
<ul style="list-style-type: none"> • Legislative change • Council restructuring – national/local • New standards of governance stakeholder expectation • Admission Agreements • Fund Manager Contracts • Procurement • Internal/External Legal Requirements 	<ul style="list-style-type: none"> • Environmental Social and Governance agenda • Best practice and development of standards on a wider scale • Benchmarking and sharing of services

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

Political

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

Economic

COVID-19/Brexit, - the global economic outlook and its impact on market volatility, presents challenges to the Fund in meeting its long-term funding plan. The Fund also recognises the potential impact on all scheme employers funding and will work with them to manage their membership of the LGPS.

Social

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

Technological

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

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

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

Legal

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

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

Environmental

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

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

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

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

Evidence of strengths:

- Consistent record of unqualified accounts
- Collaboration with other Scottish LGPS's
- Successful introduction of new LGPS 2015
- Introduction of new workflow system to enhance service delivery
- Implementing new Pension Fund staffing structure to focus of the key delivery areas Governance, Employer Relationships, Benefit Administration, Systems, Accounting and Investment
- Setting a long-term investment strategy focused on meeting the Fund's long-term liabilities at minimum risk

- Maintaining employer contribution rates as nearly constant as possible, setting a rate that is a reasonable cost to the taxpayers, scheduled and admitted bodies
- Strong asset performance and funding level
- Early adoption of technology, iconnect.
- Innovation to deliver employer requirements

Identified Weaknesses

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

Summary of critical success factors emerging from the SWOT

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

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

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

Use of resources – Pension Fund section will improve stewardship and enable transformation of the way we manage our money, assets, staff and technology.

Service Business Plan

Service Vision

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

We will achieve this through aiming towards our vision that:

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

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

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

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

HOW WE DO BUSINESS:

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

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

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

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

ORGANISATIONAL CULTURE:

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

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

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

Improving the Customer Experience starts with an organisation that embeds “customer centricity” within everything we do, from the staff we employ to the processes and systems

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

RESOURCES MANAGEMENT:

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

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

How will the Fund meet those needs?

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

Risk management

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

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

Risk Register

Strategy Report, Appendix III

Service Business Plan

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

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

Pension Fund Level - Key Priorities

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

Accounting – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting.	2021/22	Accounting Manager
Financial Management	Improving use of resources	Working with external providers to continue to deliver best practice	Ongoing	Accounting Manager
Staff	Improving staff experience	Continuation of staff training.	Ongoing	Accounting Manager
Financial Management	Improving use of resources	Simplify coding structure.	2021/22	Accounting Manager

Benefit Administration – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Systems	Improving customer experience	Ensure that all procedures are reviewed and relevant to assist with the administration of pension benefits and best utilise the workflow system.	Ongoing	Benefit Administration Manager
Administration	Improving use of resources	Monitor the level of outstanding workload and allocate resources to ensure targets are met.	Ongoing	Benefit Administration Manager
Staff	Improving staff experience	Continuation of staff training.	Ongoing	Benefit Administration Manager
Performance Measurement	Improving customer experience	Develop reporting.	2021/22	Benefit Administration Manager

Employer Relationship – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting	2021/22	Employer Relationship Manager
Financial Management	Improving customer experience	Continued implementation and maintenance of the Covenant Policy	Ongoing	Employer Relationship Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Employer Relationship Manager
Administration	Improving customer experience	Ensure the continued provision of monthly data and employer compliance (discretions).	Ongoing	Employer Relationship Manager

Investment - Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting	2021/22	Investment Manager
Financial Management	Improving use of resources	Implementation of strategic benchmark allocation of assets, including ESG Policy.	Ongoing	Investment Manager
Staff	Improving staff experience	Continuation of staff training	Ongoing	Investment Manager
Financial Management	Improving use of resources	Performance monitoring of current fund managers and mandates.	Ongoing	Investment Manager

Governance – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting	2021/22	Governance Manager
Governance	Improving use of resources	Ongoing review of Funds' regulatory compliance.	Ongoing	Governance Manager
Staff	Improving staff experience	Continuation of staff training, including review of internal training programs.	Ongoing	Governance Manager
Communications	Improving customer experience	Review and update of all communication material and continue to promote the Fund.	Ongoing	Governance Manager

Systems – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting.	2021/22	Technical Manager
Systems	Improving use of resources	Develop Testing Strategy, to ensure standardized testing is utilized for testing working parties.	Ongoing	Technical Manager
Staff	Improving staff experience	Continuation of staff training.	Ongoing	Technical Manager
Systems	Improving use of resources	Investigate technology lead service improvement opportunities across the Fund.	Ongoing	Technical Manager

Future Service Improvement/Transformation Plan

No	Section	Description	Outcome	Timetable
1	Accounting	Technology lead efficiencies	Interface between Global Custodian and the Funds financial system providing straight through processing	2021/22
2	Accounting	Financial System	Fund specific financial system, providing further efficiencies	2022/23
3	Benefit Administration	Benefit System	Ensuring full utilisation of existing system to drive service delivery (Altair)	Ongoing
4	Benefit Administration	Benefit Administration review	To ensure best practice delivering an efficient service	2021/22
5	Employer Relationship	Triennial Actuarial Valuations	Funding level, contributions set	Complete
6	Employer Relationship	Buy in	Remove Pensioner liability risk	Complete
7	Employer Relationship	Technology lead efficiencies	Ensuring full utilisation of existing systems to drive service delivery (I connect and Pfaroe. Ensuring data quality and accurate assessment of liabilities	Ongoing
8	Governance	Investment Consultant Tender	Efficient and independent advice	2021/22
9	Governance	Ltd Companies	To enhance recruitment and retention capabilities and In-house investment capabilities	2022/23
10	Governance	Communications	Continued development of new website which went live in July 2020	Ongoing
11	Investment	Investment Strategy review	Strategy to align with funding requirements	Complete
12	Investment	In-house investment	Improve In-house capabilities, driving costs down and improve returns	2022/23
13	Investment	Consolidation of banking requirements	Increased efficient management of cash providing improved governance and potential returns	2022/23
14	Investment	ESG	Review policy	2021/22
15	Systems	Technical Support	Development of staff to deliver technology lead efficiencies	Ongoing
16	Systems	Robotics	To deliver automation for standard repetitive processes	2022/23
17	Systems	Accommodation	Delivery of a secure and efficient environment	Complete
18	Systems	Reporting	Implementation of new solution to enhance administration reporting and output	2021/22

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

Benefit Administration – Case for Increasing Resources

This report highlights the causes of a significant increase in workload for the Fund that led to carrying out an administration review with the scheme actuary to gain further efficiencies, improve member outcomes and determine what additional resource will be required to deliver effective administration in the future.

1. Regulatory change

The introduction of the Care scheme was expected to ease the administrative burden however it has done the opposite with subsequent regulatory amendments also contributing to increased workload and complexity:

- Benefits are now more accessible than ever before with various flexible retirement options and active and deferred members now able to take retirement benefits from age 55 without employer's consent
- Unlawful scheme protections will result in thousands of members requiring two different calculations when leaving or retiring for decades to come
- The ongoing challenges around compliance with statutory deadlines for processing benefits and issuing annual benefit and pension saving statements.

Increase in the number of retirements is shown in Appendix 1.

2. Impact of court rulings

The outcome of recent court rulings will add to the administrative burden and further increase workload.

McCloud

The Court of Appeal ruled transitional protections of Pensions Reform gave rise to unlawful age discrimination. Draft regulations were published last year that extended protection to everyone in the scheme on 1 December 2012 however it is now likely that this will be changed to include everyone with final salary benefits prior to 1 April 2015.

Guidance is expected soon with final regulations available next year coming into force from 2023. A project was started to consider the complexity and scale of the work involved given we could potentially have 25,000 members in scope and be faced with 10,000 leaver recalculations. Our starting point was to identify missing data and request this from our employers however this has been put on hold.

Goodwin

Scottish Public Pensions Agency (SPPA) advised last year that regulations will be changed in the future following an employment tribunal that ruled discrimination on grounds of sexual orientation for male spouses of female members with entitlement to survivor benefits prior to 5 December 2005.

Equalisation of GMP's

Following recent discussion with SPPA we will at some point in the future have to equalise GMP's, something that has commenced in the private sector. Before we can consider this, we

must complete reconciliation and rectification which includes paying member underpayments however like McCloud this has been put on hold.

3. Impact of increasing workload and pandemic on KPI performance

KPI's are reported quarterly to the Pension Committee in accordance with the pension administration strategy (PAS) and a reduction in performance during 2020/21 has impacted on service provision during difficult times:

	Death	Estimate	Retirals	Deferred	Refund	TV In	TV Out
2020/21	5 days	10 days	10 days	10 days	10 days	10 days	10 days
Quarter 1	66.7%	100.0%	61.9%	79.2%	93.5%	71.4%	51.3%
Quarter 2	57.1%	96.1%	85.6%	74.4%	97.8%	76.5%	55.9%
Quarter 3	69.2%	91.7%	80.3%	65.7%	89.4%	45.5%	21.1%
Quarter 4	90.9%	91.5%	77.2%	28.1%	88.7%	51.7%	15.8%
Annual %	72.1%	94.1%	75.5%	69.4%	92.4%	60.6%	33.0%
2019/20	88.4%	98.1%	95.8%	91.0%	95.1%	84.4%	75.7%
	-16.3%	-4.0%	-20.3%	-21.6%	-2.7%	-23.9%	-42.7%

The overall percentage achieved for all key administration tasks is the lowest ever recorded since the Care scheme was introduced:

Year	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Percentage	94.6%	87.7%	95.1%	95.9%	93.5%	76.2%

Increasing workload combined with ongoing home working during the pandemic has resulted in longer processing times evidenced in Appendix 2. This is despite adopting new working practises and following guidance provided by the TPR and the SPPA.

NESPF performance for the year will be reported to Pension Committee in June 2021 and published in the annual report and accounts for 2020/21.

4. Administration review with Mercer

An administration review with the scheme actuary was carried out at the end of 2020 to see what further improvements could be made to make us more efficient and improve service provision.

Review recommendations

The final report contained several recommendations that the Fund want to implement over the next 12 to 18 months however these improvements have been put on hold.

Capacity analysis

Part of the review focused on capacity analysis which would determine the resource required for the Benefit Administration team to deliver going forward.

Mercer finding:

“The Fund is able to produce excellent MI that can capture the number of completed workflow steps and the number newly created workflow steps. This MI effectively represents a comparison of incoming vs outgoing work. Based on the MI provided for the period 01/08/2020 – 31/10/2020, the number of hours required (based on the estimated time allocation) to complete the newly created workflow steps over the period was 2,738 hours. This compared to 2,603 estimated hours for the completion of all workflow steps actually completed throughout the same period. Based on the assumption that the Fund is working at capacity

and carrying a large backlog, this indicates that the incoming work is more than the team can expect to complete based on the same staffing levels and ways of working.”

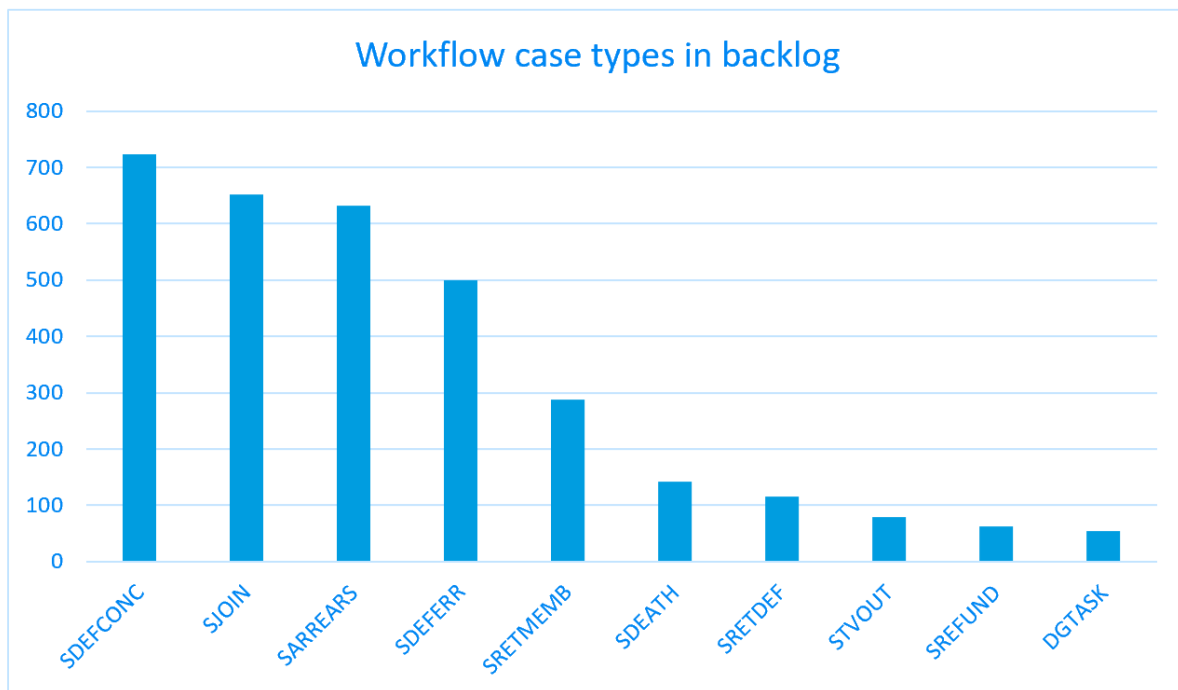
Mercer recommendation:

“The MI and the current backlog indicate that more FTE will be required to effectively manage the incoming work, based on estimated productivity over the 3 month period reviewed. Given the lead-time needed to train new members of staff, members of staff who are competent on Benefits team processes from other teams should be utilised to process backlog cases for a portion of their time each day, until process changes, additional resource or increased automaton can help reduce the backlog of work.”

A tool was provided which over several reporting periods consistently identified a requirement for 3 additional officer posts. This finding was reported to Pension Committee in March 2021.

Backlog of casework

Mercer highlighted areas of backlog accumulating at the end of the review period:



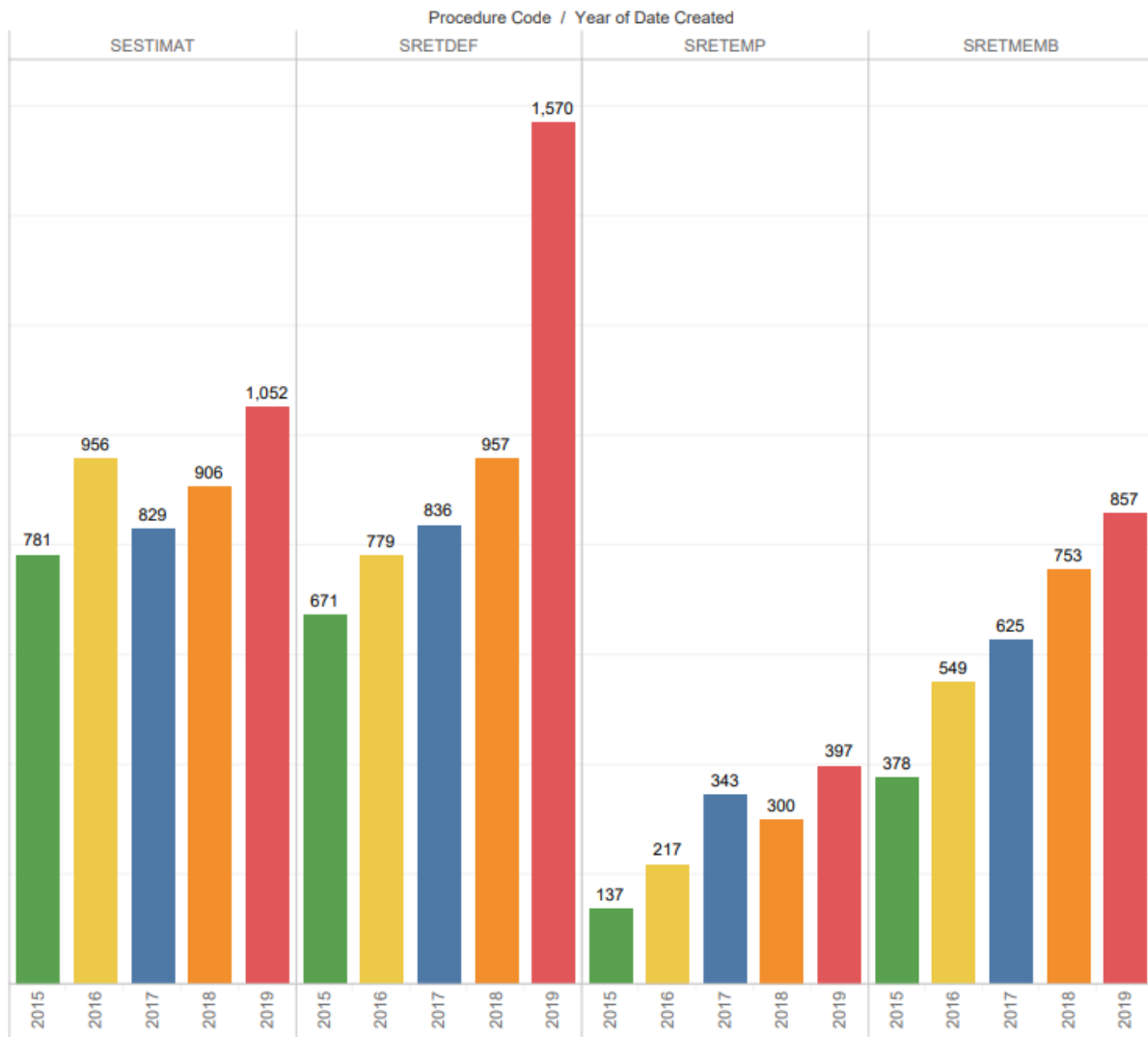
For aggregation cases (joining records) very little have been processed since the report was published with numbers increasing to 885 concurrent (SDEFCONC) and 868 join cases (SJOIN) due for action. Priority is given to processing and paying benefits within statutory timescales however an aggregation backlog results in membership not being accurate which could potentially impact on calculation of employer liabilities.

Arrears payments (SARREARS) due because of revised cessations received from employers have slightly improved however there are still 494 due for action.

Of the remaining cases that are continuing to increase we now have 546 deferred (SDEFERR), 600 retirements (SRETMEMB and SRETDEF) and 173 transfers out (STVOUT) due for action.

All these cases have statutory timescales for completion and the consequence of consistently failing to do so will result in the Fund having to report itself to TPR risking reputational damage and financial penalties.

Appendix 1 – Increase in retirements



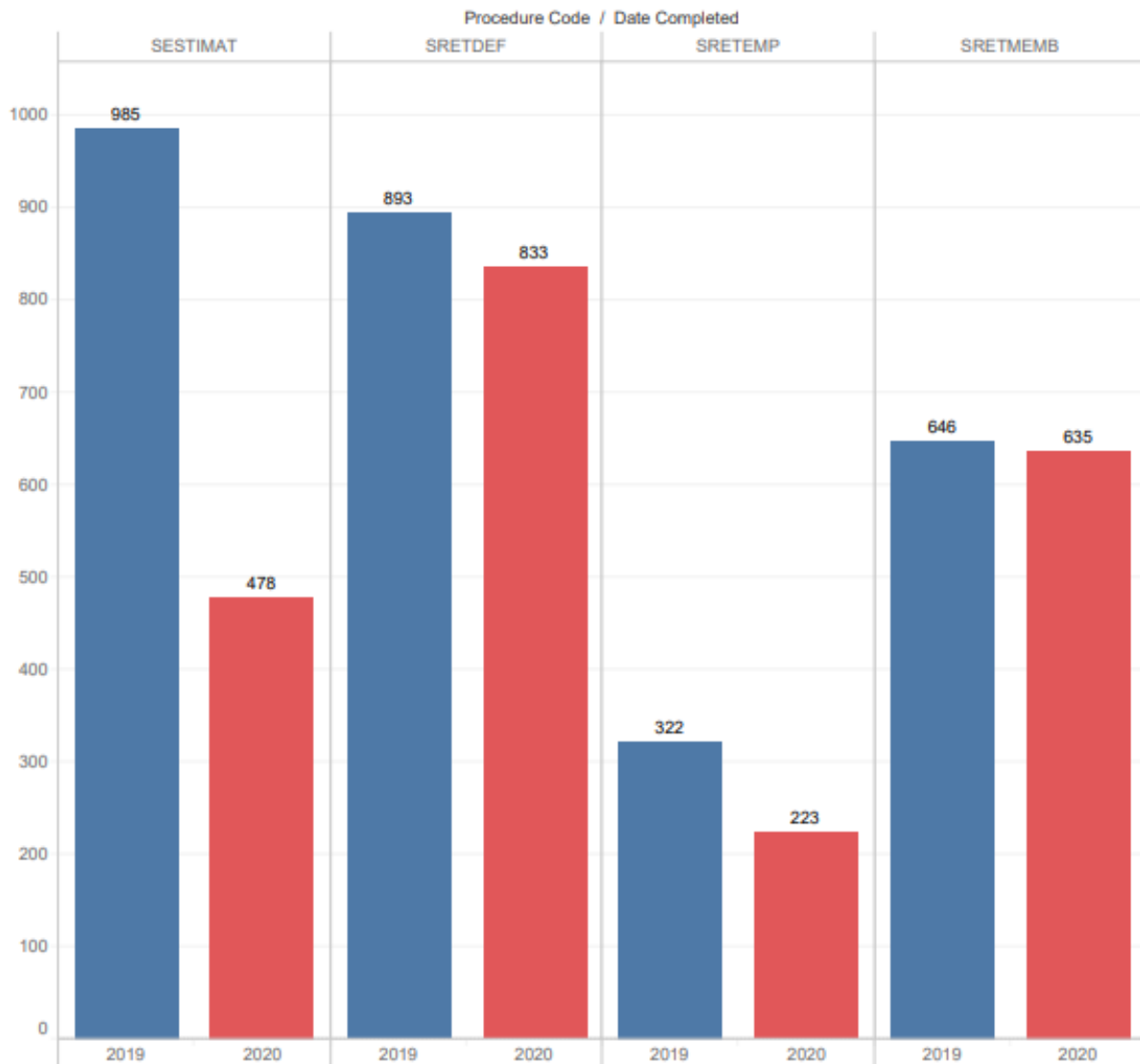
The chart shows a consistent increase in retirements since the introduction of the Care scheme in 2015.

Retirement estimates (SESTIMAT) and deferred (SRETDEF), employer (SRETEMP) and member (SRETMEMB) retirements all recorded highest numbers during 2019.

The impact of reducing voluntary retirement age from 60 to 55 is clearly evident for deferred retirements increasing by more than 600 when this change happened in 2019. The same change for active members was introduced a year earlier in 2018 and saw an increase of more than 100.

The retirements shown above do not cover all retirement types but only those that have seen significant increases.

Appendix 2 – Impact of pandemic on retirements



The chart compares completed cases during 2019 and 2020.

A reduction in retirement estimates (SESTIMAT) was expected as during the pandemic there have been less requests and for those that we receive members are encouraged to go online and use the benefit projectors in My Pension secure portal.

For deferred (SRETDEF), employer (SRETEMP) and member (SRETMEMB) retirements less have been processed in 2020 as we know it takes longer to do so whilst majority of staff continue to work from home.

This also evidences why backlogs referred to on page 3 are continuing to increase, a situation that can only be addressed with additional resource identified during the administration review.

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Recruitment – June 2021 Update

Context

The North East Scotland Pension Fund has grown significantly over recent years not only in asset value but in complexity.

The main Fund has regained the losses in asset value due to COVID and has increased in value by over £1bn in less than 12 months, and the Transport Fund has gone through significant change with the merger of the Strathclyde Transport Fund and the completion of the Buy in.

Scale:

NESPF	£5.7bn
ACCTF	£100m
Buy in	£230m
Membership	70,000 people
Member annual record updates	985,000
Employers	48

Organisation of Fund Activities:

1 x Pension Manager, supported by 1 x Operations Manager

6 Core Teams

- Investments
- Accounting
- Governance & Communications
- Benefits Administration
- Employer Relations
- Systems

Staffing Changes and Recruitment:

Over the last 18 - 24 months we have added additional posts to address workload pressures and also succession planning in certain areas of the Fund, namely Governance, Accounting and Investments.

Staffing Changes Approved	Approved March 2019
Investments	1 x Senior Pension Officer 1 x Asst Pension Officer
Accounting	1 x Senior Pension Officer
Governance & Communications	1 x Senior Pension Officer
Benefits Administration	No Changes
Employer Relations	No Changes
Systems	No Changes

*Appointed or Awaiting Start Date; Awaiting Candidate Shortlist

Through natural turnover and promotion a number of other posts have been subject to recruitment exercises. A summary of vacancies is shown below:

Current vacant posts.

- 1. Senior Pension Officer, Investment.**
Preferred candidate has been identified following interview and an offer made, awaiting a final decision from candidate and start date.
- 2. Pension Officer, Investment.**
With People & Organisation and in progress, expecting to shortlist and undertake interviews shortly.
- 3. Assistant Pension Officer, Investment.**
With People & Organisation and in progress, expecting to shortlist and undertake interviews shortly.
- 4. Senior Pension Officer, Governance.**
With People & Organisation and in progress, expecting to shortlist and undertake interviews shortly.
- 5. Pension Officer, Governance.**
Successful candidate will be starting on 12 July.

New Staffing Challenges

The Pension Committee noted the recommendations of the Administration Review at its meeting in March 2021, this included a range of actions to improve process, procedure and backlogs and was to be taken forward over the next 12-18 months.

An appendix with key points and performance data arising from this is included in this update for ease of reference.

As part of the administration review the Fund wanted to ensure that it was suitably resource in the benefits administration team, for years the Fund has experienced backlogs of tasks within that team which has been frustrating for all involved and we have addressed the issue in various ways over the years via different projects and overtime however unfortunately the backlogs keep coming.

The outcome of the review is that we have identified the requirement for additional posts and with these and the improvements and changes we are looking to make will mitigate those backlogs.

Furthermore, succession planning is essential within the Fund, the additional posts we have added and are looking to add will be vital within the next couple of years. The Fund needs to ensure the vast knowledge and experience of the most senior officers is imparted to provide continuity and protect the members, the Fund and the Administering Authority.

Due to the specialist nature of the Fund it is challenging to recruit experienced Local Government Pension Scheme personnel. The Fund has had a culture to train and promote from within, a strategy and approach supported by the Council, but due to recent events the Fund is now lacking in depth and given the increasing workload and complexity we require to add the additional posts to support the Fund in service delivery and ultimately deliver a more efficient Fund.

Officers are looking for the Fund to support 3 x Trainee Pension Officer, Benefits Administration; and 1 x Pension Officer, Training and Development.

The training & development post is to support the internal training program we run for the benefit administration team and given we have highlight the need for three additional posts the training & development team will be essential in ensuring that program continues.

Two Senior Pension Officer posts are sought to support the managers of those teams to ensure full usage of the systems we have in place, while delivering enhanced reporting and following the completion of large and complicated projects over the last 18 months (including the merger, buy in and new office) support to employers on a range of ongoing, complex matters is vital to the effective operation of the Fund.

Officers are therefore requesting that the Committee give consideration to some additional resources to address these specific issues, and to progress a workplan of improvement, while still delivering business as usual and implementing the likes of GMP and McCloud obligations.

The posts that we would like to recommend to the Committee in June are as follow:

1 x Senior Pension Officer, Employer Relationship Team

1 x Senior Pension Officer, Systems

1 x Pension Officer, Training & Development

3 x Trainee Pension Officer, Benefits Administration

We have included an updated organisation chart, below, with the Green and Blue posts showing the areas of attention are in different parts of the structure, the green representing approved posts recruited or in the process of recruitment and the blue are the additional posts we are seeking approval for.

Capacity for Improvement:

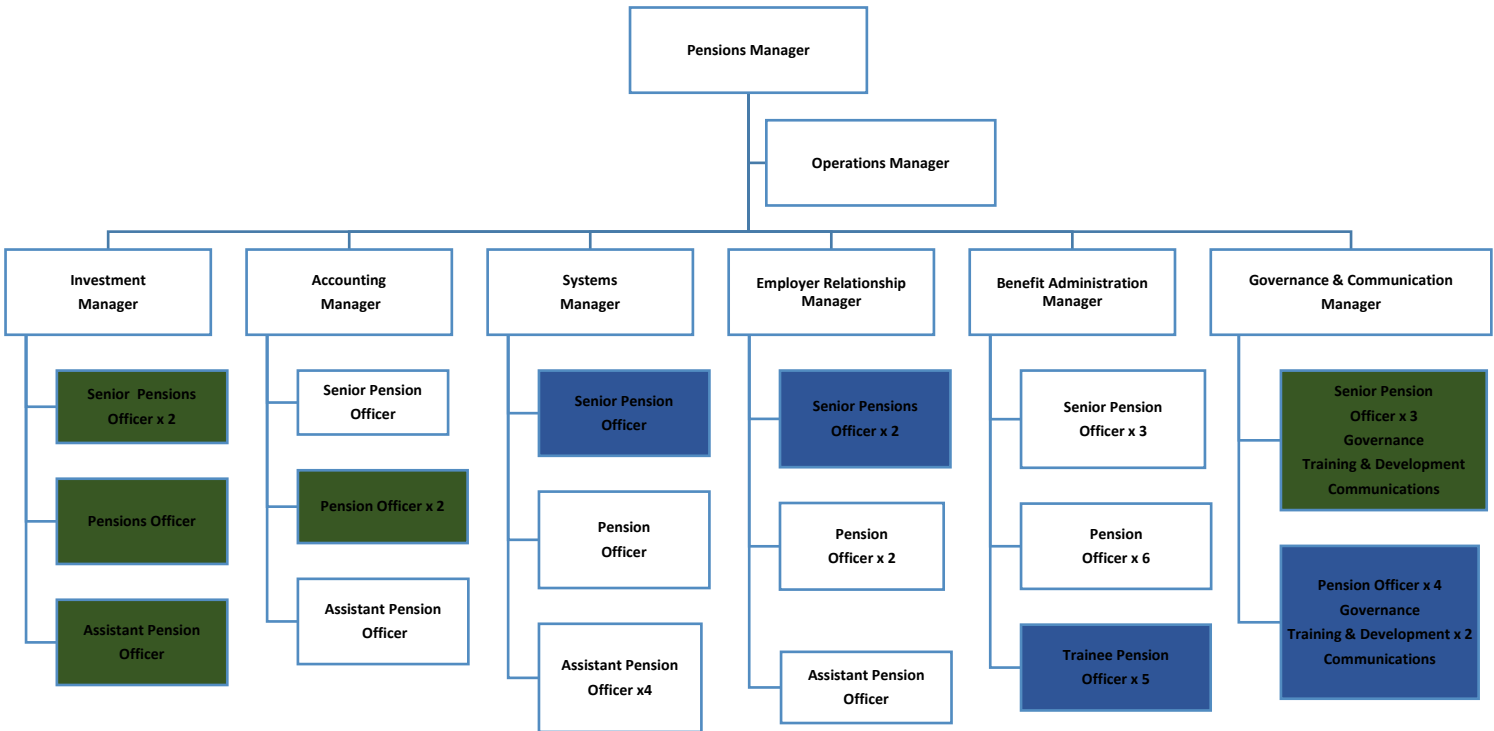
The following are just some of the future service improvement/Transformation plans that will be included in the revised Pension Service Business Plan that will be presented to the June Committee.

Many of these have been in the business plan for the last couple of years, the Fund requires additional resources to take these to completion and not just stand still.

No	Section	Description	Outcome	Timetable
1	Fund	Committee/Management Reporting	Review all reporting and deliver greater management reporting	2021/22
2	Accounting	Technology lead efficiencies	Interface between Global Custodian and the Funds financial system providing straight through processing	2021/22
3	Accounting	Financial System	Fund specific financial system, providing further efficiencies	2021/22
4	Benefit Administration	Benefit System	Ensuring full utilisation of existing system to drive service delivery (Altair)	Ongoing
5	Benefit Administration	Benefit Administration review	To ensure best practice delivering an efficient service	2021/22
6	Employer Relationship	Triennial Actuarial Valuations	Funding level, contributions set	2020/21
7	Employer Relationship	Buy in	Remove Pensioner liability risk, deliver ongoing contractual arrangements	Complete/ongoing
8	Employer Relationship	Technology lead efficiencies	Ensuring full utilisation of existing systems to drive service delivery (I connect and Pfaroe. Ensuring data quality and accurate assessment of liabilities	Ongoing
9	Governance	Investment Consultant Tender	Efficient and independent advice	2021
10	Governance	Ltd Companies	To enhance recruitment and retention capabilities and In-house investment capabilities	2021/22
11	Governance	Communications	Continued development of new website which went live in July 2020	Ongoing
12	Investment	Investment Strategy review	Strategy to align with funding requirements	2021/22

13	Investment	In-house investment	Improve In-house capabilities, driving costs down and improve returns	2022/23
14	Investment	Consolidation of banking requirements	Increased efficient management of cash providing improved governance and potential returns	2022/23
15	Investment	ESG	Best practice, Policy update	Ongoing
16	Systems	Technical Support	Development of staff to deliver technology lead efficiencies	Ongoing
17	Systems	Robotics	To deliver automation for standard repetitive processes	2022/23
18	Systems	Accommodation	Delivery of a secure and efficient environment	Complete
19	Systems	Reporting	Implementation of new solution to enhance administration reporting and output	2021/22

North East Scotland Pension Fund



Risk Register



Pensions Dashboard

In line with best practice and the Pensions Regulator (tPR) Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood, and risk mitigation actions are in place.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Refence.

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)

4	Very Serious	●●	●●●	●	●		
3	Serious	●	●●●	●●●	●		
2	Marginal	●	●●●	●●●	●●●	●	●
1	Negligible						
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Red = High Priority (urgent action required)

Orange = Medium Priority (assess adequacy of current controls, consider further action required to mitigate risk)

Green = Low Priority (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: COVID-19	<ul style="list-style-type: none"> • Government and regulator guidance • NESPF risk policy and register • Updates/Communication between CO-Finance and Pension Manager • Business Continuity plans in place • Homeworking for Pensions Staff & rollout of vaccination programme • PAS performance reporting • Internal/External audits • Regular staff comms and training 	4	4	16	↔	TREAT		Laura Colliss, ongoing
	Causes: Global virus pandemic								
	Potential Impact: Failure to pay pensions, loss of staff due to illness, time lost due to connectivity issues while homeworking, ability to meet regulatory requirements, financial impact on investment returns, covenant risk for employers								
NESPFO02	Risk: Lack of effective risk controls	<ul style="list-style-type: none"> • NESPF risk register is reviewed and updated quarterly by senior management team • Consideration by Pensions Committee & Board at quarterly meetings 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> NESPF specific Risk Management Policy in place 							
NESPF003	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 Committee Effectiveness Report to support good governance 	2	2	4	↔	TREAT	Committee Effectiveness Report will now be taken to December 2021 meeting. Normal governance arrangements operating.	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								
NESPF004	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								
NESPF005	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 	3	2	6	↔	TREAT	Normal Governance arrangements operating.	Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	<ul style="list-style-type: none"> Nomination & Appointment procedure Annual Committee Effectiveness Report 							
NESPFO06	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> ACC Disaster Recovery policy in place NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	2	2	4	↔	TOLERATE		Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPFO07	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> All staff have individual development plans which are reviewed regularly through CR&D Training register to monitor 2 full time training & development staff Internal 2 year training programme for benefit admin staff Future-focused staffing structure, subject to ongoing review 	4	2	8	↔	TREAT	Recruitment underway to fill vacant posts within Investment and Governance teams.	Laura Colliss, September 2021
	Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								
	Potential Impact: Loss of service delivery, risk to succession planning								
NESPFO08	Risk: Pay and price inflation valuation assumptions either higher or lower	<ul style="list-style-type: none"> Quarterly funding updates to Committee (using FSM) 	2	4	8	↑	TOLERATE	Tri-ennial valuation 2020 in now complete.	Ongoing
	Causes: Economic factors								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Potential increase in employer contribution rates and liabilities	<ul style="list-style-type: none"> • Tri-ennial valuation • Individual employer contribution rates 							
Governance									
NESPF009	<p>Risk: Failure to adhere to relevant pensions legislation and guidance</p> <p>Causes: Political and legislative changes, increased administrative complexity, staff training issue</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action</p>	<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
NESPF010	<p>Risk: Failure to comply with FOI or SAR requests</p> <p>Causes: Missed statutory deadlines due to training or resource issues</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> • Internal written procedures in place • FOI/SAR log to record & monitor 	3	1	3	↔	TREAT	New online process through GovServices implemented to manage FOI requests	Ongoing
NESPF011	<p>Risk: Conflicts of Interest</p> <p>Causes: Competing professional and personal interests of staff, Committee and Board members</p>	<ul style="list-style-type: none"> • Regular discussions between CO-Finance and Pension Fund Manager 	2	4	8	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Audit criticism, legal challenge, reputational risk	<ul style="list-style-type: none"> • Standing agenda item at meetings • Conflicts policy & register in place, with conflicts declarations issued annually 							
Benefit Administration									
NESPF012	Risk: Requirement to complete GMP reconciliation	<ul style="list-style-type: none"> • Dedicated GMP project team reporting to Operations Manager • Regular updates to Committee and Board 	2	2	4	↔	TREAT	IPE regulations with effect 1 March 2020. Final file received from HMRC in June 2020, further work is required to complete the project.	Gary Gray, ongoing
	Causes: End of contracting out due to reforms of state pension								
	Potential Impact: Failure to calculate future benefits correctly, audit criticism, financial loss								
NESPF013	Risk: Fraud/Negligence	<ul style="list-style-type: none"> • Segregation of duties for benefits staff authorising/submitting lump sum payments • Pension payments signed off by benefits senior • Participation in National Fraud Initiative exercise • Overseas pensioner existence checking • Breaches Policy & register • Internal Audit control reviews 	2	3	6	↔	TREAT	Enhanced Admin to Pay module to provide secondary calculation checks as system requirement implemented into Live system during October 2020.	Ongoing
	Causes: Dishonesty or human error by staff, scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Investments									
NESPF014	Risk: Insufficient assets to meet the Funds long term liabilities	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates 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 is complete, investment strategy review completed and approved by Committee in March 2021. Tender underway for new investment management consultancy services.	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								
NESPF015	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								
NESPF016	Risk: Failure of world stock markets	<ul style="list-style-type: none"> Diversification of Scheme assets Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE	Tri-ennial valuation is complete, investment strategy review completed and approved by Committee in March 2021.	Ongoing
	Causes: Systemic								
	Potential Impact: Increase in employer contribution rates, financial loss								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO17	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								
NESPFO18	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								
NESPFO19	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership 	2	3	6	↔	TREAT	Annual PRI signatory assessment completed	Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								
Accounting									
NESPFO20	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 and reviews • Regular reconciliations e.g. fund managers, custodian 	3	2	6	↔	TREAT	Draft unaudited accounts to Committee in June 2021.	Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Qualified accounts	<ul style="list-style-type: none"> Internal/External Audits 							
Systems									
NESPF021	<p>Risk: Failure to secure and manage personal data in line with data protection requirements</p> <p>Causes: Cyber-attack, human processing error</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties</p>	<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	No data breaches this quarter, however risk rating left at same level due to ongoing COVID-19 and homeworking situation.	Ongoing
NESPF022	<p>Risk: Failure of the Fund's administration system</p> <p>Causes: Outages, hardware and software failures and cyber attacks</p> <p>Potential Impact: Staff downtime, loss of service delivery</p>	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 	3	2	6	↔	TOLERATE		Ongoing
NESPF023	Risk Failure to track member status and trace information		2	3	6	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	<p>Causes: Poor record keeping</p> <p>Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action</p>	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 							
Employer Relationship									
NESPF024	<p>Risk: Failure to monitor employer covenant</p> <p>Causes: Failure of internal procedures</p> <p>Potential Impact: Orphaned liabilities could fall on remaining employers</p>	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) 	3	4	12	↔	TREAT		Ongoing
NESPF025	<p>Risk: Changes in early retirement strategies by employers</p> <p>Causes: Public service cuts to funding</p> <p>Potential Impact: Pressure on cash flows</p>	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	3	3	9	↔	TREAT		Ongoing
NESPF026	<p>Risk: Employers leaving Scheme or closing to new members</p> <p>Causes: Public service cuts to funding, increased pension contribution costs</p>	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	2	6	12	↔	TREAT	Expected changes to Regulations to allow greater flexibilities to exiting employers which may reduce	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Orphaned liabilities could fall to remaining employers	<ul style="list-style-type: none"> Cost Cap mechanism introduced in LGPS regulations 						risk of orphaned liabilities. Risk level remains unchanged due to ongoing uncertainty from COVID-19.	
NESPFO27	Risk: Longevity	<ul style="list-style-type: none"> Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Tri-ennial valuation completed.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								
NESPFO28	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> Internal escalation procedures Breaches policy and register Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board Ongoing training provided by dedicated ERT to Scheme employers Employer Briefings 	2	4	8	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPFO29	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT 	2	2	4	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								

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	<ul style="list-style-type: none"> Quarterly PAS reporting to Committee & Board Data quality improvement plan implemented 							
NESPFO30	Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud Judgement	<ul style="list-style-type: none"> SAB and other industry guidance Early and ongoing communication with employers McCloud project team created 	2	3	6	↔			Ongoing
	Causes: Not having the required historic data, adequate resources, sufficient guidance								
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								

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

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