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To: Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Crockett, the Lord Provost; and Councillors Bell, Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Mr N Stirling, Chairperson; Councillor McKelvie, Vice Chairperson, Councillors Allan and Cowe, Mr I Hodgson, Mr L Knox, Mrs M Lawrence and Mr A Walker (Pension Board).

Town House,
ABERDEEN, 9 September 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, 17 SEPTEMBER 2021 at 10.30 am.**

The meeting will be webcast and a live stream can be viewed on the Council's website. Aberdeen City Council webcasts. [Home - Aberdeen City Council webcasts \(public-i.tv\)](#)

FRASER BELL
CHIEF OFFICER - GOVERNANCE

B U S I N E S S

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 25 June 2021 (Pages 7 - 14)

COMMITTEE BUSINESS PLANNER

5.1 Business Planner (Pages 15 - 18)

NOTICES OF MOTION

6.1 There are currently no motions to the Pensions Committee

BUDGET

7.1 Budget / Forecast 2021/2022 - PC/SEPT21/BUD (Pages 19 - 24)

INTERNAL AND EXTERNAL AUDIT

8.1 External Audit Annual Audit Report 2020/21 (Pages 25 - 68)

ANNUAL REPORT AND ACCOUNTS

9.1 Consideration and Signing of Audited Annual Report & Accounts - PC/SEPT21/ARA (Pages 69 - 204)

SCRUTINY

10.1 Strategy - PC/SEPT21/STRAT (Pages 205 - 264)

EXEMPT BUSINESS - NOT FOR PUBLICATION

11.1 Investment Strategy - PC/SEPT21/INVSTRAT (Pages 265 - 268)

11.2 Asset and Investment Manager Performance Report - PC/SEPT21/AIMPR
(Pages 269 - 300)

EHRAs related to reports on this agenda can be viewed [here](#)

To access the Service Updates for this Committee please click [here](#)

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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 xxx, 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, 25 June 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 (to article 9) and Councillors Bell, Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Councillor McKelvie, Chairperson; Mr N Stirling, Vice Chairperson; Councillor Allan; and Mr I Hodgson, Mr L Knox, Mrs M Lawrence and Mr A Walker (Pension Board).

Also in attendance:- Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; and Gillian Woolman and Colin Morrison, 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.

ORDER OF AGENDA

1. The Convener advised that it was his intention to take item 9.1 (Training Update) first on the agenda.

The Committee resolved:-

to note the decision of the Convener.

The Board resolved:-

to note the decision of the Committee.

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following item of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – item 11.1 (Asset and Investment Manager Performance Report).

The Committee resolved:-

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

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
25 June 2021

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 26 MARCH 2021

4. The Committee had before it the minute of its previous meeting of 26 March 2021 for approval.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

to note the planner.

The Board resolved:-

to note the decision of the Committee.

TRAINING - PC/JUN21/TRA

6. The Committee had before it a report by the Director of Resources which provided details of the training plan (2021/22) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

The report recommended:-

that Committee –

- (a) 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; and
 - approve the travel of members to attend LAPFF meetings; and
- (b) note the requirement to have completed the Pensions Regulator online training in line with the Training Policy (as set out at 3.9 in the report).

PENSIONS COMMITTEE AND PENSION BOARD

25 June 2021

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT ANNUAL REPORT 2020/21 - IA/21/007

7. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit Annual Report for the North East Scotland Pension Fund for 2020/21.

The Committee heard from Mr Colin Harvey, Chief Internal Auditor (Interim) in relation to the report.

The report recommended:-

that Committee –

- (a) note the Annual Report for 2020/21;
- (b) note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- (c) note that there had been no limitation to the scope of Internal Audit work during 2020/21; and
- (d) note the progress that management had made with implementing recommendations agreed in Internal Audit reports.

The Committee resolved:-

- (i) to note that the outstanding action in relation to the recommendation that all officers involved in preparing and reviewing investment proposals complete declarations of interest (page 24 of the report refers) had been resolved since the report had been published; and
- (ii) to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT PLAN 2021/22 - IA/21/006

8. The Committee had before it a report by the Chief Internal Auditor which set out the Internal Audit Annual Plan for 2021/22. The plan proposed work in relation to the Pensions System, to consider whether appropriate control was 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 were accurate and properly controlled.

PENSIONS COMMITTEE AND PENSION BOARD
25 June 2021

The Committee heard from Mr Harvey in relation to the report.

The report recommended:-

that Committee approve the attached Internal Audit Plan for 2021/22.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT REPORT - PENSIONS PAYROLL - IA/AC2107

9. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit report on Pensions Payroll which had been undertaken to provide assurance that appropriate arrangements were in place to ensure the accuracy and appropriateness of payments made to scheme members. This had involved testing of new and on-going pensions, and transfer and termination of pension payments.

The audit had set out several recommendations and the report included the management response to these.

The report recommended:-

that Committee review, discuss and comment on the issues raised within this report and the attached appendix.

Members discussed the content of the report.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

UNAUDITED NESPF ANNUAL REPORT & ACCOUNTS - PC/JUN21/ARA

10. The Committee had before it a report by the Director of Resources which presented the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The report advised that the audited version of the accounts would be presented to the September meeting for consideration and signing.

PENSIONS COMMITTEE AND PENSION BOARD

25 June 2021

The report recommended:-

that Committee review and consider the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The Committee resolved:-

- (i) to note the COVID-19 outbreak brought the start of a period of significant market volatility, which led to asset values dropping for the North East Scotland Pension Fund (NESPF);
- (ii) to note the Fund rebounded strongly with total asset value increasing from £4.4 billion to £5.7 billion as at 31 March 2021 which provided, according to actuarial valuation, a funding level of 103% for NESPF;
- (iii) to note the asset value for the Aberdeen City Council Transport Fund (ACCTF) which provided, according to actuarial valuation, a funding level of 114% for ACCTF;
- (iv) to agree the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
- (v) to agree that the production of the Unaudited Annual Report and Accounts was very much a team effort involving many staff, therefore to agree to thank Laura Colliss, Pension Manager, and her staff for all their hard work in bringing forward the Unaudited Annual Report and Accounts and for the strong NESPF and ACCTF outstanding economic performance over the year.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/JUN21/STRAT

11. The Committee had before it a report by the Director of Resources which provided updates for the Committee and recommendations (if applicable) to any changes required to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The report provided an update on the response to the consultation on Guaranteed Minimum Pension indexation in Public Service Pension Schemes; training which had been undertaken by Pension Fund staff as well as an update on recruitment and the case for increasing staff resources; and an update that there had been 26 new breaches of law recorded during 2020/21 with most of these being related to scheme employers failing to meet their statutory obligations, for example, late payment of pension contributions.

It was further noted that there had been minor amendments to the following documents which could be viewed on the NESPF website:-

- NESPF Business Plan 2021/24
- Statement of Investment Principles.

PENSIONS COMMITTEE AND PENSION BOARD

25 June 2021

The report recommended:-

that Committee –

- (a) approve the updated NESPF Business Plan 2021/24 and the updated Statement of Investment Principles Policy as set out in section 3.9.4 of the report; and
- (b) 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 section 3.9.6 of the report.

The Committee resolved:-

- (i) in relation to Appendix 1 (Pension Administration Strategy) and the table at page 200, to note that the additional targets for completed cases during the reporting period for notification of death in service should be 2, rather than 1 as stated in the table;
- (ii) to note the comments from Mrs Lawrence in respect of pensioners who had contacted her to advise that they had not been aware that they could claim their pensions now, and to note that officers would look at the documentation provided to ensure there was clarity on this point; and
- (iii) to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken under article 2 of this minute, the following report was considered with the press and public excluded.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/JUN21/AIMPR**

12. 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 March 2021.

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.

The report recommended:-

that Committee note the contents of the report.

PENSIONS COMMITTEE AND PENSION BOARD
25 June 2021

The Committee resolved:-

- (i) to note that Mr Buntain would provide further information to members outwith the meeting in respect of the windfarms in the Ventus portfolio; and
- (ii) to note the report.

The Board resolved:-

to note the decision of the Committee.

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

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	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER								
	The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	17 September 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	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
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	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
8	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
9	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		
10	17 December 2021								
11	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		
12	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5		
13	Investment Strategy Update	To provide an update on the investment strategy of the NESPF if required		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	25 March 2022								
17	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
18	Review of NESPF Compliance with PSPA 2013 and Pensions Regulator Requirements	To provide a review of compliance for 2021/22		Mairi Suttie	Finance	Resources	4.1 and 4.2		
19	External Audit Annual Plan 2022/23	To present the annual plan		Rachel Browne	External Audit	External Audit	2.1		
20	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the 2021/22 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Resources	3.1		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
21	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
22	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
23	24 June 2022								
24	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		
25	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		
26	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		
27	Internal Audit Annual Report 2021/22	To present the Internal Audit Annual Report for 2021/22		Colin Harvey	Internal Audit	Internal Audit	2.1		
28	Internal Audit Annual Plan 2022/23	To present the Internal Audit Annual Plan for 2022/23		Colin Harvey	Internal Audit	Internal Audit	2.1		
29	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
30	16 September 2022								
31	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
32	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
33	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		
34	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
35	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
36	External Audit Annual Audit Report 2020/21	To present the External Audit Annual Audit Report 2021/22		Rachel Browne	External Audit	External Audit	2.1		
37	16 December 2022								
38	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		
39	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Stephanie Dunsmuir	Governance	Commissioning	GD 8.5		
40	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									
41	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		
42	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	17 September 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget/Forecast 2021/22
REPORT NUMBER	PC/SEPT21/BUD
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast 2021/22 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee approve the NESPF Management Expenses Budget/Forecast 2021/22, shown in Appendix I.

BACKGROUND

3.1 BUDGET/FORECAST 2021/22

- 3.1.1 Appendix I shows the Council's Budget for 2021/22 for the NESPF. The re-alignment of cost headings follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.
- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market

value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with a few of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

3.1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer accounts for indirect limited partnership fees.

3.1.6 Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other Investment related expenses (e.g. investment advice and litigation, etc) are included within the section 'Oversight & Governance Expenses'.

3.2 GOVERNANCE

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

3.2.2 Although all the Pension Fund costs are paid for by the Fund, avoiding complacency and ensuring value for money remain key drivers for making savings within the Scheme. Therefore, it is important that the Fund scrutinise and understand the costs of administering the Pension Fund and explore the opportunities for any savings.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	N/A	N/A	N/A
Compliance	N/A	N/A	N/A
Operational	N/A	N/A	N/A
Financial	Complacency and not ensuring value for money by making	L	Ongoing scrutiny and understanding of the costs of administering the Pension Fund with the exploration of

	savings within the Scheme		opportunities for any savings.
Reputational	N/A	N/A	N/A
Environment / Climate	N/A	N/A	N/A

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

North East Scotland Pension Fund (NESPf) Annual Report & Accounts (2020/21) and Fund Governance Policy Statement.

10. APPENDICES

Appendix I, Budget/Forecast 2021/22

11. REPORT AUTHOR CONTACT DETAILS

Name	Michael Scroggie
Title	Accounting Manager
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Tel	01224 264178

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Appendix I – 2021/22 BUDGET/FORECAST

The Budget/Forecast for the NESPF is shown below:

	Notes	ACC Full Year Budget 2021-22	Additional Budget	NESPF Full Year Budget 2021-22
		£'000	£'000	£'000
Administrative Staff Costs		1,609	6	1,615
Information Technology		42	474	516
Supplies & Services		87	64	151
Accommodation		36	349	385
Printing & Publications		0	20	20
Administration Expenses Total		1,774	913	2,687
Investment Staff Costs		227	16	243
Pension Fund Committee		2	13	15
Pension Board		2	8	10
External Audit Fee		0	43	43
Internal Audit Fee		6	0	6
Actuarial Fees		0	300	300
General Expenses		0	180	180
Oversight & Governance Expenses Total		237	560	797
Investment Management Fees		0	12,679	12,679
Performance Fees		0	10,430	10,430
Direct Operating Property Expenses		0	533	533
Transaction Costs		0	1,183	1,183
Custody Fees		0	146	146
Investment Management Expenses Total		0	24,971	24,971
Management Expenses Grand Total		2,011	26,444	28,455

Important to Note

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

Pensions Committee and Pension Board

9 September 2021

North East Scotland Pension Fund

Audit of 2020/21 annual report and accounts

Independent auditor's report

1. Our audit work on the 2020/21 annual report and accounts is now substantially complete. Subject to the satisfactory conclusion of the outstanding matters referred to later in this letter and receipt of a revised set of annual report and accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 17 Sep 2021 (the proposed report is attached at Appendix A).

Annual audit report

2. Under International Standards on Auditing in the UK we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee and Pension Board's consideration our draft annual report on the 2020/21 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual report and accounts.

3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.

4. This report will be issued in final form after the annual report and accounts have been certified.

Unadjusted misstatements

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

Fraud, subsequent events and compliance with laws and regulations

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

Representations from Section 95 Officer

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

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

Outstanding matters

9. There are some areas where we still require additional information, and these are identified below:

- Information on due diligence carried out on Rothesay Life PLC for the insurance buy-in contract
- Source documentation for cut-off sample testing items to enable conclusion of audit testing
- Finalised KPMG Annual Audit Report 2020/21 for the administering authority, Aberdeen City Council
- Audited Aberdeen City Council annual accounts 2020/21 including signed independent auditor's report

APPENDIX A: Proposed Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the funds during the year ended 31 March 2021 and of the amount of disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the funds are complying with that framework;
- identifying which laws and regulations are significant in the context of the funds;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and

- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the funds' controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Statutory other information

The Chief Officer - Finance is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that

report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and

- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Leave space for signature to be inserted electronically

Gillian Woolman MA FCA CPFA
Audit Director

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Leave space for date to be inserted electronically

APPENDIX B Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Date

Dear Gillian

North East Scotland Pension Fund and the Aberdeen City Council Transport Fund Annual report and accounts 2020/21

1. This representation letter is provided in connection with your audit of the annual report and accounts of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (North East Scotland Pension Funds or the funds) for the year ended 31 March 2021 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary, annual governance statement and governance compliance statement.

2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of North East Scotland Pension Funds' annual report and accounts for the year ended 31 March 2021.

General

3. I have fulfilled my responsibilities for the preparation of the 2020/21 annual report and accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual report and accounts have been made available to you for the purposes of your audit. All transactions undertaken by North East Scotland Pension Funds have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual report and accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (2020/21 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2021 and the transactions for 2020/21.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2020/21 accounting code, where applicable. Where the code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to North East Scotland Pension Funds' circumstances and have been consistently applied.

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

Going Concern Basis of Accounting

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

Assets

Investments

10. For the year ended 31 March 2021, the amounts included in the net assets statements reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2021. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Property Assets

11. For the year ended 31 March 2021, the amount included in the net assets statement is the valuation provided by Savills (UK) Limited. 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.

Long Term Assets

12. For the year ended 31 March 2021, the amount included in the Aberdeen City Council Transport Fund net assets statement for the insurance buy-in contract is the valuation provided by the Funds' actuary. The pension assumptions made by the actuary in this valuation have been considered and I confirm that they are consistent with management's own view.

Banking and Cash Flow Arrangements

13. The pension funds maintain separate bank accounts and while these accounts form part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

14. On realisation in the ordinary course of the funds' business, the other current assets in the Net Assets Statements are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

15. All liabilities at 31 March 2021 of which I am aware have been recognised in the financial statements.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2021 of which I am aware where the conditions specified in the 2020/21 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2021. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2021 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The pension assumptions made by the actuary in the IAS 19 report for North East Scotland Pension Funds have been considered and I confirm that they are consistent with management's own view.

29. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

20. There are no significant contingent liabilities, other than those disclosed in Note 23 of the Main Fund and Note 17 of the Transport Fund financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the accounting code 2020/21 and IAS 37.

Fraud

21. I have provided you with all information in relation to

- my assessment of the risk that the financial statements may be materially misstated as a result of fraud
- any allegations of fraud or suspected fraud affecting the financial statements
- fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

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

Related Party Transactions

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24 as interpreted by the accounting code 2020/21. I have made available to you the identity of all the North East Scotland Pension Funds' related parties and all the related party relationships and transactions of which I am aware.

Management commentary

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

Corporate Governance

25. I confirm that the North East Scotland Pension Funds has undertaken a review of the system of internal control during 2020/21 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

26. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. In response to the Covid-19 pandemic, there have been several changes in governance arrangements including virtual committee meetings and homeworking for a range of staff. I am satisfied that our arrangements have been adequately maintained during the pandemic and that appropriate details have been disclosed in the Governance Statement. Otherwise, there have been no significant changes in governance arrangements or issues identified, since 31 March 2021, which require to be reflected.

27. I confirm that the Governance Statement has been prepared in accordance with the Scottish Public Finance Manual and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified since 31 March 2021 which require to be reflected.

Events Subsequent to the Date of the Statement of Financial Position

28. All events subsequent to 31 March 2021 for which IAS 10 as interpreted by the FReM requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford, CPFA

Chief Officer - Finance

North East Scotland Pension Fund

2020/21 Annual Audit Report – DRAFT



Prepared for the Aberdeen City Council Pensions Committee and the Controller of Audit
September 2021

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Key messages

2020/21 annual accounts

- 1 The financial statements of North East Scotland Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

Financial management

- 3 The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the Covid pandemic on investment values last year.
- 4 The Fund has appropriate and effective financial management arrangements.
- 5 Systems of internal control operated appropriately and effectively in 2020/21, with two areas for improvement: reconciliations and authorisation limits.
- 6 Standards of conduct and arrangements for prevention and detection of fraud and error were appropriate.

Financial sustainability

- 7 The triennial funding valuation as at March 2020 assessed both funds as fully funded. The investment strategy has been reviewed and updated accordingly.
- 8 The insurance buy-in contract for the Transport Fund reduces risk for the Fund and increases certainty around the funding of the liabilities insured.
- 9 The Fund has appropriate and effective financial planning arrangements in place.

Governance and transparency

- 10 The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.
- 11 The Pension Fund demonstrates a commitment to openness and transparency.

- 12** There are effective arrangements for complying with the Pensions Regulator Public Service Code but member attendance at pensions training is not meeting the minimum expected level.
- 13** The Fund is actively considering Environmental, Social and Corporate Governance matters.

Best Value

- 14** The pension administration function's performance against targets has been affected by added pressures from the Covid-19 pandemic, but performance in priority areas remained high.
- 15** Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.
- 16** The Fund has effective arrangements in place for monitoring investment performance and scrutinising investment management expenses.

Introduction

1. This report is a summary of our findings arising from the 2020/21 audit of North East Scotland Pension Fund (NESPF or “the Fund”). The Fund consists of two funds, the North East Scotland Pension Fund (the main fund) and the Aberdeen City Council Transport Fund (the transport fund). Both funds are part of the Local Government Pension Scheme (LGPS). Hereafter we will refer to “the Fund” in the singular.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2021 meeting of the Pensions Committee. This report comprises:

- an audit of the Fund’s annual accounts
- consideration of the wider dimensions of financial management, financial sustainability, governance and transparency, and value for money, that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#)

3. The main elements of our audit work in 2020/21 have been:

- an audit of the Fund’s 2020/21 annual accounts including the issue of an independent auditor’s report setting out our opinions
- a review of the Fund’s main financial systems
- consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

Added Value

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

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

Responsibilities and reporting

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

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

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

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

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

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

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

Auditor Independence

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

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2020/21 audit fee of £43,000, as set out in our Annual Audit Plan, remains unchanged.

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

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

1. Audit of 2020/21 annual accounts

The principal means of accounting for the stewardship of resources and performance

Main judgements

The financial statements of North East Scotland Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2021 and have been properly prepared in accordance with the financial reporting framework.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

Our audit opinions on the annual accounts are unmodified

15. The annual accounts for the year ended 31 March 2021 were approved by the Aberdeen City Council Pensions Committee on 17 September 2021. We reported within the independent auditor's report that:

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

Submission of annual accounts for audit

16. The unaudited annual report and accounts were received in line with our agreed audit timetable on 29 June 2021. The working papers provided with the unaudited accounts were of a good standard and finance staff provided excellent support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly. The annual accounts were signed off in September 2021, in line with the agreed timetable.

There were no objections raised to the annual accounts

17. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for North

East Scotland Pension Fund was published on the website of the administering authority (Aberdeen City Council) and complies with the regulations. No objections were received to the North East Scotland Pension Fund accounts.

Overall materiality is £57.5 million

18. We apply the concept of materiality in both planning and performing the audit and in evaluating the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements and in forming the opinion in the auditor's report. We identify a benchmark on which to base overall materiality, such as gross expenditure, and apply what we judge to be the most appropriate percentage level for calculating materiality values.

19. The determination of materiality is based on professional judgement and is informed by our understanding of the entity and what users are likely to be most concerned about in the financial statements. In assessing performance materiality, we have considered factors such as our findings from previous audits, any changes in business processes and the entity's control environment including fraud risks.

20. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit. This was reviewed and revised on receipt of the unaudited annual accounts and is summarised in [Exhibit 1](#).

Exhibit 1 Materiality values

Materiality level	Main Fund	Transport Fund
Overall materiality (1% of gross assets)	£57.5 million	£3 million
Performance materiality (65% of overall materiality)	£37 million	£2 million
Reporting threshold	£250 thousand	£75 thousand
Specific materiality (Benefits payable)	£17 million	£1.1 million
Specific performance materiality (Benefits payable)	£11 million	£0.7 million

Source: Audit Scotland

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

21. [Appendix 2](#) provides our assessment of the risks of material misstatement in the annual accounts and any wider audit dimension risks. These risks influence our overall audit strategy, the allocation of staff resources to the audit and indicate how the efforts of the team were directed. The appendix identifies

the work we undertook to address these risks and our conclusions from this work.

We have one significant finding to report on the annual accounts

22. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the to those charged with governance, including our view about the qualitative aspects of the body's accounting practices.

23. The significant findings from our audit of the financial statements are summarised in [Exhibit 2](#). Some minor presentation and disclosure adjustments were also made in the audited accounts.

Exhibit 2

Significant findings from the audit of the financial statements

Issue	Resolution
<p>1. Private equity level 3 valuations as at 31 March 2021</p> <p>The draft accounts were prepared using the latest available valuations of private equity level 3 investments (as at 31 December 2020). The valuations of private equity level 3 investments as at 31 March 2021 were subsequently received by the pension fund in August 2021. These valuations showed a material increase in the value of these assets and management proposed to adjust the accounts so the most recent available information would be reflected in the audited accounts.</p>	<p>Management adjusted the accounts for the 31 March 2021 valuations, increasing Net Assets as at 31 March 2021 by £66 million. We have reviewed this adjustment and are satisfied that it reflects the most recent available valuations.</p>

Source: Audit Scotland

We have no unadjusted misstatements above our reporting threshold to report

24. It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no unadjusted misstatements above our reporting threshold to report from the 2020/21 audit.

2. Financial management

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

Main judgements

The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the Covid pandemic on investment values last year.

The Fund has appropriate and effective financial management arrangements.

Systems of internal control operated appropriately and effectively in 2020/21, with two areas for improvement: reconciliations and authorisation limits.

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

The Fund has had a strong investment performance in 2020/21 and recovered from the significant impact of the Covid-19 pandemic on investment values last year

25. When considering the investment performance of the Fund during 2020/21, it is important to recognise the impact at the start of the financial year of Covid-19 on financial markets and investments. Asset values reduced significantly at the end of 2019/20, from a height of £4.8 billion to £4.4 billion at year end, as the global impact of the pandemic significantly increased market volatility. Asset values have recovered during 2020/21 and the Main Fund's net assets increased from £4,367 million as at 31 March 2020 to £5,777 million (£1,410 million increase) as at 31 March 2021. The Main Fund's performance in 2020/21 is summarised in [Exhibit 3](#).

26. The Fund's actuary, Mercer Limited, estimated that pension liabilities had increased by 14% from £5,252 million as at 31 March 2020 to £6,003 million at 31 March 2021 (£751 million increase) for the Main Fund.

27. During 2020/21 the £168 million benefits payable by the Main Fund exceeded the £143 million contributions receivable by the Fund. Benefits payable in 2020/21 were 8.6% higher than in 2019/20. Pensioner numbers rose by 536, a 2.4% increase. Other factors in addition to increasing pensioner numbers, affected the rise in benefits payable, including individual members' entitlement. This is the second year that the Main Fund has reported negative cash flows and this position is expected to continue as the scheme matures.

28. The Fund operates in a challenging environment and a number of issues may increase pressures on the future funding position, including (lack of) economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination are also likely to impact on the funding position in the coming years.

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

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

Exhibit 3

Main Fund assets, liabilities and investment performance

Increase/ (decrease) in net assets	Increase/(decrease) in estimated liabilities	Investment performance
£5,777 million	£6,003 million	32.2%
Closing net assets as at 31 March 2021	Closing liabilities as at 31 March 2021	Return on investments 2020/21
+£1,410 million +32.2%	+£751 million +14.3%	
£4,367 million	£5,252 million	13.5%
Opening assets as at 1 April 2020	Opening liabilities as at 1 April 2020	Average annual return on investments over 5 years

Source: 2020/21 North East Scotland Pension Fund audited annual report and accounts

31. The Transport Fund's net assets have decreased from £308.8 million as at 31 March 2020 to £304.6 million as at 31 March 2021 (£4.2 million decrease). The impact of the Covid-19 pandemic on investment asset values last year was masked by the assets of Strathclyde Pension Fund No.3 Fund merging with those of the Aberdeen City Council Transport Fund during 2019/20. This merger increased the net assets significantly last year. During 2020/21 over £200 million of the Transport Fund's investment assets have been replaced by the Insurance Buy-In Contract. This is an insurance policy with Rothesay Life PLC that matches against some of the Transport Fund liabilities and reduces the risk exposure of the Fund (see paragraphs 52-53). The Transport Fund's performance in 2020/21 is summarised in [Exhibit 4](#).

32. The estimated Transport Fund liabilities increased by £21 million (10%), from £217 million as at 31 March 2020 to £238 million as at 31 March 2021.

33. The Transport Fund's benefits payable (£11.1 million) and contributions receivable (£11.0 million) were broadly similar this year. The Fund paid out only £8,000 more in benefits in 2020/21 than it received in contributions. Membership numbers were quite stable year on year, with a 1.6% overall reduction and pensioner numbers reducing by 1. The Fund is a closed fund (i.e. not open to new active members) so an overall reduction in pensioner numbers is expected over time. There was a large increase in pensioner numbers last year because of the merger with Strathclyde Pension Fund No.3 Fund. As reported last year, there was not a corresponding increase in contributions receivable through the merger: the 2017 triennial funding valuation for Strathclyde Pension Fund No.3 Fund set the employer's contribution rate at nil, because the Fund was over 100% funded. The 2020 triennial funding valuation for the Transport Fund has set the new employer contribution rate for both First Aberdeen Limited and First Glasgow Limited at nil from 2021/22 to 2023/24.

Exhibit 4 Transport Fund assets and liabilities

Increase/ (decrease) in net assets	Increase/(decrease) in estimated liabilities
£304.6 million	£238 million
Closing net assets as at 31 March 2021	Closing liabilities as at 31 March 2021
(-£4.2 million)	+£21 million
(-1.4%)	+9.7%
£308.8 million	£217 million
Opening assets as at 1 April 2020	Opening liabilities as at 1 April 2020

Source: 2020/21 North East Scotland Pension Fund audited annual report and accounts

Financial management arrangements were appropriate and effective

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

35. Investment and administration performance reports are submitted to the Pensions Committee on a quarterly basis. Reports are comprehensive, covering reviews of the equity and bond markets, overall performance of the funds and reviews of the performance of each investment manager. Overall, the Fund has appropriate and effective financial management arrangements in place.

Systems of internal control operated effectively, with two areas for improvement: reconciliations and authorisation limits

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

37. The Pension Fund uses some of the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems.

38. We take assurance from audit reporting by KPMG, the external auditor of Aberdeen City Council, that the internal controls over these financial systems were operating effectively during 2020/21. The 2020/21 annual audit report for Aberdeen City Council reported controls testing in the following areas, with satisfactory results: journal entries; budget monitoring; bank reconciliations; procurement (contract awards); and controls over the provision of pension fund membership information to the actuary. Progress is reported against the outstanding prior year recommendations to improve IT controls. KPMG will follow up implementation of these recommendations in their 2021/22 audit. KPMG have given an unmodified opinion on Aberdeen City Council's 2020/21 accounts.

39. Internal audit's annual opinion for Aberdeen City Council confirmed that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control in the year to 31 March 2021."

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

41. We also gain assurance from internal audit's work on the North East Scotland Pension Fund, and from our own audit testing of pension fund key controls. Internal audit's annual report on their work in relation to North East Scotland Pension Fund was reported to the Pensions Committee in June 2021. The internal auditor's 2020/21 opinion for North East Scotland Pension Fund confirmed 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".

42. Our audit testing of the fund's own pension administration system identified two control weaknesses that require improvement action. Audit testing of transfers out of the fund identified a transfer where the amount authorised was above the officer's delegated authorisation limit. Discussion with officers confirmed that they had not realised that their authorisation limit for transfers was lower than the authorisation limit for other areas of work. To check if this misunderstanding had led to more transfers out being authorised inappropriately, we reviewed the authorisation of an additional sample of transfers out. Authorisation of two transfers in this additional sample exceeded the delegated authorisation limit. We have reviewed the substance of the

transfers and concluded that in each case the amount was correct and was supported by documentation.

Recommendation 1

The Pension Fund should ensure that officers are familiar with their delegated authorisation limits and remain within those limits, escalating authorisation to more senior officers if required.

43. Monthly reconciliations of the Altair pensions system to the ledger should be undertaken for each fund. However, reconciliations for the former Strathclyde No.3 Fund were not prepared on a timely basis during the year. One reconciliation was carried out at the year end. Lack of timely reconciliation can make it more difficult to investigate and clear issues if several months have passed since the issue occurred. We have reviewed the March 2021 reconciliation (which forms part of our standard planned year end audit work) and agreed it to supporting documentation: no issues were identified.

Recommendation 2

The Pension Fund should ensure that reconciliations are prepared on a timely basis for all accounts.

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

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

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

46. The risk profile of public bodies during 2020/21 has been significantly affected by the Covid-19 pandemic, including the move to working from home. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by North East Scotland Pension Fund to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error and irregularities.

3. Financial sustainability

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

Main judgements

The triennial funding valuation as at March 2020 assessed both funds as fully funded. The investment strategy has been reviewed and updated accordingly.

The insurance buy-in contract for the Transport Fund reduces risk for the Fund and increases certainty around the funding of the liabilities insured.

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

The triennial valuation as at March 2020 assessed both funds as fully funded

47. A full triennial valuation of the North East Scotland Pension Fund was carried out at 31 March 2020 and reported to the Pensions Committee in March 2021. One of the main purposes of the triennial valuation is to inform the setting of pension contribution rates for the forthcoming 3 years and to inform a review of funding and investment strategies to ensure the continued payment of members' pension benefits as they fall due.

48. The March 2020 triennial funding valuation reported that the Main Fund assets were sufficient to meet 103% of its liabilities. This is a slight drop from 107% in the 2017 valuation, but it still means that, overall, the investment assets were higher than the projected liabilities. This, alongside some deficit recovery contributions being made, enabled the fund to reduce the employer's contribution rate for one council and maintain the employer's contribution rate at 19.3% for the other two councils for the period 2021-2024. The rates for the other bodies range from 11.9% to 65.8%.

49. The Transport Fund was assessed as 114% funded, meaning that the Fund's assets were higher than its projected liabilities. This is an improved funding position from the 2017 funding valuation when the Transport Fund was assessed as 94% funded. The triennial funding valuation takes account of last year's completed merger with the former Strathclyde No.3 Fund. The former Strathclyde No.3 Fund was assessed as 114% funded in its 2017 funding valuation. The administering authority and the employers, First Aberdeen Limited and First Glasgow Limited, have agreed to set the new employer contribution rate at nil for the period 2021-2024.

Financial planning arrangements are appropriate and effective

50. There is considerable volatility in pension funding and the results of the triennial valuation are in effect a snapshot of the Fund at 31 March 2020. Following each triennial valuation, the Fund reviews and revises its funding strategy. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment.

51. The Investment Strategy Review 2021 was reported to the Pensions Committee in March 2021. The updated Funding Strategy Statement was also reported alongside the triennial valuation results. The Fund is 103% funded and has the long term objective of maintaining its funding level at 100%. To achieve this, it is seeking to lock in recent gains and rebalance its investments closer to the benchmarks set for different asset types: growth assets 55%; income/protection assets 45%. The Fund therefore needs to reduce its growth asset allocation and increase its income/protection allocation. This can be done by reducing global equities and increasing bonds/credit and infrastructure assets. This move will take time and progress will be reported to the Pensions Committee.

52. The Transport Fund has a different risk profile and investment strategy as a maturing closed fund. De-risking is a key objective to ensure the Fund can cover its liabilities. At the request of First Group (the employer for members of the Transport Fund) the Fund completed a buy-in arrangement with an insurance company, Rothesay Life PLC, to cover the combined future liabilities of Transport Fund members. A buy-in is an insurance policy purchased by a pension fund, which is matched against some or all of the liabilities held. The Transport Fund insurance buy-in contract reduces longevity risk for the pension fund (transferring it to the insurer) and provides greater certainty over funding of the estimated liabilities (because pension payments are funded by the insurer). It is the first arrangement of its kind in the Local Government Pension Scheme in Scotland.

53. In November 2020 the Fund used £232 million of Transport Fund investment assets to purchase a bulk annuity policy with Rothesay Life PLC. This policy covers the liabilities of 1,371 members who were pensioners at the agreement date of 19 November 2020. The Fund continues to administer the pensions of these members, but Rothesay Life PLC reimburses the Fund for the pension payments. The value of the buy-in contract is assessed annually by the Fund's actuary and is included as a long term asset in the Net Assets Statement (£206.4 million as at 31 March 2021). The actuarial revaluation is reflected in the Fund Account. We reviewed the accounting treatment of the insurance buy-in contract and concluded it was appropriate. Additional disclosure to explain this arrangement has been included in the audited accounts.

54. Other Transport Fund members are not covered by the insurance buy-in contract and these pension liabilities will be funded by income from the remaining investment assets as set out in the Funding Strategy Statement and Investment Strategy.

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

Fund membership remained stable but the ratio of active members to pensioners is reducing

56. The Main Fund is a multi-employer fund with 3 local authorities, and 45 other employers. The current Main Fund membership profile is shown at [Exhibit 5](#).

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

Exhibit 5 Main Fund membership



Source: North East Scotland Pension Fund 2020/21 audited financial statements

58. Membership of the Main Fund remained stable year on year, reducing by 42 members to 69,375 members in total at 31 March 2021. The number of pensioner members continues to increase. In 2020/21, the number of pensioners receiving a pension from the Main Fund increased by over 500. The number of active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced in the past 5 years. 2020/21 cash flows from dealing with members were negative for the second year running, with more paid out in benefits that was received from contributions. Over the long term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions.

59. Future membership numbers are difficult to predict with any certainty as they are dependent on several factors including employer budgets, recruitment decisions, and promotion of the pension scheme. In addition, increased pension flexibilities mean that pensions can be drawn from the age of 55 to 75, which adds to the uncertainty.

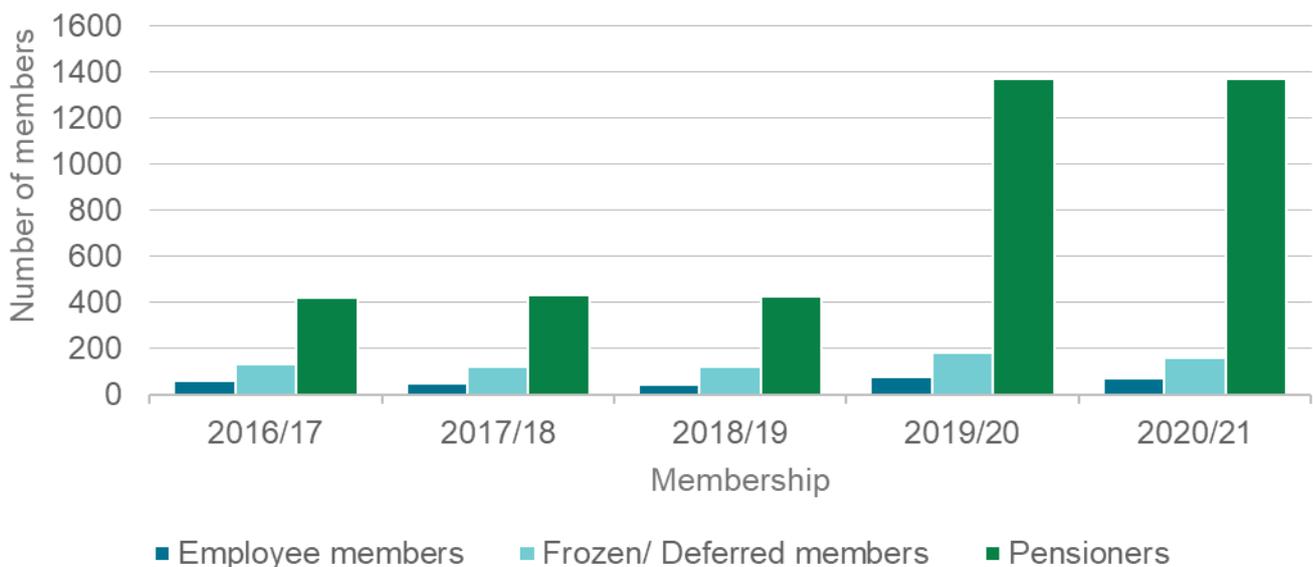
60. With most employers still open to new membership and with continuing support from auto enrolment, the recent trend of growth in membership seems likely to continue for the foreseeable future.

61. There was one bulk transfer out of the Fund in 2020/21, as Visit Scotland received Ministerial approval to consolidate all its LGPS memberships into one LGPS fund, Lothian Pension Fund. 77 members were transferred from North East of Scotland Pension Fund to Lothian Pension Fund.

62. The Transport Fund membership profile is shown at [Exhibit 6](#).

Exhibit 6

Transport Fund membership



Source: North East Scotland Pension Fund 2020/21 audited financial statements

63. The Transport Fund is a closed fund: membership increased significantly in 2019/20 due to the merger of Strathclyde Pension Fund No.3 Fund with the Aberdeen City Council Transport Fund. As noted above, the insurance buy-in contract reduces the financial risk for the Transport Fund.

Future rates of employer contributions have remained stable or fallen for the largest employers but there is greater variation in rates across the smaller employers.

64. Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021. As noted above, the employer rate has reduced from 19.3% to 17.9% for one local authority and remained at 19.3% for the other two local authorities. The rates for the other bodies range from 11.9% to 65.8%. These rates previously ranged from 11% to 33.8%. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. For a small number of employers, these rates include an element of deficit recovery contributions to support employers' financial planning. The approximate split of all contributions received in year is set out at [Exhibit 7](#).

Exhibit 7 Contributions in 2020/21

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Transferee Bodies £m	Total £m
Employer contributions	27.634	63.609	6.592	4.117	101.952
Employee contributions	8.707	19.923	2.144	1.273	32.047
Strain Contributions	1.489	0.567	0.001	0	2.057
Deficit Recovery Contributions	2.391	3.582	0.090	0	6.063
Total	40.221	87.681	8.827	5.390	142.119

Source: North East Scotland Pension Fund 2020/21 audited financial statements and supporting working papers

65. The continued growth in pensioner numbers within the Main Fund's membership makes funding pension payments increasingly challenging. The Fund has considered this as part of its investment strategy and is further diversifying its investment structure to increase investment in income generating assets.

4. Governance and transparency

The effectiveness of scrutiny and oversight and the transparent reporting of information

Main Judgements

The governance arrangements introduced in response to the pandemic are appropriate and operated effectively.

The Pension Fund demonstrates a commitment to openness and transparency.

There are effective arrangements for complying with the Pensions Regulator Public Service Code but member attendance at pensions training is not meeting the minimum expected level.

The Fund is actively considering Environmental, Social and Corporate Governance matters.

Governance arrangements operating throughout the Covid-19 pandemic have been appropriate and operated effectively

66. North East Scotland Pension Fund temporarily amended its governance arrangements in response to the pandemic. The impact of Covid-19 from March 2020 has been set out in the Annual Governance Statement in the Fund's annual report and accounts. We also reported in last year's [annual audit report](#) on the revised governance arrangements.

67. The Fund's property assets are valued by Savills (UK) Limited, a firm appointed on the Fund's behalf by one of the fund managers, Aberdeen Asset Managers Limited (now called Abrdn). This contract came to an end on 31 December 2020. Abrdn reported that its tender exercise for property valuation services was delayed by the Covid-19 pandemic. The contract with Savills has been extended for a year.

68. We have concluded that overall, North East Scotland Pension Fund has appropriate governance arrangements in place which support effective scrutiny, challenge and decision-making.

There are effective arrangements for complying with the Pensions Regulator Public Service Code but member

attendance at pensions training is not meeting the minimum expected level

69. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with.

70. The Fund conducts a compliance review against the code on a six-monthly basis and reports annually to the Pensions Committee and Pension Board. The latest report assessing the Fund's compliance with the Pensions Regulator's code was submitted to the Pensions Committee and Pension Board in March 2021. This provided assurance that the Fund is largely in compliance with the regulations. There were no breaches of the code that required to be reported to the Pensions Regulator in 2020/21.

71. The Pensions Regulator places a legal requirement on Pension Board members to maintain an appropriate level of knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law. Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. Three Pension Board members and three Pensions Committee members did not attend at least two training sessions during 2020/21: two Board and two Committee members attended no training during the year. Training sessions were offered online during 2020/21 to enable access to training while working remotely.

72. Members have varying levels of experience in their roles and their training needs will vary accordingly. Individual training needs are assessed in conjunction with pension fund officers and members can request targeted training.

Recommendation 3

The Pension Fund should work with Pension Board and Pensions Committee members to ensure that individuals' training needs are being met and members are supported in their monitoring and scrutiny role. Members should review their training needs to ensure they keep their pensions knowledge up to date. Specific training should be requested if required.

Performance reporting was of a good standard

73. Management Commentaries included in the annual accounts should provide information on a body, its main objectives and the principal risks faced. It should provide a fair, balanced and understandable analysis of a body's performance as well as helping stakeholders understand the financial statements.

74. The Fund's 2020/21 management commentary is of good quality and is written with the stakeholder in mind. It presents some complex areas in an

understandable style which increases transparency in reporting the financial performance and financial position.

The Pension Fund demonstrates a commitment to openness and transparency

75. Openness and transparency in how a body operates and makes decisions is key to supporting understanding and scrutiny. Transparency means that the public has access to understandable, relevant and timely information about how the body is taking decisions and using resources.

76. The Pension Fund demonstrates a commitment to openness and transparency. A range of information for members, employers and the public is available on the North East Scotland Pension Fund website. Aberdeen City Council publishes the Pensions Committee agenda papers and minutes on its website, with appropriate exemptions for private papers. Meetings are now a hybrid of in-person attendance and remote attendance using Microsoft Teams. As public attendance at committee meetings has not been possible during lockdown restrictions, draft minutes are published to ensure timely information is available. Members of the public can now make arrangements with the council to attend hybrid meetings in person.

77. Pensions Committee meetings are the vehicle for member scrutiny of pension fund decision making and use of resources. As noted above, the Pension Fund should support members through training and development to feel confident in their monitoring and scrutiny role. We have observed limited public scrutiny at Pensions Committee meetings, particularly in relation the accounts and audit reports. We acknowledge this may be because Fund performance has been very positive, and reports to the Pensions Committee contain sufficient detail and explanation. In addition, a recent members' training session focused on the 2020/21 annual report and accounts, to support members in their scrutiny of role.

Good practice point: The Fund is actively considering Environmental, Social and Corporate Governance matters

78. The Fund actively engages with the companies it invests in regarding Environmental, Social and Governance (ESG) matters. The Statement of Investment Principles sets out the Fund's approach to responsible investment. The Fund's membership of the Local Authority Pension Fund Forum (LAPFF) and being a signatory to Principles for Responsible Investment offer an opportunity to engage on a wider scale on key issues: examples include working with companies to secure commitment to achieving a carbon neutral position, reducing the use of plastics and withdrawing from fossil fuel mining. The Fund is also a member of the Carbon Disclosure Project and a signatory to Climate Action 100+. As a signatory the Fund supports Climate Action 100+ in its engagement with the boards and senior management of companies around the world to implement a strong governance framework, take actions to reduce greenhouse gas emissions and provide enhanced corporate disclosures.

5. Best Value

Using resources effectively and continually improving services

Main judgements

The pension administration function's performance against targets has been affected by added pressures from the Covid-19 pandemic, but performance in priority areas remained high.

Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year.

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

The pension administration function's performance against targets has been affected by added pressures from the Covid-19 pandemic, but performance in priority areas remained high

79. The Pensions Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance.

80. The Fund's business plan sets out a range of service standards against which administration performance is monitored. The administration function's performance against its targets for pensions processing have been affected by the pressures of the Covid-19 pandemic, alongside an increasing workload. Most staff are working from home which makes many processes slower. However, performance in several priority areas has remained high, including issuing annual benefit statements on time 99.66% and notifications of retirement estimates within target timescales 94%. The Fund has moved its transfer out quotations online and has worked with its software supplier to automate deferred benefit processes, which should both improve performance going forward.

81. Administrative expenses for the Main Fund increased in 2020/21 to £2.9 million from £2.2 million in 2019/20, including governance and oversight costs. The unit cost per member has increased by 32.6% in the past 5 years. Fund membership has increased by 9.1% over the same period. The workload of the pension administration section continues to grow, including the completion of the insurance buy-in contract for the Transport Fund during 2020/21. Other factors, such as the introduction of the career average pension scheme (CARE)

from 1 April 2015 and auto enrolment, also increase the administration workload.

82. Given the increasing workload pressures, the Fund undertook an administration review with the actuary during 2020, covering process (common admin tasks); management information; people (job roles, documentation, communication etc.) and capacity analysis (tasks created and completed). Areas of strength identified included data quality, use of I-Connect as an efficient and effective tool for obtaining member data and transferring it onto the pensions admin system, and accurate and efficient system calculation automation. Recommendations for improvement included implementing bulk processing, reducing manual processes following automated updates, reviewing how information is uploaded to the system and creating a formal process for staff to suggest change. The Fund has committed to implementing improvements over the 12-18 months.

Fund investment performance in 2020/21 has exceeded all agreed benchmarks as markets recover from the significantly reduced annual returns last year

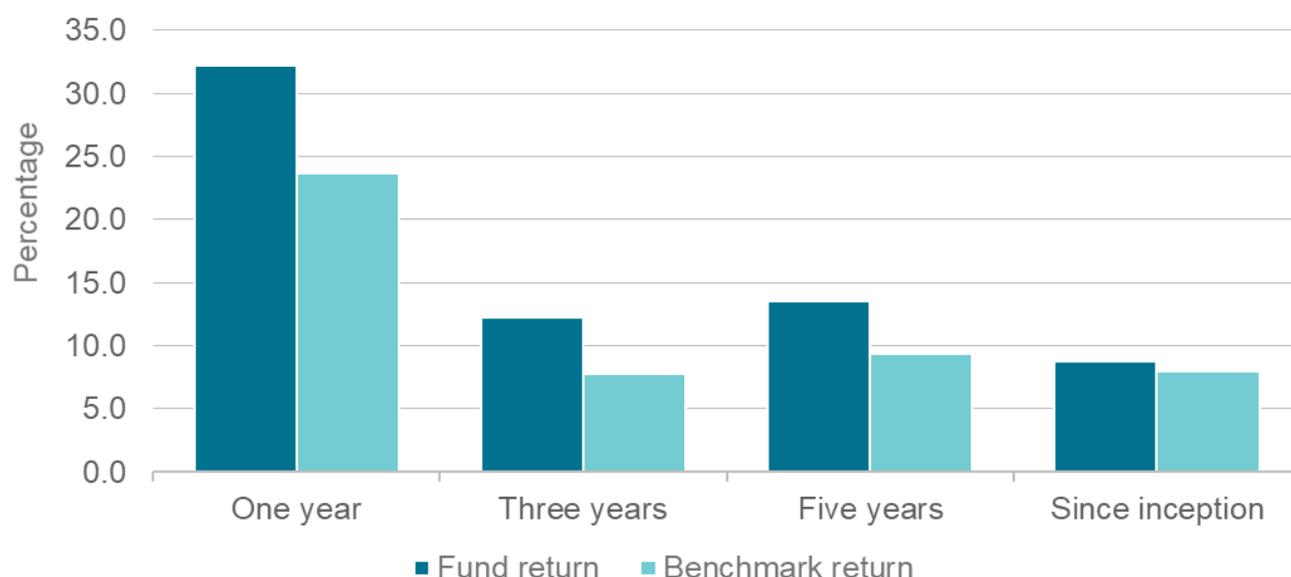
83. The Fund appoints several external investment managers. Individual investment manager performance is reviewed regularly by the Pensions Committee and the Fund's investments team also carries out annual diligence reviews for each appointed fund manager.

84. Financial markets have largely recovered from last year's exceptional volatility, when returns against most asset classes, especially equities, reduced significantly due to the impact of the Covid-19 pandemic. 2020/21 investment performance has exceeded the agreed benchmarks.

85. [Exhibit 8](#) shows that over the year, the Fund generated a return of 32.2% against a benchmark of 23.7%. Equity portfolios were the most significant contributor to this increase. Over the medium to longer term, the Fund has outperformed its three-, five- and since-inception benchmarks.

Exhibit 8

Fund investment performance



Source: North East Scotland Pension Fund 2020/21 audited financial statements

86. Investment return and risk are inextricably linked, and it is not possible for us to give an opinion on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made.

87. As noted in paragraph 51, the Fund's most recent investment strategy has updated the benchmark for growth assets (from 57.5% to 55%) and income/protection assets (from 42.5% to 45%). The Fund continues to rebalance its investments towards these benchmarks. This means reducing growth assets (equities were 68.8% against the benchmark of 55%) and increasing income/protection assets such as bonds and infrastructure assets. The Pensions Committee is regularly updated with details of how closely aligned the Fund's investments are with its investment strategy.

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

The Fund adequately scrutinises investment management expenses

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

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

91. Investment management expenses for the Main Fund have increased from £18.0 million in 2019/20 to £23.8 million in 2020/21 (excluding administration, governance and oversight expenses: see paragraph 81). The main reason for this increase in expenses relates to the 29% increase in investment assets' value. Investment management expenses for the Transport Fund have increased from £0.181 million to £0.447 million.

92. The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses. The Fund continues to work with Fund Managers to increase transparency in reporting of investment management expenses.

National performance audit reports

93. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2020/21, we published reports which may be of interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

94. The Pensions Committee considered the LGPS supplement to the Local Government in Scotland: Financial Overview 2019/20 at its March 2021 meeting.

Good practice points

95. The administration review conducted with the actuary has identified ways to increase efficiency and improve service provision at a time when the administrative function is experiencing increasing workload pressures and performance is affected by staff working from home during the Covid-19 pandemic.

Appendix 1

Action plan 2020/21

2020/21 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Authorisation limits</p> <p>Audit testing identified three transfers out of the Pension Fund which exceeded the delegated authorisation limit of the officer who authorised it.</p> <p>Risk – Transfers out of the Pension Fund are not properly authorised.</p>	<p>The Pension Fund should ensure that officers are familiar with their delegated authorisation limits and remain within those limits, escalating authorisation to more senior officers if required.</p> <p>Paragraph 42</p>	<p>In 2020/21, workflow tasks adapted to incorporate a prompt re limit. However, going forward, there will be a review of limits, systems and processes.</p> <p>Accounting Manager & Benefit Administration Manager</p> <p>March 2022</p>
<p>2. Reconciliations</p> <p>The Altair ledger reconciliation for the former Strathclyde No.3 Fund should have been completed monthly. This wasn't done and wasn't noticed until year end when the annual accounts were being prepared. One reconciliation (March 2021) was then prepared for the whole year.</p> <p>Risk – Lack of timely reconciliation can make it more difficult to investigate and clear issues if several months have passed since the issue occurred.</p>	<p>The Pension Fund should ensure that reconciliations are prepared on a timely basis for all accounts.</p> <p>Paragraph 43</p>	<p>The year end reconciliation identified no issues. Management are reviewing the frequency of reconciliations and considering combining the two Transport Fund reconciliations into one. The review to include any improvements to the process where required.</p> <p>Accounting Manager</p> <p>March 2022</p>
<p>3. Member training and engagement</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. There is also a legal</p>	<p>The Pension Fund should work with Pension Board and Pensions Committee members to ensure that individuals' training needs are being met and members are supported in their monitoring</p>	<p>Additional training on the Annual Report & Accounts was held 26 August 2021, led by the Chief Officer – Finance and the Pensions Manager.</p>

Issue/risk	Recommendation	Agreed management action/timing
<p>requirement for Pension Board members to maintain an appropriate level of knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.</p> <p>Three Pension Board members and three Pensions Committee members did not attend at least two training sessions during 2020/21: two Board and two committee members attended no training during the year.</p> <p>Risk – There is a continuing risk of ineffective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting.</p>	<p>and scrutiny role. Members should review their training needs to ensure they keep their pensions knowledge up to date. Specific training should be requested if required.</p> <p>Paragraph 72</p>	<p>Officers will continue to support elected members through provision of training and clear, comprehensive reports, to exercise effective public scrutiny.</p> <p>Chief Officer – Finance & Pensions Manager</p> <p>Ongoing</p>

Appendix 2

Significant audit risks identified during planning

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

Audit risk	Assurance procedure	Results and conclusions
<p>1. Management override of controls</p> <p>International Standard on Auditing (ISA) 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results: We undertook detailed testing of journal entries, accruals, and prepayments. We also reviewed accounting estimates and transactions for appropriateness.</p> <p>Conclusion: We did not identify any incidents of management override of controls.</p>
<p>2. Estimation, judgements and classification</p> <p>There is a significant degree of subjectivity in the measurement and classification of certain investments and in the actuarial valuation. North East Scotland Pension Fund investments include investments such as property, unquoted equity and pooled funds, where valuations involve the application of judgement in determining appropriate amounts.</p> <p>The actuarial valuation depends on a number of</p>	<p>Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments.</p> <p>Confirmation of valuations to valuation reports and/or other supporting documentation.</p> <p>Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary.</p> <p>Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2020/21.</p>	<p>Results: We carried out 'reliance on a management expert' work on the custodian, the valuer and the actuary. This included review of the PwC report on actuarial assumptions. We concluded that we could place reliance on the custodian, the valuer and the actuary.</p> <p>We reviewed the valuation reports and confirmed these to the asset valuations in the accounts with no issues identified.</p> <p>The draft accounts were amended to reflect the Private Equity level 3 investment valuations for 31</p>

Audit risk	Assurance procedure	Results and conclusions
<p>assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.</p> <p>The Transport Fund insurance buy-in contract will be subject to an annual actuarial valuation.</p> <p>This subjectivity entails a risk of misstatement in the financial statements.</p>		<p>March 2021 which became available in August 2021. We confirmed all valuations to fund manager reports.</p> <p>Conclusion: We did not identify any significant issues with the estimations and judgements used in the annual report and accounts.</p>
<p>3. Transport Fund Insurance Buy-In Contract</p> <p>In 2020/21 the Pension Fund entered into an insurance buy-in contract to cover the cost of paying pensioners within the Transport Fund. This is a new arrangement and we will carry out additional audit procedures to ensure that it is accounted for correctly.</p>	<p>Review of accounting disclosures and management commentary.</p> <p>Confirmation of valuations to supporting documentation.</p>	<p>Results: We reviewed the accounting disclosures and management commentary for appropriateness. We confirmed the valuation to supporting documentation.</p> <p>Conclusion: We did not identify any significant issues with the accounting treatment of the insurance buy-in contract or the valuation used in the annual report and accounts.</p>

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

Audit risk	Assurance procedure	Results and conclusions
<p>4. Public scrutiny by those charged with governance</p> <p>We noted that scrutiny of the annual accounts and audit reports can be limited in comparison to other Pensions Committee reports and would encourage members to strengthen their scrutiny of the annual report and accounts as the Fund's primary vehicle to</p>	<p>Review of member training arrangements: training needs assessments, sessions arranged by officers, and sessions attended.</p> <p>Attendance at Pensions Committee meeting to observe the presentation of annual report and accounts and the scrutiny thereon.</p>	<p>Results: We have observed limited public scrutiny, as evidence by member comments and questions, at Pensions Committee meetings. We acknowledge that the Pension Fund's reported financial position has been positive, and members may feel assured by this, with less need to ask</p>

Audit risk	Assurance procedure	Results and conclusions
<p>demonstrate stewardship of public funds.</p> <p>There is a risk of ineffective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting.</p>		<p>questions of officers or auditors.</p> <p>Not all Pensions Committee or Pension Board members participated in the expected two training sessions during the past year. Online training has been offered to all members during 2020/21. It is a legal requirement that Pension Board members maintain an appropriate level of knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law.</p> <p>Conclusion: There is a continuing risk of ineffective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting.</p> <p>See Appendix 1.</p>

Appendix 3

Summary of national performance reports 2020/21

April

[Affordable housing](#)

June

[Highlands and Islands Enterprise: Management of Cairngorm mountain and funicular railway](#)

[Local government in Scotland Overview 2020](#)

July

[The National Fraud Initiative in Scotland 2018/19](#)

January

[Digital progress in local government](#)

[Local government in Scotland: Financial overview 2019/20](#)

February

[NHS in Scotland 2020](#)

March

[Improving outcomes for young people through school education](#)

North East Scotland Pension Fund

2020/21 Annual Audit Report – DRAFT

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	17 September 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Consideration and Signing of Audited Annual Report and Accounts
REPORT NUMBER	PC/SEPT21/ARA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee:-

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

3. BACKGROUND

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	N/A	N/A	N/A
Compliance	There is a risk that a delay or failure to approve the Annual Report and Accounts could impact on the administering authority to fulfil its regulatory requirements.	L	Consideration and approval of the Annual Report and Accounts at scheduled Committee meeting
Operational	N/A	N/A	N/A
Financial	N/A	N/A	N/A
Reputational	N/A	N/A	N/A
Environment / Climate	N/A	N/A	N/A

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. APPENDIX

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

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

Annual Report & Accounts

For the period 1 April 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

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Management Commentary

1. 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 £5,777m 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 launched 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 its teams and services.

In 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'm 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

2. 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 69,000 members and 48 participating employers.

3. 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.

4. 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 2020/21
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 impact 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 a number of presentations and panels covering:

- Pension administration
- Triennial valuations
- Governance
- Investment markets

5. 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 28,000 members registered for My Pension with 13,999 active members, 8,527 deferred members and 6,408 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	76%	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 purchased a Bulk Annuity Buy-In Policy (buy-in) with Rothesay Life PLC. This policy underwrites the liabilities of 1,371 pensioner members of the Aberdeen City Council Transport Fund (ACCTF) as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension. It is the first of its kind for the LGPS in Scotland.

The project began after First Group expressed their desire to reduce the risk associated with their LGPS pension liabilities and to streamline their administrative requirements. First Group had subsidiaries within both the Strathclyde No.3 Transport Fund and the ACCTF. It was agreed that the Funds would first merge prior to securing the pensioner liabilities through a buy-in.

This merger would involve the transfer of members and assets from the Strathclyde No.3 Transport Fund to the ACCTF. The merger was a substantial project and has been a key administrative task since 2019. It involved close working partnerships with other Funds, employers and third parties. 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 completion of the merge, the next stage, procuring the buy-in policy could commence. The buy-in provides multiple benefits for the ACCTF. Given that the ACCTF is a closed Fund, with a maturing membership profile, de-risking has become one of the main Fund objectives. The buy-in allows the Fund to reduce the risk to both itself and First Bus.

Furthermore, a buy-in, as opposed to a buy-out, means that the administration and payment of benefits remain the responsibility of the ACCTF. As such member benefits remain unaffected and pensions continue to be paid by the Fund in accordance with LGPS regulations.

The procurement process for the buy-in began early 2020. Despite initial delays arising from the COVID-19 pandemic and the subsequent volatility of financial markets, the Fund entered into a contract with Rothesay Life Plc in November 2020. A purchase price of £232 million (£222m Stock & £10m Cash) was paid to the insurance provider in November 2020.

The Fund are pleased to have contractually agreed this long term arrangement with Rothesay Life PLC. In doing so, it has met the requirements of the employer, First Bus. The policy also provides greater certainty to the Fund and the Scheme actuary.

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 VisitScotland 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.

6. 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
£1,462m	 Net Return on Investments	£19m
£5,777m	 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
69,375	 Total Membership	1,604

2,071

Votes at AGMs



42%

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)	1,462,128
Net Increase/ (Decrease) in Fund	632,955	310,816	343,603	(102,625)	1,410,647
Fund Balance as at 31 March (Market Value)	3,814,748	4,125,564	4,469,167	4,366,542	5,777,189

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.
2. 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	26,315
Pensioners	19,111	20,023	21,029	22,156	22,692
Deferred	16,888	17,218	17,846	17,965	17,704
Frozen Leavers	2,232	2,435	2,759	3,021	2,664
Total	63,560	65,244	67,526	69,417	69,375

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	32.23
Oversight and Governance Unit Cost per Member	7.36	7.16	7.02	6.08	10.28
Investment Management Unit Cost per Member	258.89	292.62	276.41	258.62	343.35
Total Cost per Member	290.84	324.89	307.63	290.95	385.86

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.

7. 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 as at 31 March 2020. 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 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			

8. 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:

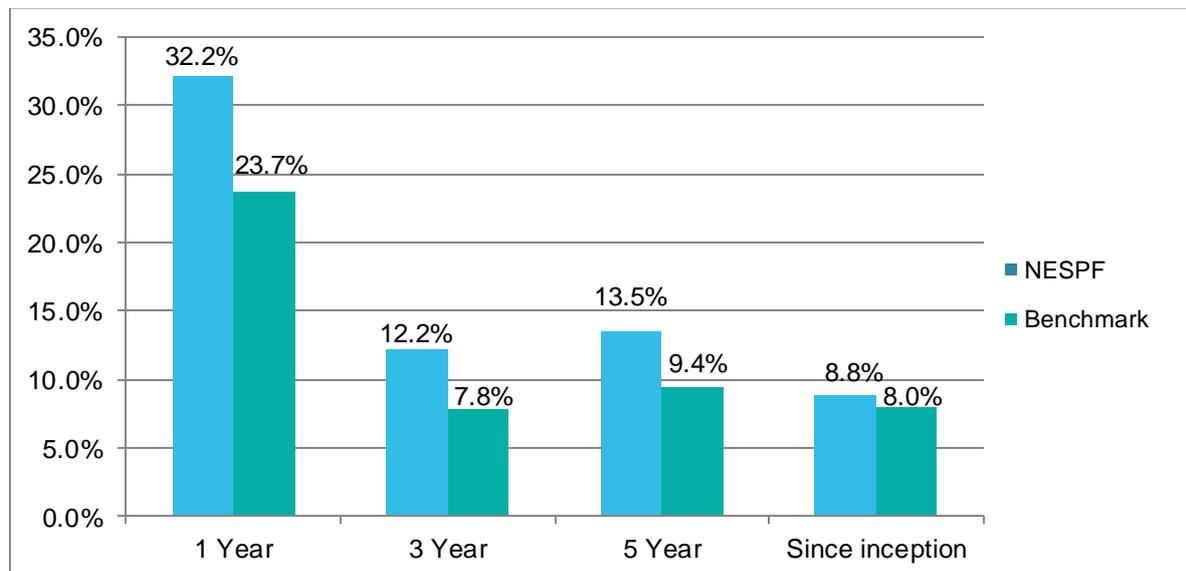
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

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.

9. 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 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.

10. 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.

11. 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

12. 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

13. 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/>

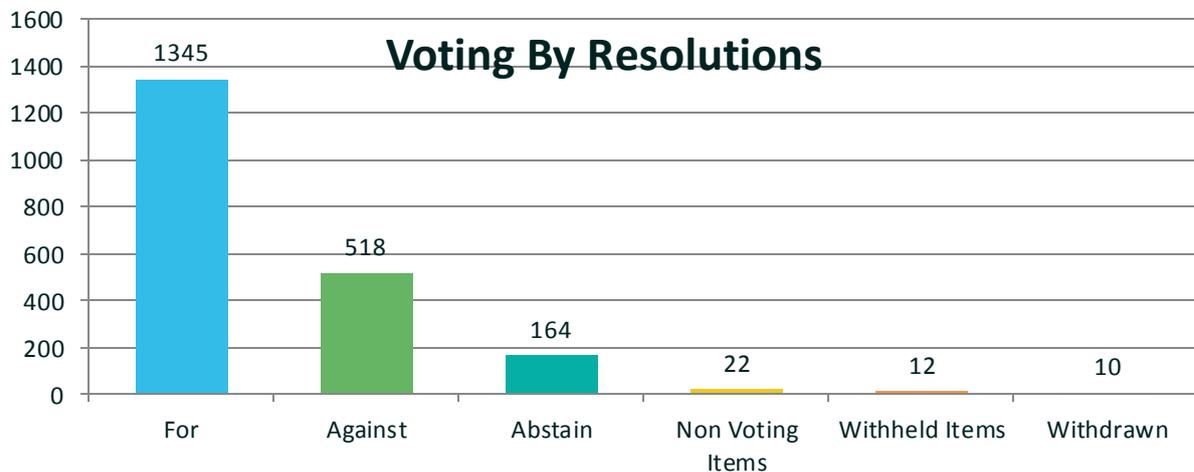
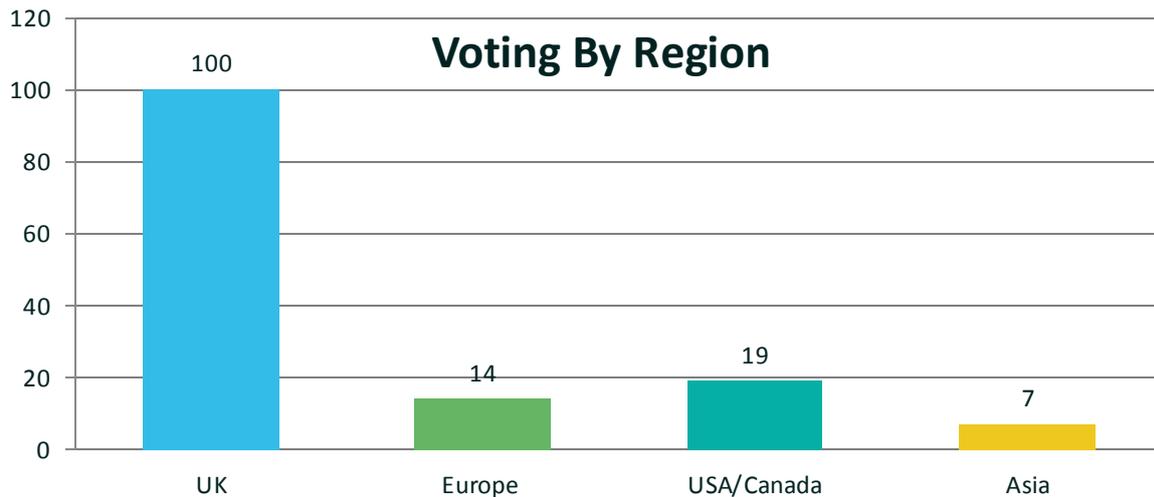
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

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.

14. Acknowledgement

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

17 September 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 audited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 17 September 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 audited 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
17 September 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 reported to the June 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. The full Internal Audit report can be found on the Fund's website www.nespf.org.uk.

At the Pensions Committee meeting on 25 June 2021, the 2021/22 internal audit plan was approved to review pension systems. The audit will focus on IT systems and consider whether appropriate control is being exercised including access, contingency planning, disaster recovery and data input.

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

17 September 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 £670,855,928 (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

In 2020/21, ACCTF purchased a bulk annuity insurance buy-in contract with Rothesay Life PLC. The insurer underwrites the risk of meeting the liabilities of a specified group of pensioners on the ACCTF pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension.

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.

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.

These amendments help give clarification or are generally minor in nature. Overall, these new or amended standards are not expected to have a significant impact on the Financial Statements.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 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
Dealings with members, employers and others directly involved in the Fund			
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
Additions		<u>144,007</u>	<u>143,492</u>
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
Withdrawals		<u>154,787</u>	<u>168,204</u>
Net (Additions)/Withdrawals from dealings with members		10,780	24,712
Management Expenses	6a	20,197	26,769
Net (Additions)/Withdrawals including Fund Management Expenses		30,977	51,481
Return on Investment			
Investment Income	7	56,494	59,548
Taxes on Income	7	(178)	(135)
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	(127,964)	1,402,715
Net Return on Investments		<u>(71,648)</u>	<u>1,462,128</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		(102,625)	1,410,647
Opening Net Assets of the Fund		4,469,167	4,366,542
Net Assets of the Fund at the end of the year		<u>4,366,542</u>	<u>5,777,189</u>

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	2,308,311
Direct Property	13	348,750	361,325
Private Equity – Other		322,825	432,023
Private Debt		83,435	136,979
Funds held by Investment Managers		60,266	70,372
ACC Loans Fund Deposit	19	67,480	54,605
Investment Income Due		3,685	9,113
Investment Sales Amount Receivable		0	255
Investment Purchases Returned Amount Receivable		0	2,788
Total Investment Assets		<u>4,383,600</u>	<u>5,634,598</u>
Investment Liabilities			
Investment Purchases Amount Payable		(1,711)	(306)
Net Investment Assets		<u>4,381,889</u>	<u>5,634,292</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)		(15,428)	142,430
Net Assets of the Fund at the end of the year		<u>4,366,542</u>	<u>5,777,189</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
17 September 2021

The unaudited accounts were authorised on 25 June 2021 and the audited accounts were authorised for issue by Jonathan Belford on 17 September 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
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2a	129	133
Employers' Contributions	2a	1,908	1,800
Other Income	2b	348	9,073
Additions		<u>2,385</u>	<u>11,006</u>
Retirement Pensions	3	7,061	9,816
Retirement Allowances	3	1,734	969
Death Gratuities	3	324	78
Transfer Value Paid	4	0	251
Withdrawals		<u>9,119</u>	<u>11,114</u>
Net (Additions)/Withdrawals from dealings with members		<u>6,734</u>	<u>108</u>
Management Expenses	5a	290	650
Net (Additions)/Withdrawals including Fund Management Expenses		<u>7,024</u>	<u>758</u>
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		<u>(5,836)</u>	<u>18,860</u>
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		<u>308,828</u>	<u>304,610</u>

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		<u>309,097</u>	<u>98,076</u>
Investment Liabilities			
Investment Purchases Amount Payable		(675)	0
Net Investment Assets		<u>308,422</u>	<u>98,076</u>
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		<u>308,828</u>	<u>304,610</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
17 September 2021

The unaudited accounts were authorised on 25 June 2021 and the audited accounts were authorised for issue by Jonathan Belford on 17 September 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 comply 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	12,207
Private Equity	670	3,223
Private Debt	1,946	6,695
Other (including P/L from Currency & Derivatives)	1,962	(196)
Total	56,494	59,548
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	59,413

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	535,484	(749,953)	397,885	2,308,311
Property	348,750	29,153	(18,715)	2,137	361,325
Private Equity	322,825	52,486	(51,681)	108,393	432,023
Private Debt	83,435	50,167	(1,331)	4,708	136,979
	4,252,169	1,168,816	(1,326,235)	1,402,715	5,497,465
Other					
Cash	127,746				124,977
Investment Income Due	3,685				9,113
Investment Sales Amount Receivable	0				255
Investment Purchases Returned Amount Receivable	0				2,788
Investment Purchases Amount Payable	(1,711)				(306)
Net Investment Assets	4,381,889				5,634,292

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
Other					
Cash	178,671				127,746
Investment Income Due	5,799				3,685
Investment Sales Amount Receivable	664				0
Investment Purchases Returned Amount Receivable	0				0
Investment Purchases Amount 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	101,854
Pooled Funds	2,124,895	2,308,311
Direct Property	348,750	361,325
Private Equity	322,825	432,023
Private Debt	83,435	136,979
Other Investments	755,010	930,327
Funds held by Investment Managers	60,266	70,372
ACC Loans Fund Deposit	67,480	54,605
Investment Income Due	3,685	9,113
Investment Sales Amount Receivable	0	255
Investment Purchases Returned Amount Receivable	0	2,788
Other Balances	131,431	137,133
Investment Assets Total	4,383,600	5,634,598
Investment Liabilities		
Investment Purchases Amounts Payable	(1,711)	(306)
Investment Liabilities Total	(1,711)	(306)
Net Investment Assets	4,381,889	5,634,292

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	1,454,889	25.2
Baillie Gifford	1,022,435	23.4	1,824,861	31.6
BlackRock Asset Management	388,970	8.9	504,659	8.7
BlackRock Diversified Growth Fund	158,096	3.6	186,163	3.2
Blackrock Renewable Power III	0	0.0	8,571	0.2
Baring Asset Managers	(3)	0.0	0	0.0
AAM Property (API)	370,869	8.5	387,485	6.7
AAM Property Residential	9,138	0.2	21,064	0.4
HarbourVest	136,620	3.1	212,576	3.7
Standard Life	22,567	0.5	18,049	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	56,183	0.9
Maven Capital	1,541	0.0	1,182	0.0
Capital Dynamics	36,306	0.8	53,061	0.9
RCP Advisors	23,743	0.6	35,923	0.6
Unigestion	47,941	1.1	48,742	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	96,218	1.7
Alcentra	53,683	1.2	70,523	1.2
Hayfin Direct Lending	29,752	0.7	66,455	1.2
Insight Credit	284,175	6.5	311,169	5.4
	4,381,889	100.3	5,634,292	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	5,777,189	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	9.99
MPF UK Equity Pooled Fund	402,869	9.19	561,352	9.96
MPF UK Index Linked Gilts	206,888	4.72	326,454	5.79
Insight Investment Mgt Global Funds	284,175	6.49	311,148	5.52

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 £'000	Assets at Amortised Cost £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value through Profit & Loss £'000	Assets at Amortised Cost £'000	Financial Liabilities at Amortised Cost £'000
			Financial Assets			
1,372,264			Equities	2,258,827		
2,124,895			Pooled Funds	2,308,311		
322,825			Private Equity	432,023		
83,435			Private Debt	136,979		
	127,746		Cash		124,977	
	3,685		Other Investment Balances		12,156	
	15,187		Debtors		180,818	
3,903,419	146,618		Subtotal	5,136,140	317,951	
			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	5,136,140	317,951	(38,227)
			Non-Financial Instruments			
348,750			Property	361,325		
4,252,169	146,618	(32,245)		5,497,465	317,951	(38,227)
		4,366,542	Net Assets of the Fund			5,777,189

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	1,400,578
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(119,840)	Net Gains and Losses on Financial Instruments	1,400,578
	Non-Financial Instruments	
(8,124)	Fair Value through Profit and Loss	2,137
(127,964)	Net Gains and Losses of the Fund	1,402,715

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	4,465,284		670,856	5,136,140
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)	4,465,284	361,325	670,856	5,497,465

	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	31,030	(912)	912	(8,002)	101,854
Private Equity	322,825	52,486	(51,681)	35,228	73,165	432,023
Private Debt	83,435	50,167	(1,331)	1,331	3,377	136,979
Total	485,086					670,856

(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%	101,854	132,410	71,298
Private Equity	30%	432,023	561,630	302,416
Private Debt	30%	136,979	178,073	95,885
Total		670,856	872,113	469,599

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	101,854	30.0	132,410	71,298
Private Equity	432,023	30.0	561,630	302,416
Private Debt	136,979	30.0	178,073	95,885
Total	5,136,140		6,061,537	4,210,743

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	499,439
Overseas Unit Trusts	791,417	982,482
Overseas Global Pooled Bonds	208,038	0
Total Overseas Assets	2,169,866	2,873,227

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	499,439	547,885	450,993
Overseas Unit Trust	982,482	1,077,783	887,181
Overseas Global Pooled Bonds	0	0	0
Total	2,873,227	3,151,931	2,594,523

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 £1,032,180,928 which represented 17.9% 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	21,399
Standard Life	44,045	13,831
Partners Group	86,037	19,165
Maven (SLF)	6,308	44
Capital Dynamics	60,000	16,260
RCP Advisors	32,616	5,580
Unigestion	55,370	9,547
AAM Residential Property	30,000	8,908
Hermes Infrastructure	100,000	2,931
Alcentra EDL	85,185	16,412
Hayfin DLF	85,185	20,843
Blackrock Renewable	72,479	66,141
Total	842,048	201,061

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 requirement to include members reaching State Pension Age after 6 April 2021 onwards.

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 £432 million. Private Debt £137 million. Pooled Infrastructure (Unquoted) £102 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 Statement of Accounts was authorised for issue by the Chief Officer – Finance on 17 September 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

	2019/20	2020/21
	£	£
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% plus £140,000 per annum. 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 investment assets as at 31 March 2021 and 31 March 2020.

However, the Fund does hold a long term asset with Rothesay Life PLC of £206,442,000 as at 31 March 2021 (Nil as at 31 March 2020). The insurer underwrites the liabilities for a specified group of pensioners and will pay the cost of monthly pension payments for this group so long as they or their dependants are entitled to a pension.

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 requirement to include members reaching State Pension Age after 6 April 2021 onwards.

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 Statement of Accounts was authorised for issue by the Chief Officer – Finance on 17 September 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.

Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the funds during the year ended 31 March 2021 and of the amount of disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is five years. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited

by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

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

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the funds are complying with that framework;
- identifying which laws and regulations are significant in the context of the funds;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the funds' controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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

Reporting on other requirements

Statutory other information

The Chief Officer - Finance is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that

there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission

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

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

Matters on which I am required to report by exception

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

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.
- I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gillian Woolman MA FCA CPFA
Audit Director

Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

17 September 2021

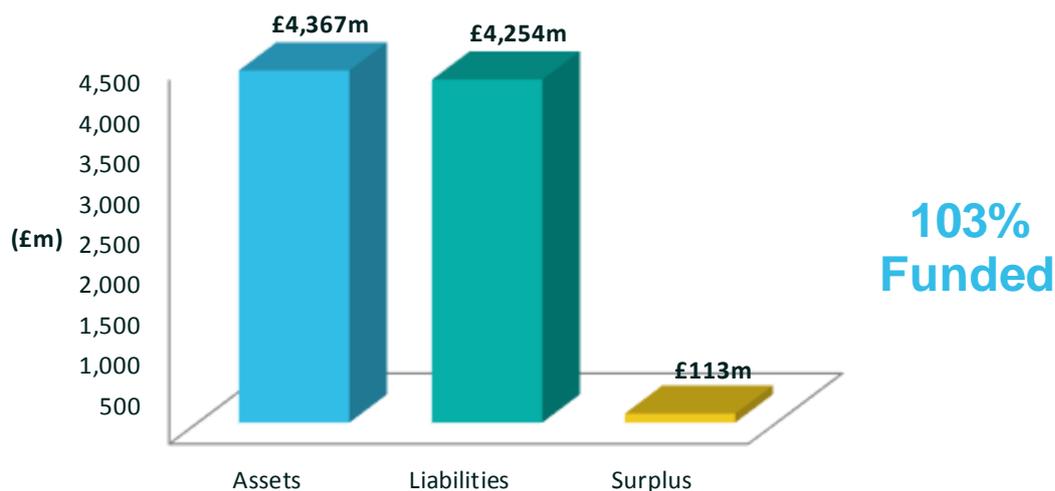
Appendix 1 – Statement by the Consulting Actuary

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.



On the basis of 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 on 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

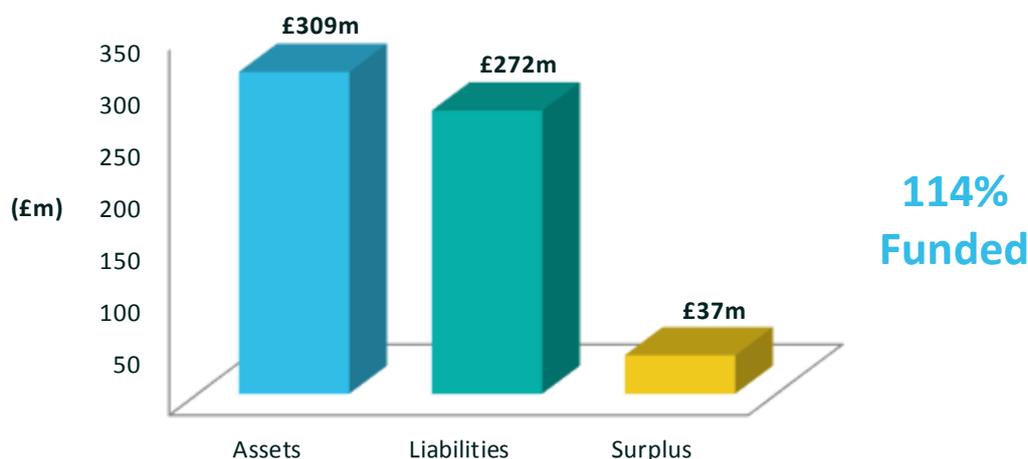
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 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.



On the basis of 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

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	17 September 2021
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/SEPT21/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

- 2.1 That the Committee note the work undertaken to review and update the scheme policy documents to ensure continuing compliance with LGPS regulations (as per item 3.9.3)

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 Investment Strategy Update Report*

Separate Reports, provided

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

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

3.5.3 **Investment Management Consultancy Services**

Following approval by Committee in September 2020 (PC/SEPT20/CONS) the Fund began the tender process for a single provider to provide services under all three Lots on the LGPS Framework for investment consultancy services, search/selection/monitoring services and investment management consultancy related specialist services. This process has finally concluded with ISIO, our current provider, successfully being awarded the contract.

3.6 **ACCOUNTING**

3.6.1 *Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Audited Annual Report & Accounts*

Budget/Forecast 21/22 Report

Separate Reports provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **Draft Amendments to The Local Government Pension Scheme (Scotland) Regulations 2018**

3.7.2 In 2015, the Local Government Pensions Scheme (LGPS) in Scotland underwent reform and all active members were moved into the new Career Average (CARE) scheme. Transitional protection was provided by means of a “statutory underpin”, providing protected members with the higher of their pension under the new CARE scheme and the pension they would have been entitled to under the previous final salary scheme. Benefits built up in the pre-2015 scheme were protected by a “final salary link”. In December 2018, the Court of Appeal ruled in the McCloud case that the transitional arrangements for Judges’ and Firefighters’ schemes introduced under the Public Service Pensions Act 2013 (PSPA 2013) constituted unlawful discrimination. In July 2019, the Government accepted that the discrimination would have to be remedied across all public service schemes including the LGPS.

3.7.3 Consultation followed on what form this remedy should take. For the LGPS the proposal was to extend the underpin protection to younger qualifying members who joined before 31 March 2012. From April 2022, all LGPS members would

then accrue benefits on a CARE basis without underpin protection, to apply a fairer system to all future service.

- 3.7.4 On 13 May 2021, the Government confirmed that underpin protection would apply to all LGPS members who met the revised qualifying criteria and further information is to follow in the published response to the consultation.
- 3.7.5 Scottish Ministers intend to make regulations to fully introduce the “underpin” changes for the Local Government Pension Scheme once the primary legislation is in force in 2022.
- 3.7.6 In the interim, the Scottish Public Pensions Agency (SPPA) intend to make changes in an amending instrument to clarify the calculation of the underpin to address the issue of wrongly calculated benefits. They will also provide further flexibilities for Funds dealing with exiting employers as a result of the recent consultation on deferred debt arrangements and recommendations from the Scottish Scheme Advisory Board (SAB).
- 3.7.7 The regulations will correct the method for calculating the underpin which currently does not take the actuarial reduction into consideration when comparing the two options. Some members who have since left the scheme will not be receiving the correct level of pension benefits and the benefit administration team will be required to recalculate affected pensions once the regulatory powers are put in place.
- 3.7.8 SPPA were anticipating consultation on the amending regulations in late June/early July but as at the date of writing this had not been published.

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 **Pension Fund Annual Benefit Statements**

- 3.9.2.1 The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31 August each year.
- 3.9.2.2 In line with our move towards increased digital communication, both deferred and active statements were issued online in 2020/21. Paper statements are no longer posted out to members unless they contact the Fund to “opt in” to continue to receive paper copies. To meet disclosure requirements, letters are sent out to members to provide “activation keys” where the member is not

already registered with My Pension (MSS online facility). As at June 2021 9,717 deferred members were registered for MSS. Members registered for MSS receive an email notification advising them their annual statement is available to view online.

3.9.2.3 Benefit statement data was generated against 17,946 deferred records, with one reported error and letters subsequently issued to members on 29 June. In addition, paper statements were issued on request to two deferred members on 1 July.

3.9.2.4 The Committee approved a Data Quality Improvement Plan in March 2019 (PC/MAR19/STRAT) which included address training. In line with the plan, a bulk tracing exercise for all “gone away” members i.e. those who we do not hold a current address for, will be carried out every three years using an external tracing provider. In addition, a mortality check will be carried out against “gone away’s” annually using the National Fraud Initiative and ATMOS Data Services on alternative years to identify any deceased members. For any “gone away” deferred members reaching age 55, an individual trace will be carried out through the DWP Tracing Service.

3.9.2.5 A final update on the active member statements will be provided to the next meeting. However these are on course to be generated and email notifications issued on 12 August with letters following by post on the 23 August for those members not registered for MSS or who have requested paper statements.

3.9.3 Document Update

The following documents have been updated and are available in the secure member of the trustee area of the NESPF website:

- Communications Policy
- Investment Policy
- Corporate Governance & SRI Policy
- Employer Engagement Policy
- Record Keeping Policy
- Reporting Breaches of Law
- Data Protection Policy

Copies of these documents are available on the secure area of the trustee area of the website. The Investment Policy and Corporate Governance & SRI Policy have both been updated following completion of the tri-ennial valuation and approval of the revised Statement of Investment Principles. Both the Communications and Employer Engagement Policies have been updated to reflect ongoing operating practices due to the impact of COVID-19 and homeworking. The final three documents have been updated to reflect changes to data protection terms following Brexit.

3.9.4 Pension Board Annual Report

The Pension Board Annual Report 2020/21 was agreed by Pension Board members at their meeting 25 June 2021. As part of the process, members were

required to nominate and appoint a new Chair and Vice Chair for 2021/22. These posts need to be rotated annually under the regulations. Neil Stirling (member) was appointed as Chair with Councillor McKelvie (employer) acting as Vice Chair.

Appendix II, Pension Board Annual Report 2020/21

3.9.5 CIPFA Knowledge and Skills Framework

A Knowledge and Skills Framework was developed by CIPFA (The Chartered Institute of Public Finance & Accountancy) in 2010. This was formally adopted by the Pension Fund and shapes our Training Policy.

An updated Code of Practice and Knowledge and Skills Framework was published by CIPFA in 2021. This applies to Pensions Committee members as well as Senior Officers. A separate framework exists for Pension Board members. CIPFA have identified eight core technical areas where appropriate knowledge and skills should be achieved and maintained:

- Pensions legislation and guidance
- Pensions governance
- Funding strategy and actuarial methods
- Pensions administration and communications
- Pensions financial strategy, management, accounting, reporting and audit standards
- Investment strategy, asset allocation, pooling, performance and risk management
- Financial markets and products
- Pension services procurement, contract management and relationship management

Copies of these documents will be published in the secure trustee area of the NESPF website and reflected in an updated Training Policy.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Year End Process

3.10.1.1 All Scheme employers are required to submit an annual year end data return by 30 April. The year end process for 20/21 was completed in 31 days (up from 24 days in 19/20). Year end processing increased primarily due to the COVID/homeworking environment.

3.10.1.2 The Fund continues to expand its online data exchange services, with all employers required to submit electronic monthly submissions. Monthly processing has a number of benefits for the Fund, one of which is significantly reducing the time and resource drain at “year-end time”. To provide a more accurate overall picture, the employer relationship team now record reconciliation time on a monthly basis. On average the ERT spent on average 7 days per month on reconciliation.

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

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy	L	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.
Compliance	N/A	N/A	N/A
Operational	N/A	N/A	N/A
Financial	N/A	N/A	N/A
Reputational	N/A	N/A	N/A
Environment / Climate	N/A	N/A	N/A

Appendix III, Copy of Risk Register (August 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

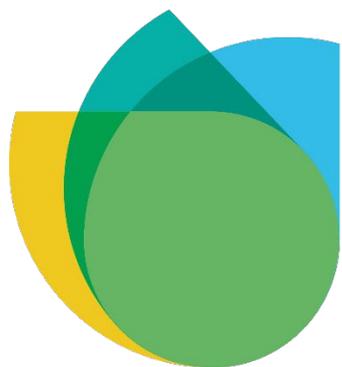
10. APPENDICES

Appendix I, PAS Update
Appendix II, Pension Board Annual Report 2020/21
Appendix III, Copy of Risk Register (August 2021)

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting June 2021

1. NESPF performance from 1st April to 30st June

1.1 Key administration tasks

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

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	14	12	85.7%	100.0%				0	85.7%
Notification of retirement estimate	10 days	138	137	99.3%	100.0%				8	93.8%
Notification of retirement benefits	10 days	408	356	87.3%	95.6%	97.1%	99.0%	4	18	83.6%
Notification of deferred benefits	10 days	261	242	92.7%	96.9%	98.1%	98.9%	3	47	78.6%
Notification of refund	10 days	113	108	95.6%	98.2%	100.0%			7	90.0%
Notification of transfer in value	10 days	5	4	80.0%	100.0%				3	50.0%
Notification of transfer out value	10 days	88	43	48.9%	50.0%	50.0%	52.3%	42	11	43.4%
		1027	902	87.8%				49	94	80.5%

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:

- *Estimates and refunds remain on or above 90% and death in service, retirements and deferred benefits are all showing signs of improvement.*

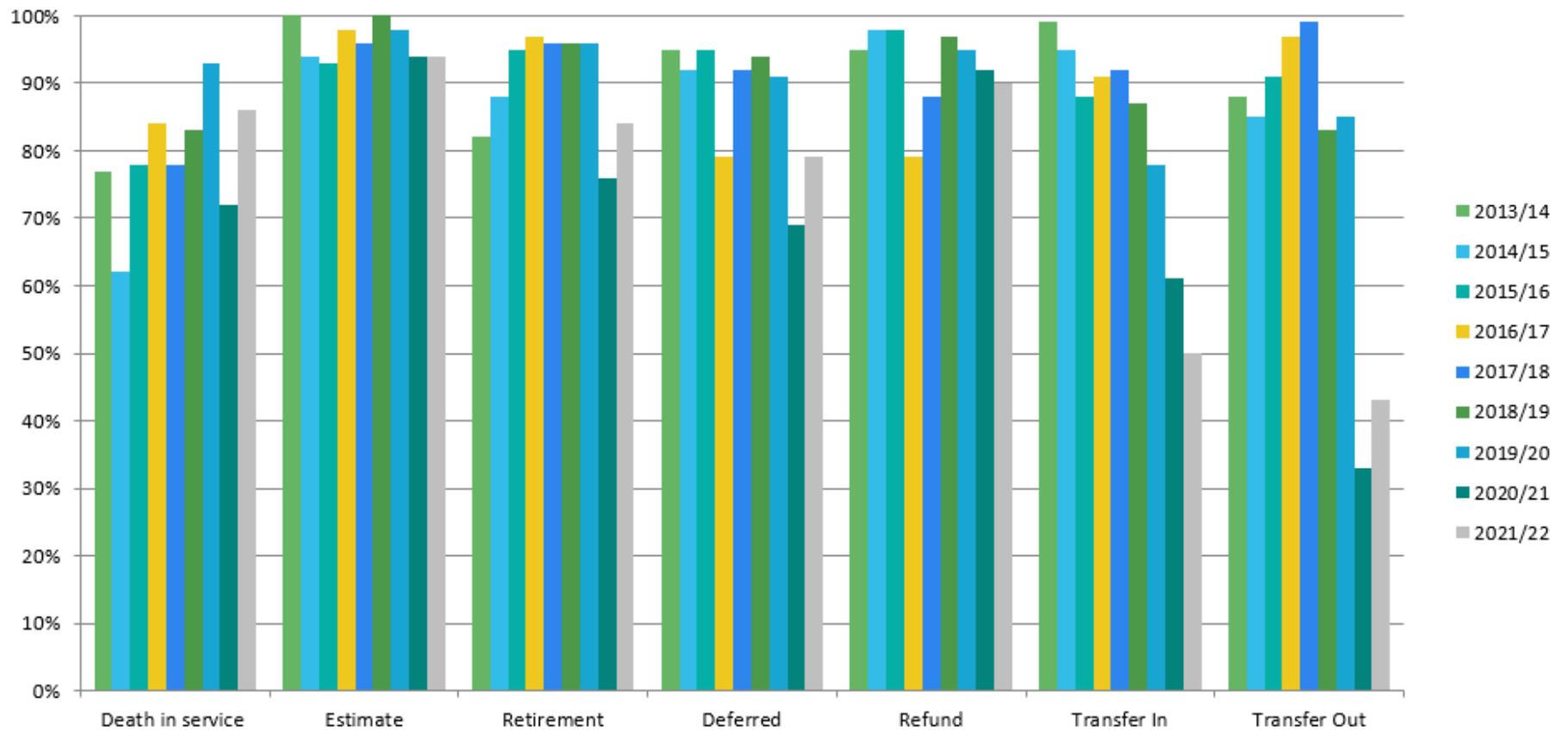
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *Priority remains processing death and retirements whilst majority of staff continue to work from home, transfer performance will recover when staff can return safely to the office.*

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:

- *A significant reduction in uncompleted cases during the reporting period is encouraging compared with the first quarter last year however this was when the impact of pandemic was at its highest as staff adapted to working from home.*

1.2 Previous years comparison



2. Employer performance from 1st April to 30th June

2.1 Policy on discretions received (85%)

Each Scheme employer is required under regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2018 to prepare a written statement of its policy on how it will exercise various discretions provided by the Scheme. This 'discretions policy' must be kept under review by employers and revised as necessary.

Employers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberdeen Performing Arts	Aberdeen Sports Village	AIYF
Aberdeenshire Council	Aberlour	Archway	Bon Accord Care
Bon Accord Support	Outdoor Access Trust for Scotland	Fersands and Fountain	First Aberdeen
Forth & Oban (City)	Fraserburgh Harbour	Grampian Valuation Joint Board	Home Start Aberdeen
Inspire	Mental Health Aberdeen	Moray College	NESTRANS
North East Scotland College	North East Sensory Services	Osprey Housing	Pathways
Peterhead Port Authority	Printfield Community Project	Robert Gordons College	Robert Gordon University
Sanctuary Scotland	Scottish Fire and Rescue	Scotland's Lighthouse Museum	Scottish Police Authority
Scottish Water	Sport Aberdeen	St Machar Parent Support Project	Station House Media Unit
The Moray Council	Visit Scotland	Xerox	

2.2 Signed PLO statements received (46%)

Following the revision of the NESPF Pension Administration Strategy in April 2018 each Scheme employer must designate a named individual to act as a Pension Liaison Officer, the main contact regarding any aspect of administering the Local Government Pension Scheme (LGPS).

Pension Liaison Officers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberlour Childcare Trust	Alcohol & Drugs Action	Archway
Bon Accord Care	Bon Accord Support	Outdoor Access Trust for Scotland	Fraserburgh Harbour
Moray College	North East Scotland College	North East Sensory Services	Pathways
Peterhead Port Authority	Printfield Community Project	Robert Gordons College	Scottish Fire and Rescue
Scottish Water	Sport Aberdeen	St Machar Parent Support Project	
Xerox			

2.3 Quantity of data received (241,723)

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)	1,069
Amendments (address, personal details, hours and absence)	4,895
Leavers (exit and opt out)	935
Contributions (employee, employer and additional)	79,928
Salary	78,465
Cumulative CARE Pay	76,266
Works Address	1,234

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)

* 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												
Scottish Police Authority	Extract File												
Robert Gordon University	Extract File												
Moray College	Extract File												
North East Scotland College	Extract File												
Scottish Water	Extract File												
Scottish Fire and Rescue Service	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												

Aberdeen Performing Arts	Online Return																		
Aberdeen Sports Village	Online Return																		
Aberlour Child Care Trust	Online Return																		
Archway	Online Return																		
City Moves Dance Agency	Online Return			*															
Alcohol & Drugs Action	Online Return																		
Fersands and Fountain	Online Return																		
First Aberdeen	Online Return																		
Forth and Oban (City)	Online Return																		
Forth and Oban (Shire)	Online Return																		
Fraserburgh Harbour	Online Return																		
Homestart Aberdeen	Online Return																		
Homestart NEA	Online Return																		
ID Verde	Extract File																		
Inspire	Online Return																		
Mental Health Aberdeen	Online Return																		
North East Sensory Services	Online Return																		
Osprey Housing	Online Return																		
Outdoor Access Trust Scotland	Online Return																		
Pathways	Online Return																		
Peterhead Port Authority	Online Return																		
Printfield Community Project	Online Return																		
Robert Gordon College	Online Return																		
Robertson FM City	Extract File																		
Robertson FM Shire	Extract File																		
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																		
Xerox	Online Return																		

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NESPF Pension Board Annual Report

For the period 1 April 2020 to 31 March 2021



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Introduction

This is the 2020/21 annual report of the North East Scotland Pension Fund Pension Board.

The North East Scotland Pension Fund (NESPF) Pension Board is required by The Public Service Pensions Act 2013 and has responsibility for assisting the 'Scheme Manager' in securing compliance with all relevant regulations in respect of the Local Government Pension Scheme (Scotland), as well as with the Pension Regulator's *Code of Practice no.14 Governance and Administration of Public Service Pension Schemes*.

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2020/21.

Legal Background to the Local Pension Board

Lord Hutton was asked to conduct a wide ranging review into public service pensions on behalf of the Independent Public Service Pensions Commission (IPSPC) and his final report was published in March 2011. In the report a series of reforms were proposed which Lord Hutton believed would allow public service employees to continue to have access to good quality, sustainable and fairer defined benefit pension schemes for the foreseeable future.

One of the key recommendations was the introduction of a new formal regulatory framework to ensure independent review of the governance of public sector pension schemes. This included a properly constituted and trained Pensions Board at both national and local level for the Local Government Pension Scheme (LGPS), with overall responsibility for governance and administration and formal member representation.

In response to the report recommendations, The Public Service Pensions Act 2013 and the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015 were subsequently introduced.

These two pieces of legislation brought about changes in governance arrangements for the LGPS, including the requirement for each administering authority to establish a local pension board to assist them in running the pension fund from 1 April 2015.

The Role of the NESPF Pension Board

The role of the local pension board is to assist the 'Scheme Manager' (i.e. Aberdeen City Council as the administering authority) in:

- Securing compliance with the LGPS (Scotland) 2018 regulations and other regulations relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;

- Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator (tPR);
- Such other matters as the Scheme regulations may specify

The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision making body.

A copy of the Board's Nomination and Appointment Policy can be found at <http://www.nespf.org.uk/TheFund/Governance/PoliciesStatements.aspx>.

Regulatory Oversight by the Pensions Regulator (tPR)

The Public Service Pensions Act 2013 also gave the Pensions Regulator (tPR) an expanded role to regulate the governance and administration of public service pension schemes from 1 April 2015.

In carrying out their role, tPR are guided by two statutory objectives; to protect the benefits of members of occupational pension schemes, and to promote and to improve the understanding of, the good administration of work based pension schemes.

The aims of tPR in relation to the regulation of public service pension schemes are:

- To understand governance and administration practices within public service schemes and make clear the standards and practices that are expected,
- To improve governance and administration standards and practices across all schemes, and
- To support those responsible for complying with legal requirements so that those requirements are met.

Code of Practice no. 14 sets out the standards of conduct and practice tPR expect of those responsible for public service schemes, as well as practical guidance on how to comply with the legal requirements.

Code of Practice no. 14 is structured as a reference for Scheme Managers and Pension Boards to use to inform their actions in four core areas of scheme governance and administration;

Governing the Scheme	Knowledge and understanding required by Pension Board members Conflicts of interest and representation Publishing information about Schemes
Managing risks	Internal controls
Administration	Scheme record-keeping Maintaining contributions Providing information to members
Resolving issues	Internal dispute resolution Reporting Breaches of the Law



The Code sets out, under each of the core sections, practical guidance to help Scheme Managers and Pension Boards discharge their legal duties.

The North East Scotland Pension Fund Pension Board

The Terms of Reference for the NESPF Pension Board can be found in [Appendix I](#).

Membership

The NESPF Pension Board is made up of an equal number of member (trade union) and employer representatives;

Unison

Morag Lawrence

(Substitute: Mr Kenny Luke)

GMB

Mr Neil Stirling

Unite

Mr Alan Walker

(Substitute: Mr Graham Gavin)

UCATT

Mr Liam Knox

Admitted/Scheduled Bodies

Mr Ian Black (Aberlour Child Care Trust)

Left 13/07/2020

Mr Ian Hodgson (First Bus)

Joined 08/09/2020

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor Alistair McKelvie

(Substitute: Councillor Alistair Bews)

Aberdeen City Council

Councillor Yvonne Allan

(Substitute: Councillor Freddie John)

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015, the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Councillor McKelvie as the employer representative Chair for 2020/21, a member representative will be required to act as Chair in 2021/22.

Under the Terms of Reference for the Pensions Board, representatives are appointed for a 4 year term, with the option of re-appointment for further terms.



Meeting Attendance

In compliance with the LGPS (Governance)(Scotland) Regulations 2015, the Pension Board;

- is to meet at the same place and time as the Pensions Committee of the Scheme Manager to consider the same agenda as the Committee, but
- the Pension Board may meet separately from the Pensions Committee with the agreement of the Pensions Committee.

Active participation during meetings as shown in the table below and a willingness to undertake training, clearly demonstrate the commitment of Board members to the continued effectiveness of the NESPF Pension Board.

Board Member	Meeting Attendance		
Employer	29/09/2020	11/12/2020	26/03/2021
Cllr Yvonne Allan	✓	✓	✓
Cllr Alistair McKelvie	✓	✓	✓
Cllr John Cowe	✓	✓	✓
Ian Hodgson	X*	✓	✓
Member/Union			
Neil Stirling	✓	✓	✓
Morag Lawrence	✓	✓**	✓
Alan Walker	✓	✓	✓
Liam Knox	✓	✓	✓
Overall Attendance Rate	87%	100%	100%

Notes:

*Mr Hodgson was only appointed to the role on 08/09/2020 and unfortunately had prior commitments which meant he was unable to attend this meeting.

**fully trained substitute attended

June 2020 meeting

Following Scottish Government guidance on non-essential travel and social distancing due to the ongoing COVID-19 pandemic, the June 2020 meeting of the Pensions Committee and Board was cancelled and temporary governance arrangements were implemented. Some members of the Pensions Committee attended the Council's urgent business committee in June 2020 to agree the Unaudited NESPF Annual Report and Accounts while Officers kept Board members up to date during this time. Meetings resumed in August 2020, taking place in a hybrid manner to allow both in person and online participation via Microsoft Teams.

Meeting Content

The Pension Board receive the Pensions Committee reporting pack for each meeting which includes reports covering all six main areas of work for the Pension Fund; investment, accounting, governance, employer relationship, administration and systems.



The following reports were included as standard in the reporting packs during 2020/21:

Asset & Investment Manager Performance
Budget & Projected Spend
Strategy

In addition, the Committee also received reports and updates on:

Training	Statement of Accounts
Corporate Governance/ESG	Project Dallas
Actuarial Valuation	Risk Management & Risk Register
Compliance Review	External Audit
Annual Report & Accounts	Internal Audit
PAS performance	LGPS Structure Review
Strategic Infrastructure Priorities	Annual Benefit Statements
Staffing & Accommodation	
Pensions Committee Annual Effectiveness Report	
Procurement	

Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money. All costs are met by the Pension Fund.

During the period 2020/21, as a result of the COVID-19 global pandemic, there were no costs incurred from the operation of the Pension Board. All training attended by the Board members took place virtually and therefore there were no travel costs. Meetings were carried out in a hybrid manner, allowing remote participation via Microsoft Teams.

Training Requirements

The Public Service Pensions Act 2013 requires that members of local pension boards have an appropriate level of **knowledge and understanding** in order to carry out their role. These responsibilities begin from the date the member takes up their role on the pension board.

A member of the pension board of a public service pension scheme must be **conversant** with the rules of the scheme and any document recording policy about its administration which is for the time being adopted in relation to the scheme.

The Pensions Regulator Code of Practice no.14 sets out the legal requirements for the knowledge and understanding requirements of pension board members. The Pension Fund must be able to demonstrate compliance with the Code.

The NESPF Pension Board's training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A copy of the Training Policy can be found at [Appendix II](#). A revised Training Policy was approved by the Pensions Committee in June 2019 to incorporate changes requested by internal audit around minimum training requirements.

The NESPF is committed to supporting Board members to achieve the level of knowledge and understanding they require by providing the appropriate level of training and assistance; training is provided in line with the NESPF Training Policy and covers the following areas:



- Scheme Governance
- Investment Strategy
- Support Services
- Scheme Documentation

Board members were asked to carry out a personal assessment in late 2019 to assess their overall knowledge and understanding levels based on CIPFA's current Code of Practice and supporting framework. The results of the responses were evaluated and are being used to direct future training.



Training Attendance

Board Member	Intro Training	1 Oct	8 Oct	22/23 Oct	Per Member
Cllr Yvonne Allan		X	X	X	0
Cllr Alistair McKelvie		✓	✓	✓	3
Cllr John Cowe		✓	✓	X	2
Ian Hodgson	✓	X	X	X	1
Neil Stirling		✓	✓	✓	3
Morag Lawrence		✓	✓	✓	3
Alan Walker		X	✓	✓	2
Liam Knox		✓	X	X	1
Overall Attendance Rate	100%	62%	62%	50%	

Notes:

All training offered during 20/21 was online due to COVID 19 restrictions.

Training Content

The first event of the year was the Scottish Local Government Pension Scheme Conference that took place on the 1st October and 8th October through Microsoft Teams. There were a number of presentations and panels on the days covering:

- Governance
- Stewardship Code
- Investment markets through 2020 and beyond
- 2020 valuation: keeping it simple.....?
- Longevity
- Challenges of Administration

The LGC Investment Seminar Scotland took place over the 22nd and 23rd October. The Seminar covered the following topical issues:

- What the likely short-term and long-term investment implications are of the Covid-19 pandemic for the LGPS
- Emerging LGPS issues: what's next on the horizon?
- When Two Worlds Merge: Sustainability and the Equity Investment Decision
- Discussion Session: the opportunities and pitfalls in infrastructure (including local infrastructure)
- Early results of the actuarial valuation and what it means for investment strategy
- Climate change and the impact on fiduciary duty
- The short and long term implications of Covid-19 on clean energy infrastructure
- The cashflow challenge
- Collaboration between funds

TPR Tookit

At the June 2019 meeting the Pensions Committee and Pension Board agreed:

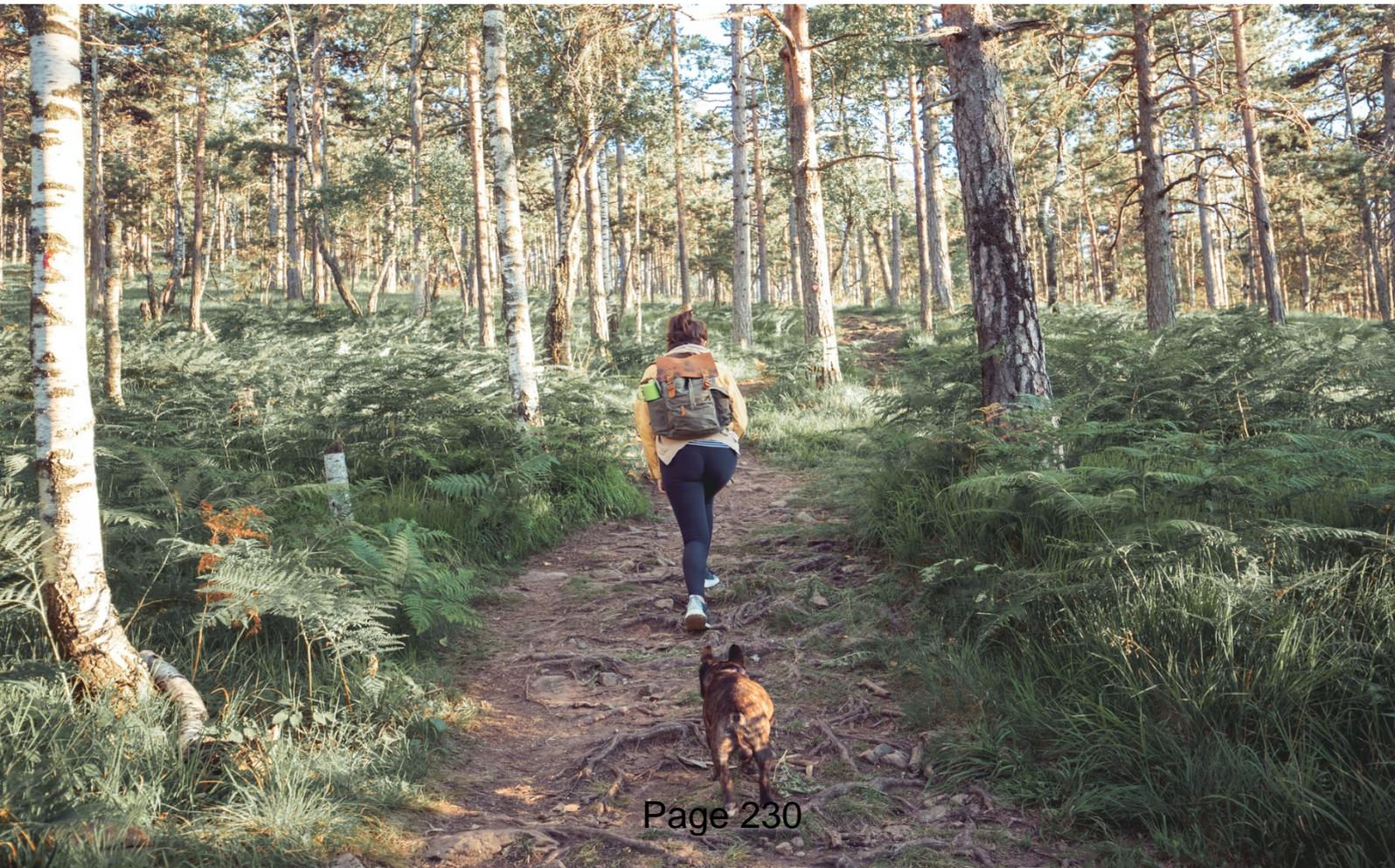
- To undertake the online E-Learning Public Service Toolkit produced by the Pensions Regulator as soon as possible and provide evidence of completion to the Pension Fund's governance manager (available at <http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>)

To date, three representatives have provided evidence of completion of this training. Board members should aim to complete this important training as soon as possible.

Commitment to Training

Board members are expected to attend meetings and undertake a minimum of 2 days training per year to ensure they maintain the prescribed knowledge and understanding levels required to be able to fulfil the responsibilities of the role. The Fund monitors attendance at meetings and training events on an ongoing basis.

Where a member fails to meet the minimum requirements set out in the Training Policy, and in the absence of mitigating factors, the member will be given a reasonable period of time to improve their attendance level. Should no clear improvement be demonstrated, the Administering Authority will take the necessary steps to terminate the individual's membership.



Code of Conduct, Conflicts of Interest & compliance with tPR

Code of Conduct

Members of the NESPF Pension Board agreed a Code of Conduct in April 2015. It is the responsibility of the individual to ensure that they are familiar with, and that their actions comply with, its provisions. A copy of the national Code of Conduct and guidance notes can be found at <http://www.standardscommissionscotland.org.uk>.

The key principles of the Code of Conduct are:

- Duty
- Selflessness
- Integrity
- Objectivity
- Accountability and Stewardship
- Openness
- Honesty
- Leadership
- Respect

Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. This was last reviewed and noted by the Pensions Committee on 11 September 2020. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

As a standing item at each Pensions Committee and Board meeting, members will be given the opportunity to declare their interest in any of the agenda items and any declared interests will be recorded in the formal minutes of the meeting. In addition, conflict of interest declaration forms will be issued by NESPF on appointment to the Board and are subject to regular monitoring during the term of appointment.

During 2020/21 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on the 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

There were no formal conflicts declared by Board members during 2020/21.

Compliance with tPR

The Pension Fund carries out a compliance review every six months, with annual reporting to the Pensions Committee. An assessment is made in terms of compliance with the Public Service Pensions Act 2013 and tPR Code of Practice no. 14.

The most recent review carried out in December 2020, and reported to the Pensions Committee in March 2021, concluded that key controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively. A review using the tPR scheme assessment tool confirmed there were no areas of concern.

Breaches of Law

There are certain people that are required to report breaches of the law to the Pensions Regulator where they have reasonable cause to believe that a legal duty which is relevant to the administration of the Scheme has not been, or is not being, complied with and the failure to comply is likely to be of material significance to tPR in the exercise of any of its functions.

Those people with a responsibility to report breaches, including Scheme Managers and Pension Board members shall establish and operate appropriate and effective procedures to ensure that they are able to meet their legal obligations.

Under the UK General Data Protection Regulation, organisations have a duty to report certain types of personal data breaches to the relevant supervisory authority within 72 hours of becoming aware of the breach, where feasible.

An updated Breaches of Law Policy was taken to the Pensions Committee in September 2020 following annual review.

There were no breaches reported to the tPR or the ICO (the supervisory authority) during the year 2020/21.

Risk Management

In line with CIPFA guidance issued in December 2018, the Pension Fund created its own Risk Management Policy and this was approved by the Pensions Committee in November 2019. An updated version was taken to Committee in March 2021 following annual review.

The risk register for the Pension Fund identifies the significant risks that could have a material impact in terms of value, reputation, compliance or provision of service and sets out the action taken to mitigate these risks.

The register is reviewed regularly by the pensions management team and reported quarterly to the Pensions Committee and Board.

Work for 2021/22 onwards

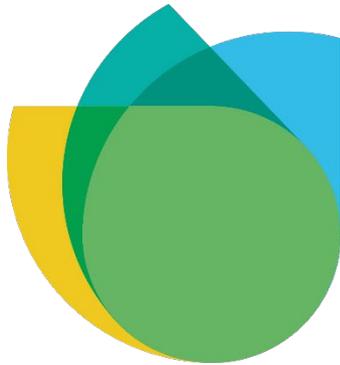
The following areas will be looked at by the Committee & Board in the next 12 months (subject to review):

- Training Plan
- Risk Management & Risk Register
- Pension Fund Annual Report
- Annual review of scheme policy documents
- Compliance Review
- Internal/External Audit Plan and updates
- Conflicts of Interest declarations
- Breaches of Law

LGPS Scheme Structure Review

The Scottish Scheme Advisory Board continue to work to look at the structure of the SLGPS and monitor the impact of pooling in England and Wales. The SAB have now appointed a Strategic Programme Manager to lead a 12 month programme of work to produce business cases for the four options for Fund structures. In the interim, the Pension Board continues to operate as normal.





North East Scotland Pension Fund
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Pension Board Terms of Reference

July 2020

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Document	Pension Board Terms of Reference
Review Date	July 2020
Approval Date	N/A
Author & Team	Mairi Suttie, Governance
Review Date	June 2021

Introduction

Each Local Government Pension Scheme Manager in Scotland is required to establish a Pensions Board separate from the Pensions Committee that acts as the Scheme Manager.

The North East Scotland Pension Board is established under the provisions of sections 5(1) and (2) of the Public Service Pensions Act 2013 and confirmed under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

Objectives

The Pension Board as detailed in regulations is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

5(1) – There shall be established for each Scheme Manager a Pension Board with responsibility for assisting the Scheme Manager in relation to the following matters.

(2) Those matters are –

- (a) Securing compliance with the 2018 regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*
- (b) Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*
- (c) Such other matters as the 2018 regulations may specify*

The Pension Board will determine the areas they wish to consider including, amongst others:

- Reports produced for the Pensions Committee
- Seek reports from the Scheme Manager on any aspect of the fund
- Monitor investments and the investment principles/strategy/guidance
- The fund annual report
- External voting and engagement provisions
- Fund administrative performance
- Actuarial reports and valuations
- Funding policy
- Any other matters that the Pensions Board deem appropriate

The Pension Board is not a decision making body.

The Pension Board is not a scrutiny function.

The Pension Board will be collectively and individually accountable to the Pensions Committee.

Membership

Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must also not participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.

There will be 4 trade union representatives appointed by the trade unions as follows:

GMB.....1
UCATT.....1
UNISON.....1
Unite.....1

There will be 4 employer representatives appointed by the respective employer organisations as follows:

Councils.....3
Other Scheduled/Admitted Bodies.....1

Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.

Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out below.

Advisors may attend meetings of the Pension Board in a non-voting capacity.

No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

Meetings

The Chair of the Pension Board will be rotated on an annual basis between the trade union and employer sides of the Pension Board.

Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers sides of the Pension Board. All reasonable administration costs shall be met by the Fund.

The Pension Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.

The Pension Board may establish sub-committees.

While the statutory roles and function of the Pensions Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

Dispute resolution

If the Pensions Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pensions Committee is still competent.

In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:

- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
- That the decision of the Pensions Committee could be considered illegal or contrary to regulations
- That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
- That the decision is not in the interest of the continued financial viability of the scheme or is against the principles of proper and responsible administration of the scheme.

If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the Fund website and included in the Fund annual report.

The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

Training

All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.

The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.

The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

Access to Information

The Scheme Manager and Pension Board will together ensure that information is published about the activities of the board including:

- The full terms of reference for the Pension Board, including details of how they will operate;
- The Pension Board appointment process;
- Who each individual Pension Board member represents; and
- Any specific roles and responsibilities of individual Pension Board members.

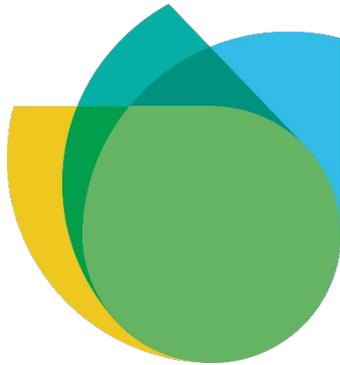
The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

Further Information

If you have any questions relating to this Statement please contact the **Governance Team**:

NESPF
Resources
Level 1, 2 MSq
Marischal Square
Broad Street
Aberdeen
AB10 1BL

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North East Scotland Pension Fund
nespf

Training Policy

August 2020



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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 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
- Pension 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	<p>Appropriate financial experience and training.</p> <p>Knowledge of pension funds and schemes.</p>	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	<p>Political awareness in numerous political environments.</p> <p>Chairing high level partnership meetings achieving effective outcomes.</p> <p>Operated for 5 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	Previously chaired a pensions committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p>	Diplomacy and tact.

	Able to work effectively with colleagues who may have different levels of experience and understanding.	
5. Motivation	Enthusiastic, not easily deterred and able to convey enthusiasm to others. Committed to the objectives of the Pension Scheme and Fund(s).	
6. Equal Opportunities	Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.	

The vice convener of the Pensions Committee will also receive a copy of this guidance.

Compliance with the Job Description

1. Pensions Legislative and Governance context

- 1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.
- 1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the 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.

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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 NESPF specific Risk Management Policy in place 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO03	Risk: Poor Governance		2	2	4	↔	TREAT		Ongoing

	<p>Causes: Lack of robust and effective governance framework and supporting policies and procedures</p> <p>Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk</p>	<ul style="list-style-type: none"> • Annual review of Funds Governance Compliance Statement and supporting policies and procedures • Adherence to Council's Scheme of Governance • Committee Effectiveness Report to support good governance 						<p>Committee Effectiveness Report will be taken to December 2021 meeting.</p> <p>Normal governance arrangements currently operating. ACC Scheme of Governance annual review completed in April 2021.</p>	
NESPF004	<p>Risk: Lack of performance measures</p> <p>Causes: Failure to develop performance reporting framework</p> <p>Potential Impact: Lack of transparency, poor performance could go unaddressed</p>	<ul style="list-style-type: none"> • Statutory and local KPI's • Pension Administration Strategy published quarterly • Investment performance (against benchmark) reported to Committee quarterly 	2	3	6	↔	TREAT		Ongoing
NESPF005	<p>Risk: Failure of Pensions Committee and Pension Board to operate effectively</p> <p>Causes: Poor attendance/commitment to role, high turnover of members, lack of training</p> <p>Potential Impact: Non-compliance with regulatory requirements, inability to</p>	<ul style="list-style-type: none"> • Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Annual Committee Effectiveness Report 	3	2	6	↔	TREAT	<p>Normal Governance arrangements currently operating. Pension Board report agreed in June 2021.</p>	Ongoing

	make decisions or policies, reputational risk								
NESPF006	<p>Risk: Operational Disaster; unable to access the workplace</p> <p>Causes: Major incident, natural disaster</p> <p>Potential Impact: Loss of service delivery, staff downtime</p>	<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
NESPF007	<p>Risk: Failure to recruit, retain and develop staff</p> <p>Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities</p> <p>Potential Impact: Loss of service delivery, risk to succession planning</p>	<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	<p>Recruitment underway to fill vacant posts within Investment and Governance teams.</p> <p>Further posts approved at June'21 meeting, to be recruited including 1 in training & development</p>	Laura Colliss, October 2021
NESPF008	<p>Risk: Pay and price inflation valuation assumptions either higher or lower</p> <p>Causes: Economic factors</p> <p>Potential Impact: Potential increase in employer contribution rates and liabilities</p>	<ul style="list-style-type: none"> Quarterly funding updates to Committee (using FSM) Tri-ennial valuation Individual employer contribution rates 	2	4	8	↔	TOLERATE	Tri-ennial valuation 2020 is now complete.	Ongoing

Governance									
NESPF009	Risk: Failure to adhere to relevant pensions legislation and guidance	<ul style="list-style-type: none"> • Six monthly compliance review, with annual reporting to Pensions Committee and Board • Active participation at LGPS events, Testing Working Party for administration software updates • Established processes for staff training • Regular benefit admin team meetings to share knowledge 	3	3	9	↔	TREAT	Six monthly compliance review completed in July, no issues.	Ongoing
	Causes: Political and legislative changes, increased administrative complexity, staff training issue								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action								
NESPF010	Risk: Failure to comply with FOI or SAR requests	<ul style="list-style-type: none"> • Internal written procedures in place • FOI/SAR log to record & monitor • Online process through GovServices 	3	1	3	↔	TREAT		Ongoing
	Causes: Missed statutory deadlines due to training or resource issues								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPF011	Risk: Conflicts of Interest	<ul style="list-style-type: none"> • Regular discussions between CO-Finance and Pension Fund Manager • Standing agenda item at meetings • Conflicts policy & register in place, with conflicts declarations issued annually 	2	4	8	↔	TREAT		Ongoing
	Causes: Competing professional and personal interests of staff, Committee and Board members								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
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								
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 	4	3	12	↔	TREAT	Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021.	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	<ul style="list-style-type: none"> External advisor for specialist guidance on strategy 						Investment Consultancy tender contract signed off August 2021.	
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 and investment strategy review completed and approved by Committee in March 2021.	Ongoing
	Causes: Systemic								
	Potential Impact: Increase in employer contribution rates, financial loss								
NESPF017	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								
NESPF018	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								
NESPF019	Risk: Failure to implement ESG policy		2	3	6	↔	TREAT		Ongoing

	<p>Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy</p> <p>Potential Impact: Reputational damage</p>	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership, annual signatory assessment 								
Accounting										
NESPF020	<p>Risk: Poor financial reporting</p> <p>Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues</p> <p>Potential Impact: Qualified accounts</p>	<ul style="list-style-type: none"> • Comprehensive policies and procedures in place and review of <i>the Code</i> • Attending CIPFA meeting and reviews • Regular reconciliations e.g. fund managers, custodian • Internal/External Audits 	3	2	6	↔	TREAT	Draft unaudited accounts reviewed by Committee in June 2021.	Ongoing	
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 	4	2	8	↔	TREAT	1 data breach this quarter, risk rating left at same level due to ongoing COVID-19 and homeworking situation.	Ongoing	

		protections against cyber threats including encryption, firewalls, annual 3 rd party penetration testing etc							
NESPF022	Risk: Failure of the Fund's administration system	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 	3	2	6	↔	TOLERATE		Ongoing
	Causes: Outages, hardware and software failures and cyber attacks								
	Potential Impact: Staff downtime, loss of service delivery								
NESPF023	Risk: Failure to track member status and trace information	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT		Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								
Employer Relationship									
NESPF024	Risk: Failure to monitor employer covenant	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) 	3	4	12	↔	TREAT		Ongoing
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
NESPF025	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none"> Management through Covenant Assessment 	3	3	9	↔	TREAT		Ongoing

	<p>Causes: Public service cuts to funding</p> <p>Potential Impact: Pressure on cash flows</p>	and Monitoring Policy (within FSS)							
NESPF026	<p>Risk: Employers leaving Scheme or closing to new members</p> <p>Causes: Public service cuts to funding, increased pension contribution costs</p> <p>Potential Impact: Orphaned liabilities could fall to remaining employers</p>	<ul style="list-style-type: none"> • Management through Covenant Assessment and Monitoring Policy (within FSS) • Cost Cap mechanism introduced in LGPS regulations 	2	6	12	↔	TREAT	Expected changes to Regulations to allow greater flexibilities to exiting employers which may reduce risk of orphaned liabilities. Risk level remains unchanged due to ongoing uncertainty from COVID-19.	Ongoing
NESPF027	<p>Risk: Longevity</p> <p>Causes: Increasing life expectancy rates</p> <p>Potential Impact: Increase in employer contribution rates and liabilities</p>	<ul style="list-style-type: none"> • Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Tri-ennial valuation completed.	Ongoing
NESPF028	<p>Risk: Employer contributions not received, collected or recorded accurately</p> <p>Causes: Lack of staff resources, training issues</p> <p>Potential Impact: Orphaned liabilities could fall to remaining employers</p>	<ul style="list-style-type: none"> • Internal escalation procedures • Breaches policy and register • Monthly data submission reconciled by ERT • Quarterly PAS reporting to Committee & Board • Ongoing training provided by dedicated 	2	4	8	↔	TREAT		Ongoing

		ERT to scheme employers • Employer Briefings							
NESPF029	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> • Monthly data from employers which is reconciled by ERT • Quarterly PAS reporting to Committee & Board • Data quality improvement plan implemented 	2	2	4	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPF030	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	↔	TREAT		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								

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