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

Town House,
ABERDEEN, 17 March 2022

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Council Chamber - Town House** on **FRIDAY, 25 MARCH 2022 at 10.30 am**. This is a hybrid meeting and Members may also attend remotely.

Members of the press and public are not permitted to enter the Town House at this time. The meeting will be webcast and a live stream can be viewed on the Council's website. <https://aberdeen.public-i.tv/core/portal/home>

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 & TRANSPARENCY STATEMENTS

- 3.1. Members are requested to intimate any declarations of interest or connections

MINUTES OF PREVIOUS MEETINGS

- 4.1. Minute of Previous Meeting of 17 December 2021 (Pages 5 - 12)

COMMITTEE BUSINESS PLANNER

- 5.1. Business Planner (Pages 13 - 14)

NOTICES OF MOTION

- 6.1. There are currently no motions to the Pensions Committee

FINANCE AND RISK MANAGEMENT

- 7.1. Budget/Forecast & Projected Spend 2021/22 - PC/MAR22/BUD (Pages 15 - 26)

INTERNAL AND EXTERNAL AUDIT

- 8.1. Internal Audit Plan 2022-2025 - IA/21/008 (Pages 27 - 32)

- 8.2. External Audit Annual Plan 2022/2023 (Pages 33 - 48)

SCRUTINY

- 9.1. Strategy - PC/MAR22/STRAT (Pages 49 - 80)

- 9.2. Statement of Accounts 2021-2022 Action Plan - PC/MAR22/ACCOUNTS (Pages 81 - 86)

- 9.3. Review of NESPF Compliance with the Public Service Pensions Act 2013 (PSPA 2013) and Pension Regulator Requirements - PC/MAR22/GOV (Pages 87 - 94)

9.4. Termination of Admission Agreement - PC/MAR22/TERM (Pages 95 - 102)

EXEMPT BUSINESS - NOT FOR PUBLICATION

10.1. Asset and Investment Manager Performance Report - PC/MAR22/AIMPR
(Pages 103 - 148)

IIAs 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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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 17 December 2021. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Bell, Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Mr N Stirling, Chairperson; Councillor McKelvie, Vice Chairperson; Councillors Allan and Cowe; and Mr I Hodgson, Mrs M Lawrence and Mr A Walker (Pension Board).

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

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – item 10.1 (Investment Strategy), 10.2 (Procurement), 10.3 (Asset and Investment Manager Performance Report) and 11.1 (Investment Strategy) and item 11.2 (Deferred Debt Arrangement).

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 paragraphs 6 and 12 (Item 10.1); 8 (Item 10.2) and 6 (Items 10.3 and 11.1).

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST

2. There were no declarations of interest.

MINUTE OF PREVIOUS MEETING OF 17 SEPTEMBER 2021

3. The Committee had before it the minute of its previous meeting of 17 September 2021 for approval.

PENSIONS COMMITTEE AND PENSION BOARD
17 December 2021

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

to note the planner.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE ANNUAL EFFECTIVENESS REPORT 1 MAY 2020 TO 31 OCTOBER 2021 - COM/21/312

5. The Committee had before it the annual committee effectiveness report by the Director of Commissioning for consideration. The annual effectiveness reports had been introduced in 2018/19 following a recommendation from the Chartered Institute of Public Finance and Accountancy (CIPFA) as part of the Council's work towards securing that organisation's accreditation in governance excellence.

The Convener stated that he would like to take the opportunity to thank Members of the Committee and Board and officers for their support and contributions both at and outwith Committee during what had been a very difficult year.

The report recommended:-

that the Committee –

- (a) provide comments and observations on the data contained within the annual report; and
- (b) note the annual report of the Pensions Committee.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
17 December 2021

BUDGET/FORECAST & PROJECTED SPEND 2021/22 - PC/DEC21/BUD

6. The Committee had before it a report by the Chief Officer – Finance which provided details of the Management Expenses Budget/Forecast 2021/22 and projected spend 2021/22 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2021/22, shown in Appendix I.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

INVESTMENT BUCKETS - RISK MANAGEMENT - PC/DEC21/RISK

7. The Committee had before it a report by the Director of Resources which sought approval for the intention to adopt 'investment buckets' as a risk strategy for managing liabilities at an employer level.

Members asked a number of questions in relation to the proposal and officers advised that if any employers wished to participate, detail would come before Committee at that time. During the discussion, Members suggested that the wording 'Higher Risk' be amended to 'Standard Risk' and officers undertook to make that change.

The report recommended:-

that Committee –

- (a) approve that the Pension Fund Manager move forward with the policy on Investment Buckets and continue work around issuing a consultation on the amended Funding Strategy Statement; and
- (b) note that further information on the investment buckets, assumptions and implementation would be provided to Committee in the form of the draft Funding Strategy Statement in June 2022.

The Committee resolved:-

- (i) to request that officers amend the 'Higher Risk' terminology to 'Standard Risk'; and
- (ii) to otherwise approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

17 December 2021

STRATEGY - PC/DEC21/STRAT

8. 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 Pension Schemes Act 2021 and The Occupational and Personal Pension Schemes (Conditions for Transfers) Regulations 2021; details of the successful completion of the annual benefit statements project, including information on the work undertaken to ensure all casual employees were correctly recorded on the system, which would ensure a statement was automatically generated without any further issue from next year; detail of an interim response published by the Pensions Regulator in relation to their consultation on the new single Code of Practice; and a request for approval of overseas travel (depending on guidance at the time) for attendance at various Advisory Committees.

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

- Governance Compliance Statement (updated from partial to full compliance to reflect changes agreed as part of Annual Report and Accounts); and
- Training Policy (updated to reflect revised CIPFA Knowledge and Skills Framework)

The report recommended:-

that the Committee -

- (a) note the final outcome of the annual benefit statement project, which had been completed successfully despite the challenges of Covid and homeworking, for assurance (3.9.2 of the report refers);
- (b) note the updates to the Fund Policy documents as set out in 3.9.3; and
- (c) approve the travel for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer substitute) to attend the following Advisory Committees (as per item 3.9.6):
 - Partners Group, Denver, March 2022
 - Harbourvest, Boston, May 2022 (TBC)
 - Harbourvest, Boston, December 2022 (TBC)
 - Blackrock, Europe, 2022 (TBC).

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

17 December 2021

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

INVESTMENT STRATEGY UPDATE - PC/DEC21/INVSTRAT

9. The Committee had before it a report by the Director of Resources which provided a review of the investment re-balancing activity of the North East Scotland Pension Fund (NESPF) for the three month period ending 30 September 2021 and which also provided an update on the Under Armour Class action.

The report recommended:-

that Committee note the contents of the report for assurance.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

PROCUREMENT - PC/DEC21/PRO

10. The Committee had before it a report by the Director of Resources which sought approval to use the National Local Government Pension Scheme (LGPS) Framework for data services for the Fund to trace “gone away” members, as well as approval for provision of an online learning portal to assist Pensions Committee and Board members to meet learning requirements.

The report recommended:-

that Committee –

- (a) approve entering into a call-off contract with the preferred supplier as outlined in the report under the National LGPS Framework agreement set up by Norfolk County Council, in order to procure member data services for the North East Scotland Pension Fund;
- (b) approval of direct award as outlined in the report to the preferred supplier of an online learning portal; and
- (c) approve the potential expenditure in respect of the above contracts as set out in this report.

The Committee resolved:-

to approve the recommendations.

PENSIONS COMMITTEE AND PENSION BOARD

17 December 2021

The Board resolved:-

to note the decision of the Committee.

ASSET AND INVESTMENT MANAGER PERFORMANCE - PC/DEC21/AIMPR

11. 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 30 September 2021.

Members heard from Mr Buntain in respect of the detail in the report.

The report recommended:-

that Committee note the contents of the report for assurance.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

DEFERRED DEBT ARRANGEMENT - PC/DEC21/DDA

12. The Committee had before it a report by the Director of Resources which sought approval for the Fund to enter into a Deferred Debt Arrangement with the employer outlined in the report to allow them to exit the pension scheme in an affordable manner.

The report recommended:-

that Committee –

- (a) approve the intended plan for the Fund to enter into a Deferred Debt Arrangement with the employer outlined in the report upon issue of a notice of exit from the scheme;
- (b) note the intention of the Scottish Government to update the Local Government Pension Scheme (Scotland) Regulations in early 2022, following consultation, to allow for further flexibilities around exiting from the LGPS (including Deferred Debt Arrangements); and
- (c) note that changes would be made to update the NESPF Funding Strategy Statement and Termination Policy as a result of the new flexibilities and these updated policies would be brought to the Pensions Committee for approval at a future date.

PENSIONS COMMITTEE AND PENSION BOARD
17 December 2021

The Committee resolved:-

to approve the recommendations.

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	25 March 2022								
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	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide a review of compliance for 2021/22		Mairi Suttie	Finance	Resources	4.1 and 4.2		
6	Termination of Admission Agreement	To seek approval for the payment of a calculated surplus refund		Claire Mullen	Finance	Resources	5.1		
7	External Audit Annual Plan 2022/23	To present the annual plan		Rachel Browne	External Audit	External Audit	2.1		
8	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		
9	Internal Audit Annual Plan 2022/23	To present the Internal Audit Annual Plan for 2022/23		Jamie Dale	Internal Audit	Internal Audit	2.1		
10	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		
11	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
12	24 June 2022								
13	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
14	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		
15	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		
16	Funding Strategy Statement	TBC							
17	Internal Audit Annual Report 2021/22	To present the Internal Audit Annual Report for 2021/22		Jamie Dale	Internal Audit	Internal Audit	2.1		
18	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		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									
19	16 September 2022								
20	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		
21	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
22	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		
23	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
24	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
25	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		
26	16 December 2022								
27	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
28	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Stephanie Dunsmuir	Governance	Commissioning	GD 8.5		
29	Investment Strategy Update	To provide an update on the investment strategy of the NESPF if required		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
30	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		
31	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget/Forecast & Projected Spend 2021/22
REPORT NUMBER	PC/MAR22/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 and Projected Spend 2021/22 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2021/22, shown in the attached report.

3. FINANCIAL IMPLICATIONS

- 3.1 All Pension Fund costs are paid for by the Fund.

4. LEGAL IMPLICATIONS

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

5. 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 savings within the Scheme	L	Ongoing scrutiny and understanding of the costs of administering the Pension Fund with the exploration of opportunities for any savings.
Reputational	N/A	N/A	N/A

Environment / Climate	N/A	N/A	N/A
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6. OUTCOMES

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

7. IMPACT ASSESSMENTS

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

8. BACKGROUND PAPERS

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

9. APPENDICES (if applicable)

None

11. REPORT AUTHOR CONTACT DETAILS

Name	Michael Scroggie
Title	Accounting Manager
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Tel	01224 264178



North East Scotland Pension Fund

nespf

Budget/Forecast & Projected Spend 2021/22

Quarterly Reporting to December 2021

1. Budget/Forecast and Projected Spend 21/22

Sections 3 – 6 below show the NESPF Budget 2021/22. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

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.

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.

Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. 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 degrees of accuracy.

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 partnership fees.

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'.

2. Governance

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. Budget and Projected Spend for NESPF Administration Expenses

	Notes	Full Year Budget 2021/22 £'000	Budget to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Administrative Staff Costs	1	1,615	1,211	627	337	964	(247)	1,360	(255)
Information Technology	2	516	387	404	26	430	43	441	(75)
Supplies & Services	3	151	113	75	27	102	(11)	128	(23)
Accommodation		385	289	103	226	329	40	401	16
Printing & Publications	4	20	15	10	1	11	(4)	11	(9)
Administration Expenses Total		2,687	2,015	1,219	617	1,836	(179)	2,341	(346)

Note (Spend Variance \pm 5%):

1. Underspend – Vacancies pending recruitment process and limited staff travel during lockdown.
2. Underspend – Robotic task automation project(s) delayed till 2022-23. Reduction in new IT equipment.
3. Underspend – Reduction in postages/pension administration.
4. Underspend – Across the board savings in printing/design and ad hoc requests.

4. Budget and Projected Spend for NESPF Oversight & Governance Expenses

	Notes	Full Year Budget 2021/22 £'000	Budget to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Investment Staff Costs	1	243	182	90	54	144	(38)	193	(50)
Pension Fund Committee	2	15	11	0	1	1	(10)	2	(13)
Pension Board	3	10	8	0	1	1	(7)	2	(8)
External Audit Fee		43	32	0	31	31	(1)	43	0
Internal Audit Fee		6	5	0	5	5	0	6	0
Actuarial Fees	4	300	225	171	19	190	(35)	253	(47)
General Expenses	5	180	135	93	65	158	23	196	16
Oversight & Governance Expenses Total		797	598	354	176	530	(68)	695	(102)

Note (Spend Variance \pm 5%):

1. Underspend – same as Admin Staff Costs note.
2. Underspend – Saving based upon the annual training event held in London not proceeding.
3. Underspend – Saving based upon the annual training event held in London not proceeding.
4. Underspend – Slowing down of costs associated with Project Dallas.
5. Overspend – Increase in legal advice regarding limited partnerships.

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2021/22 £'000	Forecast to 31/12/21 £'000	Actual Spend to 31/12/21 £'000	Accrual to 31/12/21 £'000	Amended Spend to 31/12/21 £'000	Over or (Under) to 31/12/21 £'000	Proj Annual Spend 2021/22 £'000	Proj Over or (Under) Spend 2021/22 £'000
Investment Management	1	12,679	9,509	2,339	5,920	8,259	(1,250)	11,601	(1,078)
Performance Fees		10,430	7,823	0	7,822	7,822	(1)	10,430	0
Direct Property Expenses	2	533	400	539	0	539	139	563	30
Transaction Costs	3	1,183	887	1,629	0	1,629	742	2,172	989
Custody Fees	4	146	109	106	13	119	10	159	13
Investment Management Expenses Total		24,971	18,728	4,613	13,755	18,368	(360)	24,925	(46)

Note (Spend ± 5%):

1. Investment Management costs as at the reporting date are projected for the remaining part of the year. However, costs associated with private equity are not calculated until the year end. Therefore, uncertainty in projecting these costs carries the risk of over/under stating the spend for the year. It is anticipated that there will be an under spend.
2. The Forecast for 2021/22 is based upon the Fund Manager's estimation for the year. It is anticipated that there will be an overspend, which is largely associated with an ad hoc write off for a former tenant who was responsible for the letting of student flats.
3. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date (see further analysis) then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an overspend.
4. Overspend - Custody Fees have increased across all subheadings of Accounting & Performance, Custody, and Transaction Charges.

Important to Note:

The above 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.

6. Analysis of Transaction Costs for the Period 1 April 2021 to 31 December 2021

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	614,210.92	2,459.98	972,899.12	1,589,570.02
Pooled – Unit Trust	0.00	39,280.49	0.00	39,280.49
Grand Total (£)	614,210.92	41,740.47	972,899.12	1,628,850.51

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Plan 2022-25
REPORT NUMBER	IA/21/008
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale, Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to seek approval of the attached Internal Audit plan for 2022-25

2. RECOMMENDATION

- 2.1 It is recommended that the Committee approve the attached Internal Audit Plan for 2022-25.

3. BACKGROUND/MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to approve the Internal Audit plan relating to the North East of Scotland Pension Fund.
- 3.2 The Internal Audit plan for Aberdeen City Council for 2022-25, along with the methodology for determining the areas to be reviewed, was approved by the Audit, Risk and Scrutiny Committee on 22 February 2022. This followed consultation with management through the Risk Board.
- 3.3 In previous years a single-year Plan has been set out for the Committee's approval. This provided clarity over planned work during each financial year, as changes in the risk environment were often less pronounced over a shorter period. However, this provided less opportunity for the Committee to gain an understanding of the wider context or 'audit universe'.
- 3.4 There is therefore scope to develop and extend planning to provide a clearer picture of Internal Audit's work and priorities, and to provide flexibility in timing of elements of that work, over an extended period. Therefore, for 2022-2025, a three-year Plan has been set out in Appendix A.
- 3.5 The audits included in the attached plan, as well as those in previous and future plans, will help familiarise Internal Audit with the Pension Fund's control environment and governance arrangements, allowing assurance to

be provided regarding those arrangements. Where opportunities for improvement in controls and their application, or improvements in value for money, are identified these will be reported along with recommendations for management to consider. Where appropriate, Internal Audit will obtain assurance from other sources, for example external audit, based on their work and reported outcomes.

3.6 Internal Audit’s work will be undertaken in compliance with Public Sector Internal Audit Standards and Aberdeen City Council’s Internal Audit Charter as approved by the Audit, Risk and Scrutiny Committee on 22 February 2022.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

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

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

8. IMPACT ASSESSMENTS

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

Data Protection Impact Assessment	Not required
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9. APPENDICES

9.1 Appendix A – Internal Audit Plan 2022-25

10. REPORT AUTHOR DETAILS

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Appendix A

NORTH EAST SCOTLAND PENSION FUND INTERNAL AUDIT PLAN 2022-2025

2022/23						
Service and Auditable Area	Objective	Lead Function	Priority	Reason for inclusion	ACC Risk Category (Primary)	ACC Risk Category (Secondary)
Pension Fund Governance Arrangements Including Risk Management	To provide assurance over the governance arrangements and procedures in place including risk management and performance management.	Pension Fund	Medium	Key system	Operational	

2023/24						
Service and Auditable Area	Objective	Lead Function	Priority	Reason for inclusion	ACC Risk Category (Primary)	ACC Risk Category (Secondary)
Pensions Investment Strategy	To provide assurance over compliance with the pension fund investment strategy, and the adequacy of controls over management of investments.	Pension Fund	High	Risks of fraud and Best Value, High value transactions, previous audit findings	Strategic	Compliance

2024/25						
Service and Auditable Area	Objective	Lead Function	Priority	Reason for inclusion	ACC Risk Category (Primary)	ACC Risk Category (Secondary)
Pension Fund Payroll	To consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.	Pension Fund	High	Key system	Financial	Operational

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North East Scotland Pension Fund

Annual Audit Plan 2021/22



 AUDIT SCOTLAND

Prepared for Aberdeen City Council Pensions Committee

17 March 2022

Contents

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Financial statements audit planning	5
Audit dimensions	9
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Introduction

Summary of planned audit work

1. This document summarises the work plan for our 2021/22 external audit of the North East Scotland Pension Fund (the Fund). The main elements of our work include:

- evaluation of the key controls within the main accounting systems
- an audit of the annual report and accounts and provision of an Independent Auditor's Report
- work to support our audit opinions on the other statutory information published within the 2021/22 annual report and accounts, including the Management Commentary, Annual Governance Statement and the Governance Compliance Statement
- consideration of arrangements in relation to the audit dimensions: financial management, financial sustainability, governance and transparency that frame the wider scope of public sector audit

Impact of Covid-19

2. The coronavirus (Covid-19) pandemic has had a significant impact on public services and public finances, and the effects will be felt well into the future.

3. The Auditor General for Scotland, the Accounts Commission and Audit Scotland continue to assess the risks to public services and finances from Covid-19 across the full range of our audit work, including annual audits and the programme of performance audits. The well-being of audit teams and the delivery of high-quality audits remain paramount. Changes in our approach may be necessary and where this impacts on annual audits, revisions to this Annual Audit Plan may be required.

Adding value

4. We aim to add value to the Fund through our external audit work by being constructive and forward looking, by identifying areas for improvement and by recommending and encouraging good practice. In so doing, we will help the Fund promote improved standards of governance, better management and decision making and more effective use of resources. Additionally, we attend meetings of the Aberdeen City Council Pensions Committee and actively participate in discussions.

Respective responsibilities of the auditor and the Fund

5. The [Code of Audit Practice \(2016\)](#) sets out in detail the respective responsibilities of the auditor and the Fund. Key responsibilities are summarised below.

Auditor responsibilities

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

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

The Fund's responsibilities

8. The Fund is responsible for maintaining accounting records and preparing financial statements that give a true and fair view.

9. Also, the Fund has the primary responsibility for ensuring the proper financial stewardship of public funds, compliance with relevant legislation and establishing effective arrangements for governance and propriety that enable them to deliver their objectives.

Managing the transition to 2022/23 audits

10. Audit appointments are usually for five years but were extended to six years due to Covid-19. 2021/22 is the final year of the current appointment and we will work closely with our successors to ensure a well-managed transition.

Financial statements audit planning

Materiality

11. Materiality is an expression of the relative significance of a matter in the context of the financial statements as a whole. We are required to plan our audit to determine with reasonable confidence whether the financial statements are free from material misstatement. The assessment of what is material is a matter of professional judgement over both the amount and the nature of the misstatement.

Materiality levels for the 2021/22 audit

12. We assess materiality at different levels as described in [Exhibit 1](#). The materiality values for the Fund are set out in [Exhibit 1](#).

Exhibit 1

2021/22 Materiality levels for the Fund

Materiality	Main Fund	Transport Fund
Planning materiality – This is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. It has been set at 1% of gross assets for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£58 million	£3 million
Performance materiality – This acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this would indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of planning materiality.	£43.5 million	£2.25 million
Reporting threshold (i.e. clearly trivial) – We are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£250 thousand	£75 thousand

Source: Audit Scotland

Lower specific materiality levels for the 2021/22 audit

13. In addition to overall materiality, we can set lower, specific materiality levels for certain classes of transaction, account balances or disclosures where lesser amounts could influence the decisions of the users of the financial statements.

14. We recognise that benefits payable to members are important to the users of the financial statements and we set specific materiality levels as shown in [Exhibit 2](#).

Exhibit 2 2021/22 Lower specific materiality levels for the Fund

Materiality	Main Fund	Transport Fund
Specific materiality – It has been set at 10% of benefits payable for the year ended 31 March 2022 based on the latest audited financial statements for 2020/21.	£17 million	£1.1 million
Specific performance materiality – Using our professional judgement, we have calculated specific performance materiality at 75% of the specific materiality.	£12.75 million	£0.825 million

Source: Audit Scotland

Significant risks of material misstatement to the financial statements

15. Our risk assessment draws on our cumulative knowledge of the Fund, its major transaction streams, key systems of internal control and risk management processes. Also, it is informed by our discussions with management, meetings with internal audit, attendance at committee and a review of supporting information.

16. Based on our risk assessment process, we identified the following significant risks of material misstatement to the financial statements. These are risks which have the greatest impact on our planned audit procedures. [Exhibit 3](#) summarises the nature of the risk, the sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurance over the risk.

Exhibit 3**2021/22 Significant risks of material misstatement to the financial statements**

Significant risk of material misstatement	Sources of assurance	Planned audit response
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Owing to the nature of this risk, assurances from management are not applicable in this instance</p>	<ul style="list-style-type: none"> • Detailed testing of journal entries. • Review of accounting estimates. • Focused testing of accruals and prepayments. • Evaluation of significant transactions that are outside the normal course of business.

Source: Audit Scotland

17. As set out in International Standard on Auditing (UK) 240: *The auditor's responsibilities relating to fraud in an audit of financial statement*, there is a presumed risk of fraud over the recognition of revenue. There is a risk that revenue may be misstated resulting in a material misstatement in the financial statements. We have rebutted this risk for the Fund for the following reasons:

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

18. In line with Practice Note 10: *Audit of financial statements and regularity of public sector bodies in the United Kingdom*, as most public-sector bodies are net spending bodies, the risk of material misstatement due to fraud related to expenditure recognition may in some cases be greater than the risk relating to revenue recognition. We have rebutted this risk for the Fund for the following reasons:

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

19. We have not, therefore, incorporated specific work into our audit plan in these areas over and above our standard audit procedures.

Other areas of audit focus

20. As part of our assessment of audit risks, we have identified other areas where we consider there are also risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we do not consider these to represent significant risks. We will keep these areas under review as our audit progresses. If our assessment of risk changes and we consider these risks to be significant, we will communicate this to management and those charged with governance and revise our planned audit approach accordingly.

21. The areas of specific audit focus are:

- actuarial valuation of future retirement benefits. Actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. As a result we will carry out a 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary and review actuarial assumptions, and consider the report by Audit Scotland's consulting actuary on the actuarial valuations;
- valuation of unquoted investments. There is a significant degree of subjectivity in the measurement and classification of certain investments. As a result we will carry out a 'review of the work of an expert' in accordance with ISA 500, and confirm valuations to valuation reports and/ or other supporting documentation for significant unquoted investments;
- actuarial valuation of the Transport Fund insurance buy-in contract. The valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. We will carry out a 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary and review actuarial assumptions.

Audit risk assessment process

22. Audit risk assessment is an iterative and dynamic process. Our assessment of risks set out in this plan may change as more information and evidence becomes available during the progress of the audit. Where such changes occur, we will advise management and where relevant, report them to those charged with governance.

Audit dimensions

Introduction

23. The [Code of Audit Practice](#) sets out the four dimensions that frame the wider scope of public sector audit. The Code of Audit Practice requires auditors to consider the adequacy of the arrangements in place for the audit dimensions in audited bodies.

Audit dimensions

24. The four dimensions that frame our audit work are shown in [Exhibit 4](#).

Exhibit 4

Audit dimensions



Source: Code of Audit Practice

25. In summary, the four dimensions cover the following:

- **Financial management** – financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.
- **Financial sustainability** – as auditors, we consider the appropriateness of the use of the going concern basis of accounting as part of the annual audit. We will also comment on financial sustainability in the longer term.

We define this as medium term (two to five years) and longer term (longer than five years).

- **Governance and transparency** – governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership, and decision-making and transparent reporting of financial and performance information.
- **Value for money** – value for money refers to using resources effectively and continually improving services.

Audit dimension risks

26. We have identified audit risks in the areas set out in [Exhibit 5](#). This exhibit sets out the risks, sources of assurance from management arrangements and the further audit procedures we plan to perform to gain assurances over the risks.

Exhibit 5 2021/22 Audit dimension risks

Description of risk	Sources of assurance	Planned audit response
<p>1. Local Government Elections</p> <p>There may be changes to the composition of the Pension Committee and the Pension Board as a result of the local government elections in May 2022. There is a risk that following the elections, a number of new members do not have the necessary experience and understanding of their role and responsibilities in such areas as governance, scrutiny and decision making in respect of the Pension Fund.</p>	<ul style="list-style-type: none"> • Elected member training has been arranged for the 16 June prior to the June 25 Pensions Committee/ Pension Board meeting. In addition to this the Fund has procured an online training portal purely for the LGPS providing modular training for all committee and board members. This is also in addition to the current training policy that is in place. 	<p>We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.</p>

Source: Audit Scotland

Reporting arrangements, timetable, and audit fee

Reporting arrangements

27. Audit reporting is the visible output for the annual audit. All Annual Audit Plans and the outputs, as detailed in [Exhibit 6](#), and any other outputs on matters of public interest will be published on our website: www.audit-scotland.gov.uk.

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

29. We will provide an independent auditor's report to the Fund and the Accounts Commission setting out our opinions on the annual accounts. We will provide the Fund and the Accounts Commission with an annual report on the audit containing observations and recommendations on significant matters which have arisen during the audit.

30. [Exhibit 6](#) outlines the target dates for our audit outputs. Audit Scotland has set a provisional deadline of 31 October 2022 for the certification of the annual accounts. However the impact of Covid-19 led to delays in completing 2020/21 audits, which has affected available resources to deliver 2021/22 audits. We anticipate that the NESPF audit will complete in October for sign-off of the accounts in November (which would require a special meeting) or at the scheduled December committee meeting.

Exhibit 6 2021/22 Audit outputs

Audit Output	Target date	Pensions Committee date
Annual Audit Plan	17 March 2022	25 March 2022
Independent Auditor's Report	TBC	TBC
Annual Audit Report	TBC	TBC

Source: Audit Scotland

Timetable



31. To support an efficient audit, it is critical that the timetable for producing the annual accounts for audit is achieved. We have included a proposed timetable for the audit at [Exhibit 7](#) that has been discussed with management.

32. Covid-19 has had a considerable impact on the conduct and timeliness of the audit. We recognise that it is in the best interests of public accountability to get the reporting of audited accounts back to pre-pandemic timelines. To this end, 2021/22 is a transition year with the reporting deadline brought forward by one month relative to the two prior years. We are identifying ways to work more efficiently to expedite the 2021/22 audits whilst at the same time maintaining high standards of quality.

33. We will continue to work in close partnership with management with clarity over timescales and the requirement for high quality unaudited accounts and supporting working papers. Progress will be discussed with management and finance officers over the course of the audit.

Exhibit 7

Proposed annual accounts timetable

 Key stage	 Provisional Date
Consideration of the unaudited annual accounts by those charged with governance	24 June 2022
Latest submission date for the receipt of the unaudited annual accounts with complete working papers package.	31 August 2022
Latest date for final clearance meeting with the Chief Officer - Finance	TBC
Issue of Letter of Representation and proposed Independent Auditor's Report	TBC
Agreement of audited and unsigned annual accounts	TBC
Issue of Annual Audit Report to those charged with governance.	TBC
Signed Independent Auditor's Report	TBC

Source: Audit Scotland

Audit fee

34. The proposed audit fee for the 2021/22 audit of the Fund is £44,100 (2020/21: £43,000). In determining the audit fee, we have taken account of the risk exposure

of the Fund, the planned management assurances in place and the level of reliance we plan to take from the work of internal audit.

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

Other matters

Internal audit

36. International standards on Auditing (UK) 610: *Considering the work of internal audit* requires us to:

- consider the activities of internal audit and their effect on external audit procedures;
- obtain an understanding of internal audit activities to inform our planning and develop an effective audit approach that avoids duplication of effort;
- perform a preliminary assessment of the internal audit function when there is scope for relying on internal audit work which is relevant to our financial statements' responsibilities; and
- evaluate and test the work of internal audit, where use is made of that work for our financial statements responsibilities to confirm its adequacy for our purposes.

37. From our initial review of the internal audit plans, we do not plan to place formal reliance on internal audit's work for our financial statements responsibilities. However, we do plan to consider the findings of internal audit's work in terms of our wider audit dimension responsibilities.

Independence and objectivity

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

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

Quality control

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

41. The foundation of our quality framework is our Audit Guide, which incorporates the application of professional auditing, quality and ethical standards and the [Code of Audit Practice](#) (and supporting guidance) issued by Audit Scotland and approved by the Auditor General for Scotland. To ensure that we achieve the required quality standards, Audit Scotland conducts peer reviews and internal quality reviews. Additionally, the Institute of Chartered Accountants of Scotland (ICAS) have been commissioned to carry out external quality reviews.

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

North East Scotland Pension Fund

Annual Audit Plan 2021/22

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/MAR22/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1, 4 and 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 approve the travel for one appointed Advisory Committee Officer (Pension Fund Manager or suitable experienced Officer substitute) to attend the following Advisory Committees:

- Unigestion, Geneva, June 2022
- IFM, Toronto, September/October 2022

See attached report.

3. FINANCIAL IMPLICATIONS

- 3.1 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.

4. LEGAL IMPLICATIONS

- 4.1 There are a number of legal implications arising from implementation of the strategy which have been identified and addressed as set out in the attached report.

5. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
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Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	L	The 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 I, Copy of Risk Register (February 2022)

6. OUTCOMES

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

7. IMPACT ASSESSMENTS

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

8. BACKGROUND PAPERS

None

9. APPENDICES

Appendix I, Copy of Risk Register (February 2022)

Appendix II, Copy of Consultation Response

Appendix III, PAS Update

10. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting March 2022

1. Background

1.1 Quarterly Report to March 2022

The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations.

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

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

The roles and responsibilities within these areas have been very clearly defined to ensure accountability across the Pension Fund.

To support this support services updates covering the six strategic areas will also be available via the secure website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>.

Also available on the Pension Fund website are all the policy documents that govern the Pension Fund including its various strategies.

2. Investment

2.1 Asset & Investment Manager Performance Report

Separate report, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

3. Accounting

3.1 Budget/Forecast and Projected Spend 2021/22

Separate report, provided

3.2 Statement of Accounts 2021/22 - Action Plan

Separate report, provided

4. Benefit Administration

4.1 LGPS Consultation

The consultation on the Local Government Pension Scheme (Scotland)(Amendment) Regulations 2021 closed on 21 January 2022. Fund Officers submitted a brief response on the proposed changes which we mainly found to be consistent with Policy intent. The outcome to the consultation will be reported in due course.

Appendix II, NESPF Consultation Response

5. Systems

5.1 Performance Reporting

Quarterly update covering the period to 31 December 2021.

Appendix III, Pensions Administration Strategy Update

6. Governance

6.1 Scheme Advisory Board

Copies of the latest bulletins and meeting are available at <http://lgpsab.scot>.

6.2 Staff Training Update

Individual staff training and development continued during 2021/22. Due to the continuing Covid-19 pandemic the majority of learning took place online through webinars and training

sessions, although there was a return to some in person training events during the second half of the year.

All staff once again completed the mandatory annual Information Governance refresher training.

The Fund currently has 4 Trainee Pensions Officers – Benefit Administration navigating through its internally developed training programme under the guidance of the Training & Development team. With recruitment underway to fill a 3 further Trainee positions, the team will have a challenging year ahead but they are adequately resourced to ensure each Trainee gets the dedicated training they need to produce highly qualified Pensions Officers at the end of the 2 year Training Programme.

6.3 Document Update

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

- Statement of Investment Principles (update to Voting Section)
- NESPF Privacy Notice (update to include reference to data sharing with Hymans)

6.4 Annual Governance Review

Review of NESPF compliance with the Public Service Pensions Act 2013 and the Pensions Regulator Code of Practice no. 14.

Separate report, provided

6.5 Fraud, Whistleblowing and Breaches of the Bribery Act

There have been no cases during the year. All NESPF staff are required to familiarise themselves with the Whistleblowing Policy and compliance is monitored by the Governance Team.

6.6 Overseas Travel

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

The vast majority of private investment funds have limited partner advisory committees, these committees are composed of representatives of the limited partners, usually significant

institutional limited partners/clients, dealing with a number of issues regarding conflicts, investment restrictions, general oversight and using the committee as a sounding board for other matters.

As stated due to the increased allocation from the Pension Fund to alternatives, depending on the level of commitment the Fund will request or be invited to accept a position on the Advisory Committees.

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

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

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

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

- 1. Unigestion, Geneva, June 2022**
- 2. IFM, Toronto, September/October 2022**

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

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

7. Employer Relationship

7.1 McCloud Judgement

The impact of the McCloud age discrimination judgement is still not fully known, with regulation changes on the underpin remedy imminent. However, the NESPF have established a project team to engage with employers and our software provider in order to deliver a remedy that will comply with the expected final regulations.

We have established that more than 16,000 members qualify for the expected revised protections. As part of the remedy requirements we will be required to evidence that all eligible members have had their benefits checked and recalculated. Accurate assessment will only be possible after the 2022 revaluation and pensions increase have been applied and year end reconciliation is completed by our Employer Relationship team.

Progress on this essential project will be reported quarterly to committee using template contained in our quarterly PAS report and on completion of the exercise each employer will receive their own schedule providing details of the cost of additional current and future benefits arising from the judgement. The potential additional cost of the judgement was considered by the scheme actuary as part of the 2020 valuation. On completion of the exercise the actual cost of the judgement will be available for future assessment of liabilities.

Following completion officers will provide committee with the cost of implementing the McCloud remedy which will be split by software development and the internal resource required to deliver.

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	3	12	↓	TREAT	Risk score remains high but has been reduced slightly; vaccination and booster rollout has been very successful, last legal restrictions are being lifted in March 2022 due to declining numbers/deaths with Omicron variant. However possibility of more severe future variant.	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 	3	2	6	↓	TREAT	Recruitment process now nearing completion for a number of posts therefore risk has been reduced slightly.	Laura Colliss, ongoing
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	<p>Tri-ennial valuation 2020 is now complete.</p> <p>Inflation risk and pay inflation continue to be a concern.</p>	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 December 2021, no issues. Annual Compliance report to Committee in March 2022.	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 in 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 Management Consultancy Services appointed in August 2021.	
NESPFO15	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								
NESPFO16	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								
NESPFO17	Risk: Negligence/Fraud/Default	<ul style="list-style-type: none"> Due diligence on appointment and appropriate clause in legal agreements Fund management monitoring SAS 70 reports 	2	1	2	↔	TOLERATE		Ongoing
	Causes: Dishonesty by fund managers, lack of care or human error								
	Potential Impact: Financial loss, reputational damage								
NESPFO18	Risk: Failure of Global Custodian	<ul style="list-style-type: none"> Regular meeting with custodian Receipt of SAS 70 reports and monitoring 	4	1	4	↔	TOLERATE		Ongoing
	Causes: Financial market crisis, regulatory/political								
	Potential Impact: Loss of assets or control of assets								

NESPF019	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> • Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership, annual signatory assessment 	2	3	6	↔	TREAT		Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								
Accounting									
NESPF020	Risk: Poor financial reporting	<ul style="list-style-type: none"> • Comprehensive policies and procedures in place and review of <i>the Code</i> • Attending CIPFA meeting and reviews • Regular reconciliations e.g. fund managers, custodian • Internal/External Audits 	3	2	6	↔	TREAT	Annual Report and Accounts signed off September 2021	Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues								
	Potential Impact: Qualified accounts								
Systems									
NESPF021	Risk: Failure to secure and manage personal data in line with data protection requirements	<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 further personal data breach this quarter, risk rating left at same level due to ongoing COVID-19 and homeworking situation.	Ongoing
	Causes: Cyber-attack, human processing error								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties								

		protections against cyber threats including encryption, firewalls, annual 3 rd party penetration testing etc							
NESPFO22	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								
NESPFO23	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									
NESPFO24	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	Online liability monitor now has ability to track funding levels and liabilities for each individual employer.	Ongoing
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
NESPFO25	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	3	6	↓	TREAT	New flexibilities to LGPS (Scotland) Regulations due Summer 2022 which will help manage risk. Move to investment buckets will provide greater control to manage	Ongoing

		ERT to scheme employers • Employer Briefings						exits over longer term.	
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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RESPONDENT INFORMATION FORM

Please Note this form **must** be returned with your response to ensure that we handle your response appropriately

1. Name/Organisation

Organisation Name

North East Scotland Pension Fund

Title Mr Ms Mrs Miss Dr *Please tick as appropriate*

Surname

Suttie

Forename

Mairi

2. Postal Address

Level 1, 2MSq

Marischal Square

Broad Street

Aberdeen

Postcode AB10 1LP

Phone 01224264264

Email Pensions@nespf.org.uk

3. Permissions - I am responding as...

Individual

/ Group/Organisation

Please tick as appropriate

- (a) Do you agree to your response being made available to the public (in Scottish Government library and/or on the Scottish Government web site)?

Please tick as appropriate Yes No

- (b) Where confidentiality is not requested, we will make your responses available to the public on the following basis

Please tick ONE of the following boxes

Yes, make my response, name and address all available

or

Yes, make my response available, but not my name and address

or

Yes, make my response and name available, but not my address

- (c) The name and address of your organisation **will be** made available to the public (in the Scottish Government library and/or on the Scottish Government web site).

Are you content for your **response** to be made available?

Please tick as appropriate Yes No

- (d) We will share your response internally with other Scottish Government policy teams who may be addressing the issues you discuss. They may wish to contact you again in the future, but we require your permission to do so. Are you content for Scottish Government to contact you again in relation to this consultation exercise?

Please tick as appropriate

 Yes

 No

1. Early payment of pension at age 55 - these regulations allow deferred members of earlier schemes to elect for early payment of their benefits between age 55 and 60 without needing their former employer's consent. This also applies to pension credit members who were awarded the credit under the Earlier Schemes to be able to elect to receive their benefits early, at a reduced rate, on or after age 55.

No comments, the regulations appear to deliver the policy intent

2. Calculation of 'the Underpin' - the regulations also clarify how to carry out the calculation of the protection known as 'the underpin', taking into account the actuarial increase/reduction when considering the better of the two benefit options for the member on retirement.

No comments, the regulations appear to deliver the policy intent

3. Survivor Benefits Walker & Goodwin Judgements - the regulations amend the calculation of survivor partner pensions so that surviving civil partners, survivors of married same-sex couples and male survivors of female married members are placed in a similar position to female survivors of male married members.

The regulations appear to deliver the policy intent.

However should an additional amendment be made to Regulation 17(4) to include the newly added paragraph (16)? i.e. amend wording from 'Subject to paragraphs (9) to (15)'.

Regulation 5(c) – feel the wording here could be clearer/simpler to read

4. Further Flexibilities for Fund Authorities - these regulations provide further flexibilities for fund authorities in dealing with employers and allow for amendments to an employer's contribution rate in between valuations.

These changes are welcomed by the Fund and seem to mirror the England and Wales regulation changes that were brought in during 2020. The regulation changes appear to reflect the policy intent and will provide consistency across the Scheme. The need to outline the Fund approach within the Funding Strategy Statement will also provide transparency for employers.

5. Cost Cap - in order for GAD to finalise the result of the 2017 valuation, the cost cap figure is amended, with retrospective effect, to 1 April 2015.

We have no comments on this as we feel it is for the actuaries to reflect on appropriateness.

Thank you for your comments.

Additional Comments (not covered by above):

1. The Regulations currently allow 2018 scheme members to take a de minimus (small pot) payments. A footnote was added to 33(1) of the 2018 Regulations in the Draft Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2019 that would have covered the earlier schemes, however this was removed in the final regulations. We do not believe it would be policy intent for only members who left on or after 01/06/2018 to be allowed to take de minimus payments, therefore this would be the perfect opportunity to amend this.

2. Regulation 4(2)(b)(iii) of the 2014 Transitional Regulations is referring to the flexible retirement regulation and should therefore refer to 31(5) of the 2018 Regulations. A response was given stating that this had been amended following the consultation on the Local Government Pension Scheme (Miscellaneous Amendments)(Scotland) Regulations 2019, however it didn't appear to be amended in the final regulations. The wording 'or Regulations 31(4) of the 2018 Regulations should be changed to 'or Regulation 31(5) of the 2018 Regulations'.
3. Per Regulation 9(6) of the 2018 Regulations, any pension benefits must be in payment *before* the 75th birthday as contributions can't be made on or after the day before the 75th birthday.
 - a) Suggestion to reword 29(4) of the 2018 Regulations to '...must have their retirement pension paid from the day before age 75' or similar.
 - b) Suggestion to reword 29(4) of the 2018 Regulations to '...begins with the day before the member's 75th birthday' or similar.



North East Scotland Pension Fund
nespf

Pension Administration Strategy

Quarterly Reporting December 2021

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

1.1 Key administration tasks

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

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	33	29	87.9%	97.0%	97.0%	97.0%	1		87.9%
Notification of retirement estimate	10 days	339	338	99.7%	100.0%				15	95.5%
Notification of retirement benefits	10 days	1554	1353	87.1%	94.8%	96.9%	99.0%	16	49	84.4%
Notification of deferred benefits	10 days	804	775	96.4%	98.0%	98.4%	99.0%	8	58	89.9%
Notification of refund	10 days	959	924	96.4%	97.9%	99.0%	99.3%	7	15	94.9%
Notification of transfer in value	10 days	34	23	67.6%	70.6%	70.6%	73.5%	9	16	46.0%
Notification of transfer out value	10 days	349	221	63.3%	64.1%	64.9%	68.7%	109	29	58.5%
		4072	3663	90.0%				150	182	86.1%

Completed cases during reporting period - reporting output is based on 5 and 10 day targets built into workflow cases for processing administration tasks as declared in the pension administration strategy:

- *The overall percentage is up 10% on previous year with significant increases for processing retirements +379 and transfers out +143 compared with the same reporting period last year.*

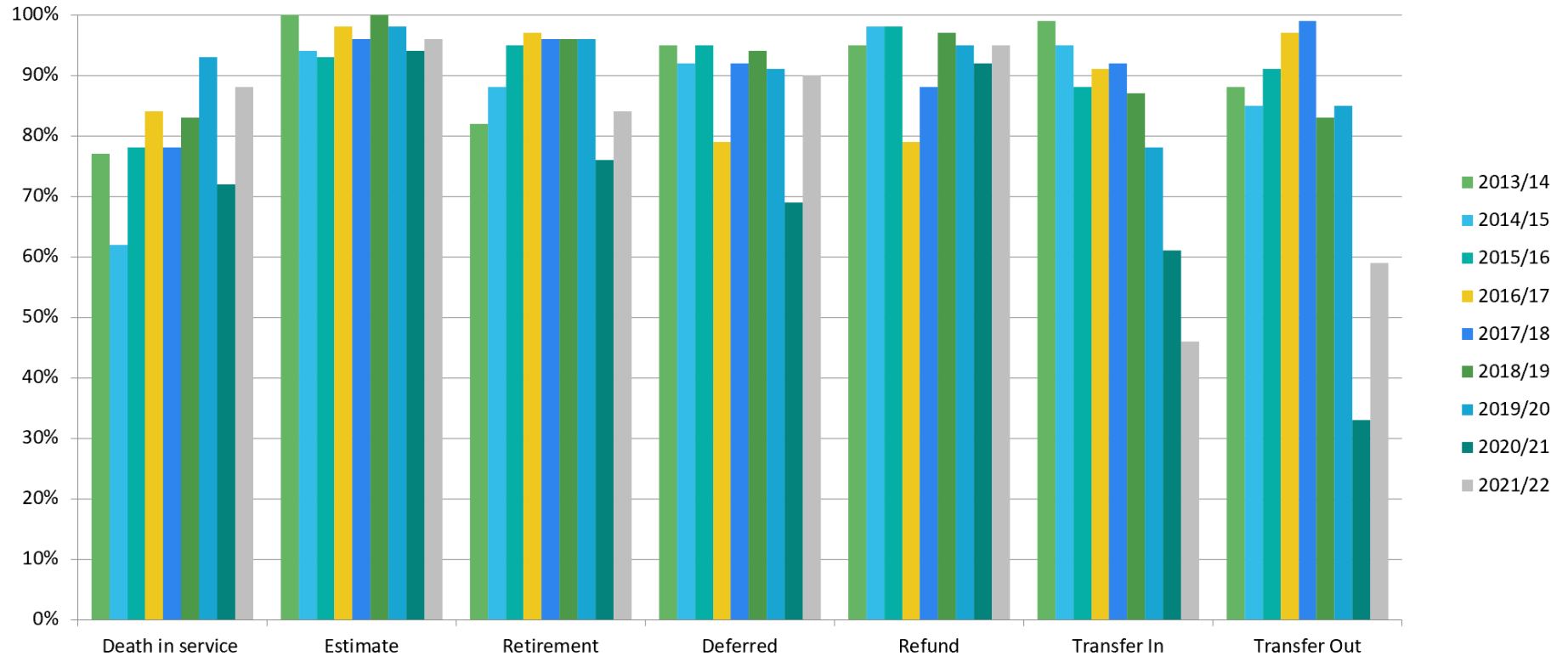
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *Cases taking more than 20 days over target is similar to last year however all performance measurements are expected to continue to improve as the gradual return to the office for administration staff continues.*

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:

- *Uncompleted cases have significantly reduced by almost 400 when compared with the same reporting period last year, evidence that our experience during the pandemic shows we are more efficient in the office compared with working from home.*

1.2 Previous years comparison



1.3 McCloud template

In December 2018 the Court of Appeal ruled in *McCloud v Ministry of Justice* that “transitional protection” offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector schemes.

This report provides an update on progress made to extend protections by recalculating benefits for all eligible members in accordance with the new regulations.

Eligible members



Count of Date Ready is the total number of eligible members ready for the revised calculation and *Count of Date Processed* is the total number of eligible members processed by the revised calculation.

Provisional guaranteed amounts

McCloud Status	Eligible Members	Provisional Cost	Provisional Members
Active	0	Null	0
Deferred	0	Null	0
Undecided	0	Null	0

This is the provisional future cost of benefits identified during the 1 April 2015 to 31 March 2022 remedy period for members taking their benefits at NPA/Age65.

Final guaranteed amounts

McCloud Status	Eligible Members	Final Cost	Final Members
Deceased	0	Null	0
Leaver	0	Null	0
Pensioner	0	Null	0
Undecided	0	Null	0

This is the additional cost of benefits identified during the 1 April 2015 to 31 March 2022 remedy period for benefits already paid to members.

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

2.1 Policy on discretions received (85%)

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

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

2.2 Signed PLO statements received (46%)

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

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

2.3 Quantity of data received (744,521)

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)	4,425
Amendments (address, personal details, hours and absence)	21,961
Leavers (exit and opt out)	3,289
Contributions (employee, employer and additional)	239,834
Salary	239,802
Cumulative CARE Pay	230,443
Works Address	4,767

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												
First Aberdeen	Extract File												
First Glasgow	Extract File												
Grampian Valuation Joint Board	Extract File												
Moray Council	Extract File												
NESTRANS	Extract File												
Police Scotland	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																		
Forth and Oban (City)	Online Return																		
Forth and Oban (Shire)	Online Return																		
Fraserburgh Harbour	Online Return																		
Homestart Aberdeen	Online Return																		
Homestart NEA	Online Return																		
ID Verde	Online Return																		
Inspire	Online Return																		
Mental Health Aberdeen	Online Return																		
North East Sensory Services	Online Return																		
Osprey Housing	Online Return																		
Outdoor Access Trust Scotland	Online Return																		
Pathways	Online Return																		
Peterhead Port Authority	Online Return																		
Printfield Community Project	Online Return																		
Robert Gordon College	Online Return																		
Robertson FM City	Online Return																		
Robertson FM Shire	Online Return																		
Sanctuary Scotland	Online Return																		
SCARF	Online Return																		
Scotlands Lighthouse Museum	Online Return																		
St Machar Parent Support Project	Online Return																		
Station House Media Unit	Online Return																		
Visit Scotland	Online Return																		
Xerox	Online Return																		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Statement of Accounts 2021/22 – Action Plan
REPORT NUMBER	PC/MAR22/ACCOUNTS
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide Elected Members with high level information and key dates in relation to the 2021/22 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors.

2. RECOMMENDATION

- 2.1 That the Committee note the report for assurance.

3. FINANCIAL IMPLICATIONS

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

4. LEGAL IMPLICATIONS

- 4.1 In terms of The Local Authority Accounts (Scotland) Regulations 2014, there is a statutory requirement for the Council to produce both a draft and audited Statement of Accounts within certain timescales and to a high standard. This is a major task which requires co-operation and input from a large number of people across all services of the Council. It is only with the commitment of all staff that these high standards and deadlines can be met.

5. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	N/A	N/A	N/A
Compliance	Failure to meet statutory requirement to produce draft and	M	Process and procedures in place to ensure teams work together to produce within timescales.

	audited Statement of Accounts within certain timescales and to high standard.		
Operational	N/A	N/A	N/A
Financial	Possible financial penalties for failure to meet regulatory requirements.	M	Compliance monitoring and regular reporting to Pensions Committee.
Reputational	Failure to meet regulatory requirements may result in adverse publicity	M	Processes and procedures in place based on the timetable set out in the attached report.
Environment / Climate	N/A	N/A	N/A

6. OUTCOMES

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

7. IMPACT ASSESSMENTS

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

8. BACKGROUND PAPERS

None

9. APPENDICES

None

10. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Statement of Accounts 2021/22

Annual Report to March 2022

1. Background

The Statement of Accounts 2021/22 will summarise the Pension Fund's transactions for the period 1 April to 31 March and its financial position at the year end 31 March 2022. It will be prepared in accordance with the Internal Financial Reporting Standards (IFRS) based Code of Practice on Local Authority Accounting in the United Kingdom (the Code) and the Service Reporting Code of Practice (SeRCOP). There are no changes to either of the codes in 2021/22 which will have any significant impact on the Statement of Accounts.

There are a number of key dates and these are summarised as follows:

31 March 2022	End of Financial Year 2021/22
17 June 2022	Deadline for giving notice to the public of the right to inspect and object to Accounts
24 June 2022	Pensions Committee
30 June 2022	Statutory deadline for submission of Draft Statement of Accounts to the Controller of Audit
July 2022	Advertising and Inspection of Accounts
31 July 2022	Deadline for submission of the Whole of Government Accounts (WGA) to the Scottish Government
16 September 2022	Pensions Committee
30 September 2022	Deadline for submission of Audited Statement of Accounts to the Controller of Audit
31 October 2022	Deadline for submission of the Audited WGA to the Scottish Government
16 December 2022	Pensions Committee

24 June 2022

The Pensions Committee will receive the Draft Statement of Accounts 2021/22, including the Annual Report for overall scrutiny.

July 2022

This is the period within which the Council must give public notice of the rights of interested parties to inspect and object to its accounts. There are statutory requirements currently under The Local Authority Accounts (Scotland) Regulations

2014 which define the notice period, the inspection period, deadline for submission of any objections and the information which must be made available for inspection.

October 2022

The Pensions Committee will receive Audit Scotland's combined ISA260 ad "Report to those charged with the governance of the 2021/22 audit" for debate and consideration, together with the Audited Statement of Accounts 2021/22 for signing.

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Review of NESPF Compliance with the Public Service Pensions Act 2013 (PSPA 2013) and Pension Regulator Requirements
REPORT NUMBER	PC/MAR22/GOV
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	4.1 and 4.2

1. PURPOSE OF REPORT

- 1.1 To provide Elected Members with a review of the North East Scotland Pension Fund's (the "Fund") compliance with the Public Service Pensions Act 2013 ("PSPA") and the Pensions Regulator's ("tPR") requirements during the financial year 2021/22.

2. RECOMMENDATION

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

3. FINANCIAL IMPLICATIONS

- 3.1 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.

4. LEGAL IMPLICATIONS

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

5. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	Lack of effective governance framework and effective internal controls.	L	The 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	Failure to meet statutory and	L	The Pension Fund carries out a six monthly

	regulator requirements.		compliance review, with annual reporting to the Pensions Committee.
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

6. OUTCOMES

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

7. IMPACT ASSESSMENTS

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

8. BACKGROUND PAPERS

None

9. APPENDICES

None

10. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Governance Review

Annual Report to March 2022

1. Background

1.1 Governance Framework Review

A review of the Fund's governance framework is conducted on an annual basis. The purpose of the review is to assess current practices and procedures; ensuring the Fund has in place a robust governance framework and complies with legislation and best practice guidance.

In terms of Scheme compliance with legislation such as the Local Government Pension Scheme (Scotland) Regulations, the Public Service Pensions Act 2013 (PSPA 2013) and The Pensions Regulator (tPR) requirements (as set out in Code of practice no. 14 Governance and administration of public sector pension schemes) a review is carried out on a six monthly basis by Fund officers with annual reporting to the Pensions Committee.

1.2 Pension Board

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

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

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

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

The Pension Board has a monitoring, assisting and reviewing purpose rather than being a decision-making body. In so doing, the Pension Board is helping to manage the reputational risk of the fund, and of the administering authority.

Meeting Attendance

During 2021/22 the Pension Board met formally (and concurrently with the Pensions Committee on):

25 June 2021
 17 September 2021
 17 December 2021
 25 March 2022

During 2021/22 there was an overall 97% attendance rate at meetings (up to December 2021).

High attendance levels, and active participation at both the quarterly meeting and training events, demonstrates a strong commitment to the ongoing effectiveness of the NESPF Pension Board. In addition, low turnover of members ensures knowledge and experience is retained.

The table below details meeting attendance during 2021/22:

	25/06/2021	17/09/2021	17/12/2021	25/03/2022*	Individual (out of a possible 4)
Cllr Allan	✓	✓	✓	✓	4
Cllr McKelvie	✓	✓	✓	✓	4
Cllr Cowe	X	✓	✓	✓	3
Morag Lawrence	✓	✓**	✓	✓	4
Ian Hodgson	✓	✓	✓	✓	4
Alan Walker	✓	✓	✓	✓	4
Neil Stirling	✓	✓	✓	✓	4
Liam Knox	✓				1

* Projected attendance

** Substitute member attended

Other Notes

Mr Knox resigned from his role on the Pension Board in September 2021. Replacement in process of being appointed.

Training Attendance 2021/22

It is a statutory requirement under Schedule 4 of the PSPA 2013 that members of local pension boards have “knowledge and understanding” of pensions law and are “conversant” with Scheme regulations and Fund documents. The issue of training is approached carefully by both the administering authority and individual Board members.

The Board sits in June, following the main Committee and Board meeting, to review their annual report. This provides an opportunity for any issues around attendance to be addressed or gaps in training knowledge to be discussed. Members are also asked to appoint a new Chair and Vice Chair for the forthcoming year.

During 2021/22 Pension Board members have continued to demonstrate a commitment to developing their “knowledge and understand” by attending various training events covering key areas, with particular focus on Environmental, Social and Governance (ESG) topics and Scheme governance.

Fund officers maintain a training register to allow attendance to be monitored on an ongoing basis. The Training Policy, approved by Committee and reviewed annually, sets out review arrangements to address poor attendance or failure to achieve or maintain the required level of knowledge and understanding. A copy of the Training Policy is available at <https://www.nespf.org.uk/about/policies-and-statements/>.

The table below details training attendance for 2021/22 to date:

	18/05	30/06	26/08	06/10	21/10	29/10	Total
Cllr Allan	X	X	✓	✓	X	X	2
Cllr McKelvie	X	X	✓	✓	X	✓	3
Cllr Cowe	X	X	✓	X	X	X	1
Ian Hodgson	X	X	✓	✓	X	X	2
Morag Lawrence	X	✓	✓	✓	✓	✓	5
Alan Walker	✓	✓	✓	X	✓	X	4
Neil Stirling	X	X	✓	X	✓	X	2
Liam Knox	X	X					Left
Kenny Luke (sub)	X	X	X	X	X	X	0

Board members are expected to carry out an annual personal assessment of their knowledge and understanding and ensure they are meeting the requirements of the Training Policy.

Costs of Operation 2021/22

The costs and expenses of the Pension Board are met as part of the administration costs of the Fund. The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money.

The costs and expenses of the Pension Board are principally travel related expenses to attend meetings and training events.

Summary of Costs

Travel £181.90

Due to the ongoing Covid-19 pandemic during the year the majority of training took place virtually and therefore the costs incurred were very minimal. We expect this to increase in 22/23 as pandemic restrictions ease further and more in-person events return.

1.2 COMPLIANCE REVIEW

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

Again the review found that the key internal controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively with the latest compliance review taking place in December 2021. A further review using tPR's Scheme Assessment Tool confirmed there are no areas for concern.

Work is ongoing within the Fund to ensure it continues to meet legislative and tPR requirements. The new tPR single Code of Practice is expected in Summer 2022 and work continues to understand and implement requirements under the new Code.

Elected Member and Board Knowledge and Understanding

As per the Pensions Regulator Code of Practice no. 14, Pension Board members must have knowledge and understanding of the law relating to pensions, and any other matters which are prescribed in regulations. The degree of knowledge and understanding required is that appropriate for the purposes of enabling the individual to properly exercise the functions of a member of the Pension Board.

1.3 GOING FORWARD

Scheme Structure Review

While work progresses on the scheme structure review, elected members remain committed to delivering a well run and well governed scheme. The Pension Board will continue to assist and constructively challenge officers to deliver effective management and administration within their existing remit. Updates are available on the Scottish Scheme Advisory Board website at <https://lgpsab.scot/>

Covid-19

The global pandemic will continue to be a focus in 2022. Current governance arrangements are working effectively with Pensions Committee and Board meetings as well as training being undertaken in a hybrid fashion. It's likely a move towards more in person events will be seen in 2022 following the United Kingdom and Scottish

Government's lifting of the final legal restrictions due to decreasing numbers of covid infections and hospitalisations.

The Pensions Regulator's Code of Practice

TPR is expected to release their new single Code of Practice in Summer 2022. A full compliance review will be carried out by officers once the new Code is finalised, although preparatory work is ongoing based on the draft Code.

Pensions Administration Review

A report was presented to the Pensions Committee in March 2021 ([PC/MAR21/ADMIN](#)) to update on the outcome of an administration review carried out by the Fund's actuary, Mercer. The report produced a number of key recommendations for the Fund. Work to implement these recommendations and other changes is ongoing, with an estimated timeframe of 12-18 months for full delivery set out in the original report.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	25 March 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Termination of Admission Agreement
REPORT NUMBER	PC/MAR22/TERM
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Claire Mullen
TERMS OF REFERENCE	5.1

1. PURPOSE OF REPORT

- 1.1 To seek approval for the payment of the calculated surplus refund to First Glasgow as a result of exiting from the Aberdeen City Council Transport Fund (ACCTF) as a participating employer.

2. RECOMMENDATIONS

That the Committee: -

- 2.1 approve the recommendation to pay First Glasgow a surplus refund of £11.8m following the termination of the admission agreement between Aberdeen City Council (as administering authority of the ACCTF) and First Glasgow; and
- 2.2 instruct the Chief Officer-Finance to merge the ACCTF into the main Fund in the financial year 2022/23.

See attached main report.

3. FINANCIAL IMPLICATIONS

- 3.1 In the event that the Fund was unable to meet the future liabilities held within the ACCTF in respect of First Glasgow the responsibility would land on the other participating employers within the Fund and the administering authority.

- 3.2 The risk is mitigated as follows:

- The prudent approach taken by the Fund and the scheme actuary upon calculating the surplus refund.
- The extremely low risk approach taken by the Fund to the Investment strategy of the ACCTF
- First Aberdeen will subsume the assets and liabilities for First Glasgow upon termination.
- The intercompany guarantee in place between First Glasgow (No.1) Limited, First Aberdeen Limited and Firstbus (North) Limited.

- The intention to merge the ACCTF into the Main Fund to further reduce risk.

4. LEGAL IMPLICATIONS

- 4.1 The Local Government Pension Scheme (Scotland) Regulations 2018 require that the scheme obtain an actuarial valuation of the liabilities held for the exiting employer as at the termination date.
- 4.2 As the remaining participating employer and in accordance with their admission agreement First Aberdeen Limited will subsume the liabilities held for First Glasgow following termination.
- 4.3 A termination summary paper and Termination Certificate will be issued and signed by the scheme actuary to outline the surplus refund due. No further legal agreement will be required.

5. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation
Strategic Risk	N/A	N/A	N/A
Compliance	Failure to comply with regulatory requirements.	N/A	The Fund will engage with the Scheme Actuary and Legal Team to ensure all requirements are being met.
Operational	N/A	N/A	N/A
Financial	Liabilities could fall on remaining employers and administering authority.	N/A	Intercompany guarantee in place. Prudent, low risk approach being taken working with scheme actuary.
Reputational	N/A	N/A	N/A
Environment / Climate	N/A	N/A	N/A

6. OUTCOMES

- 6.1 This report does not impact on the Council Delivery Plan

7. IMPACT ASSESSMENTS

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

8. BACKGROUND PAPERS

None

9. APPENDICES

None

10. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Termination of Admission Agreement

March 2022

1. Background

First Glasgow became an admitted body within the Aberdeen City Council Transport Fund (ACCTF) in 2019 following a merge of the liabilities held within the Strathclyde No.3 Fund into the ACCTF.

Following the transfer the overall funding level for the ACCTF has improved considerably. The last triennial valuation carried out by the scheme actuary included the liabilities for both First Aberdeen and First Glasgow and reported a funding level of 114% and a calculated surplus of £37m as at 31 March 2020.

As part of the project plan for the merge it was agreed, with First Group, that the admission agreement for First Glasgow would be terminated to allow for a single employer to be held within the Fund and to release some of the 'trapped' surplus that had built up within the Fund.

2. Funding

Due to the maturity of the ACCTF the investment strategy for the Fund is significantly different from the Main Fund assets. A de-risking plan has been in place for some time and is monitored by the asset manager, Schroders, to ensure that the future liabilities can be met.

This approach to asset risk along with the financial benefits of both the merge and the buy-in transaction that secured the majority of the pensioner liabilities has resulted in a very positive funding level for the transport Fund. The funding level and surplus held have been calculated on an extremely prudent basis by the scheme actuary to once again reduce risk. As a result of the valuation neither employer within the ACCTF is required to pay employer contributions in respect of any active members.

3. Termination & Surplus Refund Amount

First Bus have confirmed by letter that they wish to terminate the admission agreement between Aberdeen City Council (as administering authority of the ACCTF) and First Glasgow with effect from 31 March 2022.

In accordance with Local Government Pension Scheme (Scotland) Regulations 2018 the Fund is required to obtain an actuarial calculation of the liabilities as at the termination date. This calculation determines whether a surplus or a deficit is held for the exiting employer and triggers the requirement to request payments of a termination fee (deficit) or to pay out an exit credit (surplus).

The admission agreements drawn up as part of the 2019 merge allowed for First Aberdeen to subsume the liabilities held for First Glasgow following the termination. This along with the intercompany guarantee offered by First Glasgow and FirstBus North ensures that the

liabilities held will not be orphaned within the Fund and that the responsibility for meeting all of the liabilities still falls to First Bus.

As First Bus still participate within the Fund under First Aberdeen and liabilities are still being accumulated through the active members of the scheme, the Fund needs to ensure that the exit credit is appropriate. Sufficient funds must remain in order to meet the future liabilities and cover future administrative steps that the Fund may take to reduce risk further.

Taking this into account a prudent approach was taken to setting the surplus refund amount on the understanding that the return of the surplus is a matter of cashflow and timing and only as all excess monies will be paid back to First Bus when First Aberdeen exit the scheme and First are no longer participating employers within LGPS (Scotland).

Following negotiations with the employer, the scheme actuary and the Fund, First Group have agreed, subject to committee approval, to accept an exit credit of £11.8m to be paid out as at 31 March 2022.

There is no effect to the active members currently within the scheme as all active members will be held under First Aberdeen as of the date of exit. Employer contribution requirements and the administration of the Fund are unaffected by the exit.

4. Next Steps

The work undertaken over the last few years within the ACCTF including the de-risking flight plan applied to the investment strategy, the merge with Strathclyde No.3 Fund and the procurement of a buy-in insurance policy to service the pensioner liabilities have been done to ensure that the Fund is able to meet the future liabilities held and reduce risk to the tax payer.

To further reduce the risk associated with the closed, maturing Fund the intention is to merge the ACCTF into the Main Fund. This move should be welcomed by the Scottish Government, in line with Section 13 recommendations, and will follow the example of Tayside Pension fund and Lothian Pension Fund who each merged their closed transport Funds into their ongoing main Funds.

In addition to further managing the risk associated with a 'closed' Fund it will also reduce the administrative burden for the pension Fund officers of having two Funds as well as meaning that only one set of accounts need to be produced annually. In addition only one actuarial valuation will be required to be carried out by the scheme actuary on a triennial basis.

It is hoped that the merge will be successfully completed by March 2023 and that a letter of confirmation will be sent to the Scottish Government to advise them of the change.

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Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

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