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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Clark, Crockett, Cross, Davidson, Henrickson, Malik, Massey, McRae, Stewart and Tissera (Pensions Committee); and Mr N Stirling, Chairperson, Councillors Mennie and Smith; Mr I Hodgson, Mrs M Lawrence, Mr A Walker and Mr G Walters (Pension Board).

Town House,
ABERDEEN, 16 June 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, 24 JUNE 2022 at 10.30 am**. This is a hybrid meeting and Members may also attend remotely.

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>

Pension Board members, please note that the annual Pension Board meeting will commence directly after this meeting.

FRASER BELL
CHIEF OFFICER - GOVERNANCE

BUSINESS

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

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

MINUTES OF PREVIOUS MEETINGS

- 4.1. Minute of Previous Meeting of 25 March 2022 (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

INTERNAL AND EXTERNAL AUDIT

- 7.1. Internal Audit Annual Report 2021/2022 - IA/22/001 (Pages 15 - 28)

ANNUAL REPORT AND ACCOUNTS

- 8.1. Unaudited Annual Report and Accounts - PC/JUN22/ARA (Pages 29 - 158)

FUNDING

- 9.1. Funding Strategy Statement 2022 - PC/JUN22/FSS (Pages 159 - 242)

SCRUTINY

- 10.1. Strategy - PC/JUN22/STRAT (Pages 243 - 276)

- 10.2. Training - PC/JUNE22/TRA (Pages 277 - 306)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1. Asset and Investment Manager Performance Report - PC/JUNE22/AIMPR (Pages 307 - 358)

11.2. Investment Strategy Update - PC/JUNE22/INVSTRAT (Pages 359 - 410)

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 25 March 2022. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Cooke, Delaney, Henrickson, MacGregor and Wheeler (Pensions Committee); and Mr N Stirling, Chairperson; Councillors Allan and Cowe; Mr I Hodgson, Mr K Luke, Mr A Walker and Mr G Walters (Pension Board).

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

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

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

ANNOUNCEMENTS

1. The Convener welcomed Mr Gordon Walters to the meeting, noting that it was his first meeting since joining the Pension Board. He added that he hoped Mr Walters enjoyed his time on the Board.

The Convener advised Members that the NESPF had been highly commended in the DB Pension Scheme of the Year category at the Pension Age Awards 2022 and congratulated Ms Colliss and the team. He also referred to the seminar organised by the Lord Provost in relation to a Fair and Just Transition in Aberdeen at the Town House on 7 April 2022 and encouraged Members to attend.

Apologies were noted from Councillors Bell and Reynolds (Pensions Committee) and Councillor McKelvie (Pension Board).

DETERMINATION OF EXEMPT BUSINESS

2. The Committee was requested to determine that the following item of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – item 10.1 (Asset and Investment Manager Performance Report).

The Committee resolved:-

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

PENSIONS COMMITTEE AND PENSION BOARD
25 March 2022

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3. The following declaration of interest was noted:-

Mr Hodgson declared an interest in item 9.4 (Termination of Admission Agreement) by virtue of his employment with First Group and advised that the nature of his interest meant that he would withdraw from the meeting at that time and would not participate in the discussion on the item.

MINUTE OF PREVIOUS MEETING OF 17 DECEMBER 2021

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

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

to note the planner.

The Board resolved:-

to note the decision of the Committee.

BUDGET/FORECAST & PROJECTED SPEND 2021/22 - PC/MAR22/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).

PENSIONS COMMITTEE AND PENSION BOARD

25 March 2022

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.

INTERNAL AUDIT PLAN 2022-2025 - IA/21/008

7. The Committee had before it a report by the Chief Internal Auditor which sought approval for the Internal Audit Plan 2022 – 2025. The report advised that while the previous single year plan had provided clarity over planned work during each financial year, a three-year plan allowed Committee to gain an understanding of the wider context and gave a clearer picture of the work and priorities of Internal Audit while providing flexibility in the timing of elements of that work, over an extended period.

Members heard from Mr Jamie Dale, Chief Internal Auditor, in relation to the report.

The report recommended:-

that Committee approve the attached Internal Audit Plan for 2022-25.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

EXTERNAL AUDIT ANNUAL PLAN 2022/2023

8. The Committee had before it a report by External Audit which set out the North East Scotland Pension Fund Annual Audit Plan 2021/22. The report highlighted key audit risks and the planned audit work in respect of these, and set out the 2021/22 reporting arrangements to the Committee.

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

It was noted that the effects of COVID-19 were likely to be felt for some time into the future, and the Auditor General for Scotland, the Accounts Commission and Audit

PENSIONS COMMITTEE AND PENSION BOARD

25 March 2022

Scotland continued to assess the risks to public services and finances from COVID-19 across the full range of audit work, including annual audits and the programme of performance audits. It was therefore noted that changes in approach might be necessary, and where this impacted on annual audits, revisions to the Annual Audit Plan might be required.

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

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

The report further advised that there was a risk around possible changes to the composition of the Pension Committee and the Pension Board as a result of the local government elections in May 2022, and new members not having 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. This was to be mitigated with training for Members in June, ahead of the first meeting of the Pensions Committee and Board, and the report advised that the Council's arrangements for developing members and preparations for inducting newly elected members would be monitored.

The Committee resolved:-

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

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

25 March 2022

STRATEGY - PC/MAR22/STRAT

9. The Committee had before it a report by the Director of Resources which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The report provided an update on staff training; noted that there had been no whistleblowing cases throughout the year; and summarised the latest position in relation to the work being undertaken by the NESPF project team to engage with employers and the software provider in order to deliver a remedy that would comply with the expected final regulations in relation to the McCloud age discrimination judgement. The report advised that progress on the essential project would be reported quarterly to Committee using the template contained in the quarterly Pension Administration Strategy report.

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

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

Finally, the report set out an additional request for the approval of overseas travel to allow attendance at upcoming partner advisory committees.

Members asked whether the risk register required to be amended to reflect an additional risk in respect of the situation in Ukraine, and whether it was still necessary at this stage to retain a COVID related risk on the register. Ms Colliss advised that officers continued to monitor the requirement for a separate risk around the war in Ukraine and that at this time, it was intended to retain the COVID risk due to the differing rules which currently existed in Scotland, although that would also continue to be reviewed.

The report recommended:-

that 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

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD

25 March 2022

STATEMENT OF ACCOUNTS 2021-2022 ACTION PLAN - PC/MAR22/ACCOUNTS

10. The Committee had before it a report by the Director of Resources which provided 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 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

The report recommended:-

that the Committee note the report for assurance.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS - PC/MAR22/GOV

11. The Committee had before it a report by the Director of Resources which provided a review of the North East Scotland Pension Fund's compliance with the Public Service Pensions Act 2013 and the Pensions Regulator's requirements during the financial year 2021/22.

PENSIONS COMMITTEE AND PENSION BOARD
25 March 2022

The report recommended:-
that the Committee note the report for assurance.

The Committee resolved:-
to note the report.

The Board resolved:-
to note the decision of the Committee.

In accordance with his declaration of interest made at article 3, Mr Ian Hodgson left the meeting at this juncture and took no part in the Committee and Board's deliberation of the following item.

TERMINATION OF ADMISSION AGREEMENT - PC/MAR22/TERM

12. The Committee had before it a report by the Director of Resources which sought 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.

Members heard from Ms Colliss in relation to the report and asked a number of questions.

The report recommended:-
that the Committee –

- (a) 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
- (b) instruct the Chief Officer-Finance to merge the ACCTF into the main Fund in the financial year 2022/23.

The Committee resolved:-
to approve the recommendations.

The Board resolved:-
to note the decision of the Committee.

In accordance with the decision taken under article 2, the following item was considered with the press and public excluded.

PENSIONS COMMITTEE AND PENSION BOARD
25 March 2022

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/MAR22/AIMPR**

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

VALEDICTORY

14. The Convener referred to the fact it was the last meeting of the Committee and Board prior to the May 2022 local government elections and stated that he wished to thank all who had supported the Board and Committee, particularly Mr Belford, Ms Colliss, Mr Buntain and their team, as well as the Committee Clerk for the support provided to him both during and outwith meetings. He added that it had been a pleasure to work with Members and officers during his time as Convener and finished by paying tribute to Councillors Allan and Reynolds who had indicated that they would not be standing again in the May elections.

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

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	24 June 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	Training	To provide details of the training plan for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.		Laura Colliss	Finance	Resources	4.1 and 4.2		
6	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
7	Investment Strategy Update	To review the investment re-balancing activity and updated Baillie Gifford fee proposal for the North East Scotland Pension Fund (NESPF) for the three month period ending 31st March 2022		Graham Buntain	Finance	Resources	1.1 and 5.2		
8	Funding Strategy Statement	To seek approval of the draft Funding Strategy Statement 2022		Claire Mullen	Finance	Resources	1.1		
9	Internal Audit Annual Report 2021/22	To present the Internal Audit Annual Report for 2021/22		Jamie Dale	Internal Audit	Internal Audit	2.1		
10	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
11	16 September 2022								
12	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
13	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
14	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
15	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
16	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
17	External Audit Annual Audit Report 2020/21	To present the External Audit Annual Audit Report 2021/22		Rachel Browne	External Audit	External Audit	2.1		
18	16 December 2022								
19	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		

	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 20	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Stephanie Dunsmuir	Governance	Commissioning	GD 8.5		
21	Investment Strategy Update	To provide an update on the investment strategy of the NESPF if required		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
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	March 2023								
25	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		
26	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide a review of compliance for 2022/23		Mairi Suttie	Finance	Resources	4.1 and 4.2		
27	External Audit Annual Plan 2023/24	To present the annual plan		Rachel Browne	External Audit	External Audit	2.1		
28	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the 2022/23 Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Resources	3.1		
29	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
30	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	24 June 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2021-22
REPORT NUMBER	IA/22/001
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 provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2021-22.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2021-22;
- 2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;
- 2.3 Note that there has been no limitation to the scope of Internal Audit work during 2021-22; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. CURRENT SITUATION

- 3.1 Public Sector Internal Audit Standards require that Internal Audit produce an annual report on the adequacy and effectiveness of NESPF's framework of governance, risk management and control. It is one of the functions of the Pensions Committee to review the activities of the Internal Audit function, including its annual work programme.
- 3.2 This report is designed to meet three objectives; to present to Pensions Committee, and through them, the Council:
- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
 - Governance

- Risk management
 - Internal control
 - A narrative over the key findings from the assurance work undertaken by IA during 2021-22, drawing out key lessons to be learned.
 - An account of the assurance activities and resources of IA during the period 2021-22.
- 3.3 This report covers the period from 1 April 2021 to 31 March 2022 and any work finalised during the 2021-22 assurance period. It also takes account of work undertaken up to the date of the issue of this report, 15 June 2022. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.
- 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. ENVIRONMENTAL IMPLICATIONS**
- 6.1 There are no direct environmental implications arising from the recommendations of this report.
- 7. MANAGEMENT OF RISK**
- 7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.
- 8. OUTCOMES**
- 8.1 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.
- 8.2 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.

9. 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

10. APPENDICES

10.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2022.

11. REPORT AUTHOR DETAILS

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Internal Audit

North East Scotland Pension Fund Annual Assurance Report and Chief Internal Auditor's Opinion 2021-22

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall.

This role of Internal Audit requires a continuous rolling review and appraisal of the internal controls of NESPF involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and presented when finalised to the Pensions Committee. Along with other evidence, these reports are used in forming an annual opinion on the adequacy of risk management, control, and governance processes.

Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

Public Sector Internal Audit Standards set the mission of IA as to enhance and protect organisational value by providing risk-based and objective assurance, advice, and insight.

1.2 Purpose of this report

Public Sector Internal Audit Standards require that Internal Audit produce an annual report on the adequacy and effectiveness of NESPF's framework of governance, risk management and control. It is one of the functions of the Pensions Committee to review the activities of the Internal Audit function, including its annual work programme.

This report is designed to meet three objectives; to present to Pensions Committee, and through them, the Council:

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
 - Governance
 - Risk management
 - Internal control
- A narrative over the key findings from the assurance work undertaken by IA during 2021-22, drawing out key lessons to be learned.

-
- An account of the assurance activities and resources of IA during the period 2021-22.

This report covers the period from 1 April 2021 to 31 March 2022 and any work finalised during the 2021-22 assurance period. It also takes account of work undertaken up to the date of the issue of this report, 15 June 2022. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

1.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the NESPF had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022.

For further commentary see the Annual Assurance Opinion section below.

1.4 Action requested of the Pensions Committee

The Pensions Committee is requested to note the contents of this report and the assurance opinion, to inform its annual report and its review of the financial statements, in particular the governance statement.

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

In accordance with the Public Sector Internal Audit Standards, our assessment and opinion over the framework of governance, risk management and control are based upon the whole activity and work of IA including:

- The results of internal audits completed (in final or draft) up to the date of this report (15 June 2022).
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in control environment.
- Matters arising from previous annual reports to the NESPF.
- Any limitations that may have been placed on the scope of IA – we have no restrictions to declare in this report, although we have performed all audits remotely this year and some physical verification work has not been possible.
- Reports issued by the NESPF’s external auditors.
- Internal Audit’s knowledge of the NESPF and the Council’s governance, risk management and performance monitoring arrangements.
- The assessment of risk completed during the formation of the 2022-25 Audit Plan.
- The results of other assurance activities completed during the year.

The Standards also require that Internal Audit confirms to the Committee, at least annually, that it is organisationally independent. The organisational independence of Internal Audit is established through Financial Regulations (approved by full Council) and the Internal Audit Charter (approved by the Audit, Risk and Scrutiny Committee). Other factors which help ensure Internal Audit’s independence are that: the Internal Audit plan for the NESPF is approved by the Pensions Committee; and Internal Audit reports its outputs to Committee in the name of the Chief Internal Auditor. The Chief Internal Auditor considers that Internal Audit is organisationally independent.

2.2 Annual assurance opinion 2021-22

We are satisfied that sufficient internal audit and assurance work has been undertaken to allow us to draw a reasonable conclusion as to the adequacy and effectiveness of the NESPF’s framework for governance, risk management and control. NESPF had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022.

2.3 Rationale for the opinion

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

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

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

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

Consideration has been given during the year to the impact on the level of assurance available, and we are satisfied that in the short term this has not had a material impact.

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

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

Analysis of the findings within the year highlights positively that audited areas were operating as anticipated. This reflects a strong control environment and the need for us to only make recommendations around the general improvement of controls, the improvement of efficiency and the drive for Best Value.

However, during the year we did make five recommendations rated as Significant, in relation to Pensions Payroll. We concluded that in general, appropriate arrangements are in place to ensure the accuracy and appropriateness of payments, and pension payments reviewed were accurate overall. However, improvements to procedures have been recommended, particularly for trivial lump sums payments, where a sample payment reviewed was made in error, to a former scheme member. Management has accepted all recommendations and are working on implementation presently.

2.4 Follow up of audit recommendations

Public Sector Internal Audit Standards require that Internal Audit report the results of its activities to the Committee and establishes a follow-up process to monitor and ensure that management actions have been effectively implemented.

During 2021-22 six agreed actions have been completed. There are currently eight overdue actions, seven rated as Significant and one as Important, with no major actions outstanding. Of the eight actions, four are overdue more than one year and four overdue less than six months.

Recognising the implementation of audit recommendations is an area where more work could be done, for the next few months, Internal Audit are leading an exercise aimed at supporting management on the closure of audit recommendations. This will primarily focus on recommendations made to Aberdeen City Council but will also incorporate those in relation to the NESPF. This will not move the bar but through engagement beyond the routine follow up exercise, we hope to close out as many actions as possible and leave only those actions that were rightly ongoing for management to focus on. Management has engaged Internal Audit on this and the work is ongoing.

Updates on audit recommendations implementation will be provided to the Committee as part of our standard reporting, with a detailed update on the outcomes of our follow up exercised presented to the next session of the Committee. Given the ongoing nature of the follow up, and the upcoming comprehensive update, we have not presented details of individual outstanding recommendations or reached out specifically for updates as part of this report. From discussions with the Service, we anticipate the number of overdue actions to have decreased by the time of our next update.

3 Audit Results

3.1 In year audit results

Across the year, irrespective of the period initially planned for the review, we issued 1 audit report (Pensions Payroll), with a further report (Pensions System) currently work in progress; this was postponed at the request of management due to staffing issues). For the Pensions System review currently work in progress, we have set an internal deadline to ensure that this is completed by the end of Q2. Given the current progress of the review we believe this to be manageable and will also limit the impact on our assurance plan for 2022-23.

This section highlights the results of our work in 2021-22, including finalisation of legacy 2020-21 reviews. It should however be noted that:

- Previous years' work, issued in the current year, is considered for and factors into our annual assurance opinion.
- Work in progress, where the report is at a draft stage, is also considered for and factors into our annual opinion.

3.2 2020-21 Audits

Council Area	Audit Area	Position
Pensions	Pensions Payroll	Final audit report issued

3.3 2021-22 Audits

Council Area	Audit Area	Position
Pensions	Pensions Systems	Review in progress

3.4 Counter Fraud

We do not have a dedicated responsibility across the NESPF or Council to lead on Counter Fraud activities, this instead within the remit of a separate inhouse team. The potential for fraud is however considered as part of all reviews carried out by Internal Audit from a control framework perspective.

3.5 Post year end assurance

The information presented in the above tables, concerning audit work and recommendations covers the period 1 April 2021 to 31 March 2022. However, since year end we have progressed our 2021-22 work, including the finalisation of the Pensions System audit. The assurance gained from this has been factored into the wider report and opinion overall for 2021-22. Our priority over the coming months will be to finalise the 2021-22 audit work and deliver on our already commenced 2022-23 Audit Plan.

4 IA Performance

4.1 Quality assurance and improvement plan

The Public Sector Internal Audit Standards (PSIAS) require that the annual report must also include a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme (QAIP).

In previous reports we updated the Committee on our work to address previously noted issues; the main driver for these being our internal quality assessment.

We are pleased to confirm that an internal review of our control framework has concluded that we fully conform with PSIAS. An External Quality Assessment, which will test our fully compliant assessment, is currently underway and will be presented to the Aberdeen City Audit, Risk and Scrutiny Committee when finalised.

Complete details of the QAIP (including KPIs) have been presented to the Audit, Risk and Scrutiny Committee as part of the Council's overall Annual Audit Report and Opinion.

4.2 Staffing

Throughout the year we have had several changes to staffing and resources, including the recruitment of a new Chief Internal Auditor.

At present we are operating with a 12.6 FTE, 0.4 FTE under budget.

4.3 Methodology

This report and the annual opinion contained within is based on assurance work completed under the historical IA methodology.

However, over the past few months, Internal Audit has carried out a methodology refresh exercise. This refresh mostly focused on the scoping and the report stages (encompassing new assurance terms and rating scales); we are not suggesting any fundamental changes in how we carry out our audits. The refresh is instead focused on ensuring we scope audits to set us up for the best reviews, and how we report to ensure our messages land with the most impact and support auditees to take our recommendations forward.

These changes went live in April 2022 but only for audits as part of the 2022-25 plan. For any audits underway currently, or from previous years, we will continue to use the historic methodology.

The methodology refresh is however considered a work in progress. It is expected that there will be further changes to the methodology going forward, which the Committee will be kept updated on.

5 Appendix 1 – Grading of Recommendations

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

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 JUNE 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	UNAUDITED ANNUAL REPORT AND ACCOUNTS
REPORT NUMBER	PC/JUN22/ARA
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE 3.1

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee:-

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

3. CURRENT SITUATION

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendation of this report.

7. RISK

7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.

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

7.3 There is a risk that any issues with the Unaudited Annual Report and Accounts could impact on the ability of the administering authority to consider and approve the audited version by the September deadline.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to consider and approve audited accounts by 30 September.	Draft unaudited report taken to June committee for consideration to identify issues in advance. Governance structure is in place and operating effectively.	L	Yes
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant	N/A	N/A	N/A

	risks identified.			
Environment / Climate	No significant risk identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 N/A

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICE

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

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

Annual Report & Accounts

For the period 1 April 2021 to 31 March 2022

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

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Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2021/22 Annual Report and Accounts.

Following the COVID-19 outbreak in 2020 and subsequent market volatility, 2021/22 continued to be a difficult period. While there was optimism through the rollout of Covid vaccinations and a gradual return to a more familiar, pre-pandemic world, the rise of Covid variants, intermittent lockdowns and restrictions, and the invasion of Ukraine, meant 2021/22 was a rather unpredictable year.

However, the North East Scotland Pension Fund has navigated through these financial challenges, with total asset value increasing from £5,777m to £5,902m as at 31 March 2022.

In such turbulent times, it is imperative that the Fund maintains its long term approach which has delivered successful outcomes over many years. Our diversified portfolio helps spread the risk of exposure to any one investment area or stock, minimising the impact of financial shocks.

Meanwhile the asset value for the Aberdeen City Council Transport Fund (ACCTF) fell from £304.6m to £290.1m.

Administratively, the Fund continued to make use of technological improvements and systems to push administration and communications online. In line with the Administration Review, the Fund conducted a recruitment drive resulting in 6 additional posts being filled. This will ensure the Fund continues to meet its requirements moving forward and deliver an exceptional service to all members, employers and other stakeholders.

Looking ahead to 2022/23, challenges remain. The rising cost of living, increasing interest rates and global unrest presents some uncertainties. However, the Fund will continue to move forward and adapt to these changing situations. Over the next twelve months the Fund will commence implementing the Administration Review recommendations, drastically updating our procedures and processes for better outcomes. Furthermore, the final step of the transfer and buy in process of the Transport Fund is set to be complete this year, with the Transport Fund merging into the Main Fund.

My sincere thanks to my colleagues on the Pensions Committee and Pension Board, our advisors and, above all, our staff for their hard work and efforts during this year.

Councillor John Cooke
Pensions Committee Convener

2. About the North East Scotland Pension Fund

The North East Scotland Pension Fund (NESPF) administers the Local Government Pension Scheme (LGPS) for employers located throughout the North and North East of Scotland.

The LGPS is a defined benefit public sector pension scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector pension schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and loved ones. The LGPS is administered locally by 11 government authorities, with Aberdeen City Council acting as the administering authority for the North East.

The NESPF, is comprised of two funds;

1. **The North East Scotland Pension Fund**, sometimes referred to as the Main Fund. With an asset value of over £5.9 billion and 72,000 members it is the third largest LGPS fund in Scotland.
2. **The Aberdeen City Council Transport Fund (ACCTF)**: Created in 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen. From 2019 it also includes staff from First Glasgow who transferred from Strathclyde Pension Fund.

For clarity, any reference to “the Fund” will encompass both the NESPF and ACCTF unless otherwise specified.

The Fund has one primary objective; to ensure the payment of pension benefits to our members both now and in the future. It is this single purpose that drives the Fund’s long term policies and strategies. To achieve this objective, funds are built up from contributions from both employees and employing bodies, together with interests, dividends and rent from our investments.

There are strict rules and legislation which set out how the LGPS, and by extension the Fund, operate. These include the LGPS (Scotland) Regulations which are Scottish Statutory Instruments (SSIs) as well as separate regulations that set out Scheme benefits, investment and governance requirements. These provide assurance for all members, employers, taxpayers and stakeholders that the Fund operates efficiently and manages itself to ensure our key objective, paying out pensions, is met.

3. Administration 2021/22

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

4. Pensions Committee & Pension Board

Pensions Committee

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

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

As a public sector pension provider, both the Council and the Pensions Committee recognise that they have fiduciary duties and responsibilities not only towards pension Scheme members and participating employers but to local taxpayers.

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

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

Membership 2021/22

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

Meeting Attendance in 2021/22

	25/06/21	17/09/21	10/12/21	25/03/22	Overall Attendance
Cllr Malik	✓	✓	✓	✓	100%
Cllr Reynolds	✓	X	✓	X	50%
Cllr Crockett	✓	✓	✓	✓	100%
Cllr MacGregor	✓	✓	✓	✓	100%
Cllr Bell	✓	✓	✓	X	75%
Cllr Cooke	✓	Sub	✓	✓	100%
Cllr Delaney	✓	✓	✓	✓	100%
Cllr Henrickson	✓	✓	✓	✓	100%
Cllr Wheeler	✓	✓	✓	✓	100%

Notes:

- September 2021 – Councillor Cooke sent Councillor Allard in his absence.

Pension Board

In line with Scheme regulations, the Fund established a Pension Board in 2015/16. The Board's primary function is to ensure that the Fund complies with regulations and meets the requirements of the Pensions Regulator. In doing so, the Board ensures the Fund operates in accordance with the law, securing the effective and efficient governance and administration of the Scheme.

Board membership comprises of eight members, four trade union representatives and four employer representatives appointed from Councils and scheduled or admitted bodies. The Pension Board membership is shown below;

Membership 2021/22

Unison

Morag Lawrence

(Substitute: Kenny Luke)

GMB

Neil Stirling (Vice Chair)

Unite

Alan Walker

(Substitute: Graham Gavin
Resigned: August 2021)

UCATT

Liam Knox

Resigned September 2021

Gordon Walters

Joined January 2022

Admitted/Scheduled Bodies

Mr Ian Hodgson (First Bus)

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor Alistair McKelvie (Chair)

(Substitute: Councillor Alastair Bews)

Aberdeen City Council

Councillor Yvonne Allan

(Substitute: Councillor Freddie John)

Meeting Attendance in 2021/22

	25/06/21	17/09/21	10/12/21	25/03/22	Overall Attendance
Cllr Yvonne Allan	✓	✓	✓	✓	100%
Cllr Alistair McKelvie	✓	✓	✓	X	75%
Cllr John Cowe	X	✓	✓	✓	75%
Ian Hodgson	✓	✓	✓	✓	100%
Neil Stirling	✓	✓	✓	✓	100%
Morag Lawrence	✓	Sub	✓	Sub	100%
Alan Walker	✓	✓	✓	✓	100%
Liam Knox	✓	n/a	n/a	n/a	100%
Gordon Walter	n/a	n/a	n/a	✓	100%

Notes:

- Liam Knox resigned on 15 September 2021
- Gordon Walter joined Pension Board on 12 January 2022
- Kenny Luke attended as the substitute for Morag Lawrence on both 17 September 2021 and 25 March 2022

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

In assisting with compliance, the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2021/22 no issues were reported by the Board to the Pensions Regulator.

The Annual Report of the Pension Board, which reviews its activity for the year, is available on our website www.nespf.org.uk

Conflicts of Interest

The Fund maintains a 'Conflicts Register' to record and monitor all potential or actual conflicts noted prior to or during Pension Board meetings.

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

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

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

Pensions Committee members are governed by the national Councillors' Code of Conduct. Training on the Code of Conduct was delivered by Aberdeen City Council in May 2021.

Committee and Board Training 2021/22

While Pensions Committee members are not legally obliged to undertake training, the Fund feels strongly that Committee members should receive training to ensure that they have the necessary level of knowledge and understanding to exercise their functions. In accordance with the Training Plan, Committee and Board members are expected to undertake 2 days of training per year. Recording and monitoring of attendance at meetings or training events ensures the requirements of the Training Plan are met.

In 2021/22, attendance for both Pensions Committee and Pension Board members' training is shown below;

	No. of Training Sessions Attended	Training Sessions Attended (See below for corresponding training sessions)							
Pensions Committee									
		A	B	C	D	E	F	G	H
Cllr Malik	2		✓		✓				
Cllr Reynolds	3			✓	✓	✓			
Cllr Crockett	1			✓					
Cllr MacGregor	3				✓	✓	✓		
Cllr Bell	3		✓			✓	✓		
Cllr Cooke	2					✓	✓		
Cllr Delaney	3	✓						✓	✓
Cllr Henrickson	4			✓	✓	✓	✓		
Cllr Wheeler	0								
Pensions Board									
Cllr Allan	2			✓	✓				
Cllr McKelvie	3			✓	✓		✓		
Cllr Cowe	1			✓					
Ian Hodgson	2			✓	✓				
Neil Stirling	2			✓		✓			
Morag Lawrence	5		✓	✓	✓	✓	✓		
Alan Walker	4	✓	✓	✓		✓			
Liam Knox	0								
Gordon Walters	1*								

*The training listed below in 2021 is not applicable as Gordon Walters joined the Pensions Board in January 2022 and received Introductory training from the Pensions Manager.

Training Sessions:

A. PLSA Conference 18-19 May 2021

The first event of the year was PLSA Local Authority Conference. This is the largest event of its kind organised for Local Government Pension Schemes, exploring a variety of topics such as investment, administration challenges and funding.

B. PLSA ESG Conference – 30 June – 2 July 2021

PLSA's first ESG Conference focused on a range of ESG topics including the impact and financial risks of climate change, social inequality, threats to biodiversity and the need to build back better following COVID-19.

C. Annual Accounts Training – 26 August 2021

Training hosted by the Chief Officer – Finance and the Pensions Manager which focused on the NESPF Annual Report and Accounts.

D. Governance & Investments Training – 6 October 2021

The first of two virtual training sessions led by Highland Pension Fund for all LGPS Committee and Board members in Scotland. This training examined Governance requirements and investment concerns for LGPS funds.

E. LGC Investment Seminar - 21 – 22 October 2021

Held over two days in Edinburgh, this event covered a range of topics including:

- Investment strategies
- Climate change, net zero and sustainability
- Infrastructure
- New Regulator Code of Practice

F. Pension Administration Training – 29 October 2021

The second Scottish Local Government Pension Scheme training which focused on current issues for pensions administration and an overview of administration reporting.

G. SPS Current Investment Issues for Pension Funds – 9 November 2021

Conference discussing investment themes such as high-yield strategies, ESG and low-carbon transition, cost transparency and endgame strategies.

H. SPS LAPF Sustainable Investment Strategies – 18 November 2021

Focusing on range of sustainable and impact investment strategies, with contributions from local authority pension fund representatives and industry experts.

5. Administration and Performance

This year's report focuses on the continued move towards digital communications and processes, administration performance and data quality.

Going Digital

The Fund's member self-service portal, My Pension, continued to be a key tool in providing member information and support throughout 2021/22. With COVID-19 restrictions continuing to limit office working, members were encouraged to self-serve where practical, particularly through the use of My Pension's projectors, online forms and death grant nominations.

2021/22 saw several new features applied to My Pension, including an enhanced upload document page allowing members to upload multiple documents in a single request. The direct interaction My Pension offers between staff and members has been greatly beneficial in reducing reliance on paper and manual administration.

Membership of My Pension continues to grow and as at 31 March 2022 there was more than 34,900 members (+14%) registered for My Pension with 15,377 active members, 9,672 deferred members and 7,933 pensioner members signed up.

In the previous 12 months, 43,329 calculations have been performed on My Pension with 3,932 updates processed on the system, demonstrating continued widespread use of the site.

The Fund's website continues to be another avenue through which members can attain valuable information. The Communications Team regularly update the website with timely data, documentation, and news articles. As at 31 March 2022, key performance indicators for the site were:

- 62,475 users (+11%)
- 45,557 sessions (+14%)
- 2,976 calculations run (+20%)
- 973 contact form submissions (+62%)

Annual Benefit Statements

Following on from the previous year's successes of issuing all Annual Benefit Statements (ABS) digitally through My Pension, the Fund repeated this process for 2021/22.

Moving ABS online offers several advantages, most notably it allows for vast segmentation of members, so members only receive information relevant to

themselves. Other benefits include reductions upon the environmental impact, paper usage, costs and time savings.

The overall costs of benefit statements have continued to reduce. This is due to:

- Reduced mailing costs – There has been a significant drop in the mailing of letters for ABS as the Fund makes greater use of email. Mailing is the single most expensive element in the ABS process, with mailing costing three times as much as printing.
- Reduced printing costs – While letters are still issued to those not registered with My Pension, there is significantly less issued compared to previous years resulting in a reduction of stationery costs.

The cost of each ABS letter is approximately 53p whereas each email notification costs only 18p. In the long term as we continue to push more members onto My Pension, the Fund will continue to reduce the cost of ABS.

Issuing ABS digitally also offers scope for the Fund to monitor the effectiveness of its ABS campaign and based on results implement changes in subsequent years. Using strategic A/B testing and utilising key performance indicators such as the open rate and click through rate of email campaigns ensures the Fund can modify approaches to maximise engagement with members. As more data is compiled through testing the Fund can further tailor its communications to meet the needs of each target audience.

The overall percentage achieved for providing benefit statements to more than 43,000 active and deferred members prior to the 31 August deadline was 99.64% (99.66% in 2020/21).

Pension Administration Strategy

The Pension Administration Strategy (PAS) focuses on Fund processing against key performance measurements and the quantity and quality of data provided by employers.

NESPF processing performance

Key performance measurement	Target	Work Volume	Target Achieved	2021/22	2020/21
Letter notifying death in service to dependent	5 days	41	37	90%	72%
Letter notifying retirement estimate	10 days	483	467	97%	94%
Letter notifying actual retirement benefit	10 days	2,115	1,818	86%	76%
Letter notifying deferred benefit	10 days	1,176	1,085	92%	69%
Letter notifying amount of refund	10 days	1,306	1,248	96%	93%
Letter detailing transfer in quotes	10 days	111	67	60%	61%
Letter detailing transfer out quotes	10 days	476	276	58%	33%

KPI Performance

This year saw target percentages achieved recover from the previous year, with improvements in all but one measurement despite the ongoing challenges presented by the global pandemic. New procedures and additional resources made this possible along with a greater office presence, as more staff returned to our premises.

Death in service, estimates, deferred benefits and transfer out processing all saw target percentages achieved increase from previous year.

Retirement processing saw a significant improvement, increasing 10% with 500 more cases processed within target. The volume of cases has returned to levels achieved pre-pandemic.

Refund performance has been consistent throughout the pandemic with percentages remaining above 90% and volumes processed above 1,300.

The amount of estimate and transfer out requests continues to be below pre-pandemic levels however contributing to this is the option for members to securely carry out benefit estimates and transfer out quotations online through our secure portal, My Pension.

The overall percentage for targets achieved across all measurements increased from 76% to 88% and expectation for 2022/23 is that this will return to pre-pandemic levels exceeding 90%.

Employer data provision

The Fund continues to work with employers to ensure that good quality, timely monthly data is provided to the Fund. All employers provide data in line with Fund requirements through the secure online portal i-Connect. This directly updates our member database with contribution and pay information as well as ensuring that personal data and contracted hours also mirror the information held by the employer.

The benefits to the Fund of using this system over the last few years cannot be understated.

- The quality of the data held has greatly improved over this period ensuring that we can have reliance on the information held for the calculation of benefits and for actuarial valuation purposes.
- Contribution payments are now tightly controlled via the reporting and reconciliation processes that are undertaken monthly within the team using the data provided at a member level.
- Time and resources required to carry out year end reconciliation and checking has reduced from 328 days (2014) to 30 days (2021).
- Errors and training requirements for employers can be identified easily due to the validations on the system and the checking carried out after each file upload.
- Members have access to up to date information on their individual pension record through My Pension.

For the year 2021/22, i-Connect processed over 1.01 million data 'events' including new starts, leavers, contributions and pay uploads. The work undertaken by the team to check, reconcile and agree this information ensures that the Fund is in the best position to meet the administrative requirements of processing the benefits held.

Data Quality

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

The annual scheme return requires all LGPS funds to score the quality of their data. For accurate scores that are comparable to other funds, the Fund have contracted with Heywood to use their Data Quality Analysis Tool. The annual scheme return scores for 2020 and 2021 are:

	2020	2021	Target
Common Data	98.3%	98.1%	100%
Scheme Specific Data	98.3%	98.8%	100%

The results for 2021 show a reduction in the Common Data score of 0.2%. This relates directly to the number of 'gone away' members that are held within the administration database. Due to the pandemic and resource issues the team have been unable to undertake a tracing exercise in accordance with the Data Quality Improvement Plan. This exercise will be carried out in Summer 2022 following the appointment of a tracing service provider through the National LGPS Framework.

The increase in the Scheme Specific Data in 2021 follows a change to the parameters on one of the tests for Guaranteed Minimum Pension and National Insurance (NI) earnings. The test has been amended to be more accurate and now takes account members who paid reduced NI contributions during their membership (small stamp) which has reduced the fails from 1,067 to 230.

Even though the scores remain high, work continues to improve and maintain data quality using in-depth reports provided by Insights business intelligence software. In accordance with the Data Quality Improvement Plan, the Fund work towards meeting the following objectives:

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

The pandemic has impacted on the ability to carry out some of the planned improvements however these will be carried out upon the return to normal working practices.

McCloud Judgement

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






Draft LGPS regulations published for the remedy extend protections and eligible member benefits will require recalculation to establish if Final Salary benefits would have exceeded CARE benefits.



Although historically we have received data required to calculate Final Salary benefits, we are engaging with employers to identify any missing or incorrect data. Once we are satisfied data is complete, we will start to recalculate eligible members benefit entitlements during the remedy period from 1 April 2015 to 31 March 2022.


Work is ongoing with our software provider to test new programs that will enable us to bulk recalculate benefits and based on the draft regulations we will have more than

16,000 to do. If transitional protection is further extended when the final regulations are published later in the year, then an already significant workload will further increase. Progress delivering the McCloud remedy will be included in quarterly PAS reporting to the Pensions Committee.


6. Financial Performance

2021/22 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£152m	 Additions	£139k
£158m	 Withdrawals	£23m
£27m	 Management Expenses	£366k
£158m	 Net Return on Investments	£3m
£5,902m	 Net Assets of the Fund at the End of the Year	£290m

Key Statistics		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
46	 Total Number of Employers	1
72,076	 Total Membership	1,566

1,956 

Votes at AGMs

47% 

All Fund Members Registered for MSS

36.3 

Staff Employed (FTE)

2,029

Members to Staff Ratio

North East Scotland Pension Fund Financial Summary

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Withdrawals)	(18,219)	(19,697)	(30,977)	(51,481)	(33,048)
Net Investment Income Change in Market Value Net Return on Investment	329,035	363,300	(71,648)	1,462,128	157,704
Net Increase/ (Decrease) in Fund	310,816	343,603	(102,625)	1,410,647	124,656
Fund Balance as at 31 March (Market Value)	4,125,564	4,469,167	4,366,542	5,777,189	5,901,845

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

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

Budget

	Note	Actual Spend 2021/22 £'000	Budget or Forecast* 2021/22 £'000	Over or (Under) Spend 2021/22 £'000
Administration Expenses	1	2,388	2,687	(299)
Oversight and Governance Expenses	2	615	797	(182)
Investment Management Expenses		23,901	24,971	(1,070)
Management Expenses Total		26,904	28,455	(1,551)

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

1. Under spend – New staff posts only recently filled.
2. Under spend – New staff post filled during year. No training event held in London. Less investment and actuarial consultancy work.

Membership Statistics

NESPF	2017/18	2018/19	2019/20	2020/21	2021/22
Active	25,568	25,892	26,275	26,315	26,961
Pensioners	20,023	21,029	22,156	22,692	23,854
Deferred	17,218	17,846	17,965	17,704	18,150
Frozen Leavers	2,435	2,759	3,021	2,664	3,111
Total	65,244	67,526	69,417	69,375	72,076

Active membership has continued to increase steadily over the last few years. This may be as a result of auto enrolment and the way employment records are held on payroll systems meaning that members may have multiple payroll records to reflect their different employment contracts. Pensioner records have increased dramatically because of changing regulations which allow members to access their pensions from age 55 onwards. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a refund of their contributions.

Management Expenses

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Administration	1,638	1,634	1,822	2,236	2,388
Oversight and Governance	467	474	422	713	615
Investment Management	19,092	18,665	17,953	23,820	23,901
Total Management Expenses	21,197	20,773	20,197	26,769	26,904

Unit Cost Per Member

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Administrative Unit Cost per Member	25.11	24.20	26.25	32.23	33.13
Oversight and Governance Unit Cost per Member	7.16	7.02	6.08	10.28	8.53
Investment Management Unit Cost per Member	292.62	276.41	258.62	343.35	331.61
Total Cost per Member	324.89	307.63	290.95	385.86	373.27

Aberdeen City Council Transport Fund Financial Summary

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Withdrawals)	(2,669)	(1,900)	(7,024)	(758)	(23,416)
Net Investment Income Change in Market Value Net Return on Investment	2,774	7,129	(5,836)	18,860	3,083
Revaluation of Insurance Buy In Contract	0	0	0	(22,320)	5,758
Net Increase/ (Decrease) in Fund	105	5,229	(12,860)	(4,218)	(14,575)
Transfer of Cash/Stock	0	0	216,388	0	0
Fund Balance as at 31 March (Market Value)	100,071	105,300	308,828	304,610	290,035

Membership Statistics

Transport Fund	2017/18	2018/19	2019/20	2020/21	2021/22
Active	48	42	77	71	61
Pensioners	434	429	1,373	1,372	1,365
Deferred	114	110	171	153	132
Frozen Leavers	9	9	9	8	8
Total	605	590	1,630	1,604	1,566

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

Management Expenses

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Administration	51	50	60	72	81
Oversight and Governance	72	31	49	131	157
Investment Management	868	231	181	447	128
Total Management Expenses	991	312	290	650	366

Unit Cost Per Member

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Administrative Unit Cost per Member	84.30	84.75	36.81	44.89	51.72
Oversight and Governance Unit Cost per Member	119.01	52.54	30.06	81.67	100.26
Investment Management Unit Cost per Member	1,434.71	391.52	111.04	278.68	81.74
Total Cost per Member	1,638.02	528.81	177.91	405.24	233.72

Remuneration Report

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

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund Annual Accounts. Councillor and senior employee remuneration is detailed within the Remuneration Report of Aberdeen City Council's Financial Statements.

7. Economic and Market Background

Coming into 2021, the tone in financial markets was one of a renewed sense of optimism about global growth, albeit differentiated between countries and regions, and raised expectations about a pickup in inflation. Vaccine rollout programmes began to reach their later stages in major economies allowing governments to remove lockdown restrictions despite concerns over the Delta variant. Q3 saw a more volatile period for financial markets owing to a combination of rising developed market government bond yields on monetary policy normalisation speculation, and fears of a default in Chinese property developer, Evergrande. 2021 ended on a positive note for riskier assets. After a bout of risk aversion towards the end of the year following the outbreak of Omicron, financial markets quickly rebounded and were further supported by evidence that the new variant was less severe than previous COVID-19 strains, despite being more infectious. The first quarter of 2022 was categorised by volatility primarily driven by oscillating optimism on the Russia-Ukraine conflict and hawkish central bank commentary. Regionally, developed market equities and emerging market equities (to a greater degree) declined steeply whereas UK equity markets made positive gains.

US Equities

U.S. stocks rallied higher in the second, third, and fourth quarters of 2021, despite periods of volatility and investor concerns related to rising inflation, supply chain bottlenecks, and the emergence of new Covid variants. Investor sentiment waned at the start of the 2022 calendar year, and a confluence of factors pushed U.S. stock prices lower including rising interest rates, high inflation, and unthinkable violence and human tragedy in Europe. The broad market S&P 500 Index recorded its worst January since 2009 and officially hit correction territory (a 10%+ decline) in February, before rallying higher in March to close out the annual period.

UK Equities

The UK equity market rose through the period, helped by strong virus inoculation programs and a strong rebound earnings result. However, equity markets remained sensitive to inflation indicators and policymakers became more hawkish as the year progressed. Markets were further conflated by the emergence of new COVID-19 variants throughout the year. As we entered 2022, stock markets weakened as they absorbed the humanitarian and geopolitical ramifications of Russia's invasion of Ukraine and the likely economic impacts. The war has exacerbated inflationary concerns with key commodities across energy and agriculture rising sharply in price. The UK equity market delivered good performance relative to global equities.

European Equities

European equity markets were strong during 2021 reflecting the ongoing market recovery from COVID-19, a cyclical rebound, positive earnings revisions, and underlying accommodative policies. Nevertheless, short but violent rotations, owing to changes in expectations for inflation, interest rates and indeed Covid restrictions, punctuated the market in 2021. So far in 2022, market dynamics have already varied to a great degree; moving from a significant risk-on environment, as the market bid up on strong growth and inflation expectations, to significant risk-off, with sharp market declines, in the face of increasing conflict between Russia and Ukraine.

Emerging Markets Equities

2021 was a volatile period for Emerging Market equities. While stronger commodity prices supported by pent-up global demand were net positive, concerns of accelerated tightening in developed markets to combat inflationary pressures, regulatory overhang in China, and a resurgence of COVID-19 across markets weighed on returns. Despite a very positive start to the year, markets turned sharply ending 2021 down -4.6%. China was hit especially hard as Evergrande's ongoing liquidity crisis shook foreign investors. Similarly, outbreaks across the country and maintenance of a strict zero Covid policy led to a material slowdown in economic activity.

Japanese Equities

The Japanese stock market was weak due to the spread of COVID-19, concerns about the declaration of a third state of emergency, and caution regarding earnings announcements. The market temporarily advanced in Q3 as a change in the Japanese government's leadership was announced and expectations for economic measures by the new administration increased. However, soon after, it declined as investors became more risk averse due to new COVID-19 variant spreads. In Q1 2022, the market recovered due to factors such as increased hopes for progress to be made in peace negotiations between Ukraine and Russia, the interest rate hike decided by the US Federal Open Market Committee (FOMC) being not too far from market expectations, the Bank of Japan's decision to maintain large-scale easing, and the weakening of the yen.

Bonds

The start of 2021 was categorised by a sense of optimism surrounding global growth. The focus from central banks was primarily on how best to normalise policy in a non-disruptive manner. Concerns around waves of COVID-19 continued to linger, with waves of new cases driven by more infectious variants.

Against a stronger economic backdrop and higher inflation, the US Federal Reserve (Fed) was careful with its communication around recalibrating monetary policy with much speculation around the timing of tapering and interest rate hikes. While citing higher inflation as being "transitory" through much of 2021, the Fed also moved away

from this language towards the end of the year acknowledging the risk of more persistent, higher inflation. In Europe, the European Central Bank (ECB) maintained a very accommodative policy stance through the Pandemic Emergency Purchase Programme (PEPP), despite reducing the pace modestly in Q4. China's most significant development came from Evergrande as the company was unable to meet a payment on one of its bond obligations as it struggled to handle its \$305 billion in outstanding liabilities. However, some of this weakness subsided after the People's Bank of China (PBOC) intervened through cutting the Reserve Requirement Ratio (RRR) by 50 basis points on two separate occasions. Developed market government bond yields ended the year higher given the sharp sell-off in the first quarter. Emerging market debt – both local and hard currency – endured a more challenging year owing to concerns around developed market central banks withdrawing liquidity and idiosyncratic stories.

The start of the year was characterised by a sharp increase in volatility across financial markets. Concerns around inflation and a more hawkish narrative from the Fed, as well as escalating geopolitical tensions between Russia and Ukraine unsettled markets. February was ultimately overshadowed by geopolitical concerns surrounding Russia and Ukraine. Most risk assets struggled in this environment and bond yields remained volatile, finishing slightly higher over the month. Markets tumbled as investors tried to process the enormity of the situation and the potential economic impact of sanctions on Russia – a significant exporter of commodities. Sentiment for risk assets in March was driven by oscillating optimism on the Russia-Ukraine conflict and hawkish central bank commentary. Notwithstanding geopolitical uncertainties and the potential economic implications, policymakers have suggested that they consider upside inflation risk as the more pressing issue to tackle unless the growth outlook markedly worsens.

UK Property

Over the year to Q1 2022, the UK commercial real estate market experienced a recovery from the COVID-19 pandemic, despite being presented with headwinds such as inflation concerns, the Omicron variant, and supply chain issues. UK All property returned 14.5% in 2021, an incredibly strong performance. Transaction volumes also picked up in 2021, only being 8% below the pre-Brexit peak of £73.7 billion.

Despite the restart, not every real estate sector has benefitted equally, and we have been given a first taste of the pandemic's lasting impact on real estate markets. The standout performer was Logistics, particularly last mile and "just-in-case" warehouses where demand far outstrips supply especially in the London urban logistics market, with rents in some cases rising over 30% year-on-year following competition amongst location-critical occupiers. The push to last mile logistics has been driven by the increase in online shopping with 24.3% of retail shopping being online compared to 19.4% in 2019. All in all, industrial returned 31.5% over 2021.

The Office and Retail sectors saw a more mixed performance, with asset location and quality becoming an even larger driver of performance. An uneven restart challenged workers' ability and willingness to return to the office. Retail sector transaction volumes hit c.£7.5 billion in 2021, just below the 10-year average and c.70% above 2020 volumes. We continue to see the polarisation across the retail sector and high street and shopping centres significantly underperformed UK All Property returning -5.2% and -10.0%, respectively. Pressure on the retail sector continues with large workforce absences due to COVID-19 infection coupled with workforce vacancies following Brexit.

The Russia/Ukraine situation has had a large impact on global energy and commodity markets, contributing to high inflation and supply chain issues. In the UK, CPI stands at 6.2% as of February 2022 and is broadly anticipated to peak above 8% and remain high over the remainder of 2022. Logistics will suffer from higher build cost, with steel heading to £300 per ton, which may curtail future supply and expose developers to additional construction risk. Despite moderating from £4.3 billion investment in January to £3.1 billion in February, real estate transaction volumes in the UK have remained stable, however the true extent of the drag on activity arising from geopolitical uncertainty will only come through in the following months.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:			
FTSE All Share Index	13.0	5.3	4.7
FTSE All World Index	14.8	14.8	11.6
FTSE All World ex UK Index	14.5	15.1	11.7
FTSE North American Index	19.2	17.8	14.0
FTSE European (ex UK) Index	6.3	9.6	7.0
FTSE Japan Index	-2.4	6.3	5.0
FTSE Developed Asia (ex Japan) Index	2.2	8.2	6.2
FTSE Emerging Markets Index	-3.6	5.4	5.2
Bonds:			
BOFAML UK Gilts All Stocks	-5.1	-0.5	0.6
ML UK Corporate Bonds	-5.1	1.1	1.6
FTA Index Linked All Stocks	5.1	3.2	3.1
Source: Bloomberg			

8. NESPF Investment Strategy

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

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

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

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

Asset Structure 2021/22

Asset Class	Distribution as at 31 March 2021		Distribution as at 31 March 2022	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	68.8	55.0	64.9	55.0
Bonds / Credit	15.5	22.5	20.0	22.5
Property / Infrastructure	11.7	20.0	13.1	20.0
Cash / Other	4.0	2.5	2.0	2.5
Total	100.0	100.0	100.0	100.0

During this period, NESPF has continued to grow and re-balance assets in line with its investment strategy. Equity gains have been folded into assets such as Real Assets, Credit and Index Linked Bonds.

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

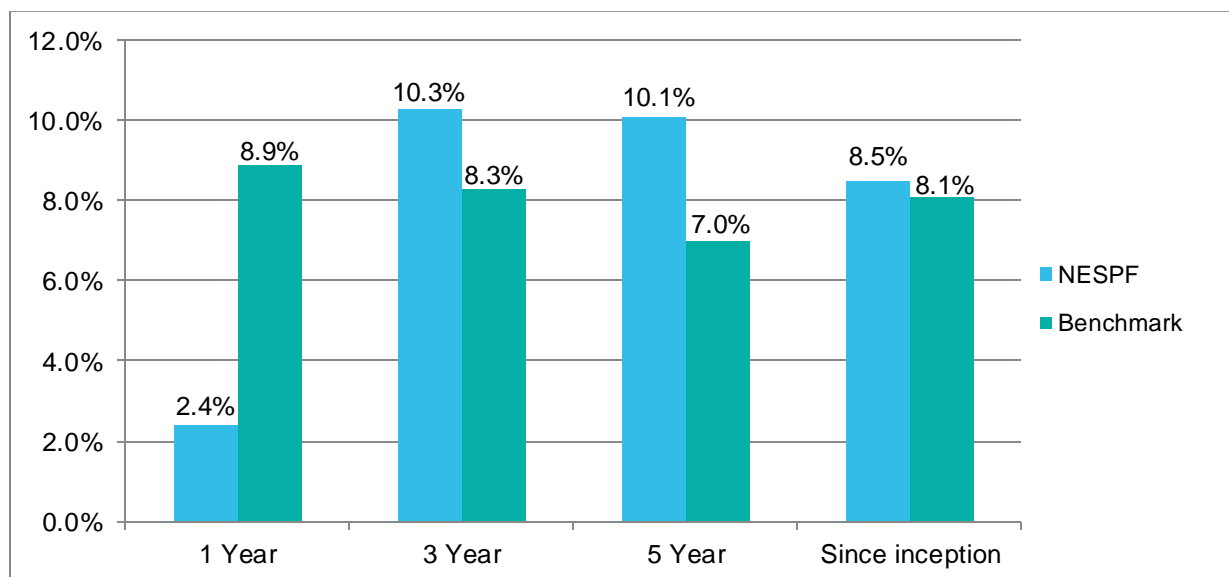
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been positive, and were strongly positive until the volatility in the first quarter of 2022. A combination of market sentiment being affected by the conflict in Ukraine and the spectre of interest rates rising more sharply to address inflation, saw both Equities and Bonds decline in value during the quarter. NESPF’s re-balancing and positioning more towards Real Assets, Credit and Index Linked Bonds helped in that regard, as a number of those assets come with direct inflation linkage.

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

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



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

Year Ending	2019/20	2020/21	2021/22	Since Inception Annualised
	%	%	%	%
CPI*	1.5	0.7	7.0	1.9
Average Earning*	2.4	4.0	7.0	3.0
NESPF Return	-1.8	32.2	2.4	8.5

*Source: Office of National Statistics

Investment Management Structure

Details of the Investment Management Structures are in the “Investments Analysed by Fund Manager” Notes to the Accounts for both Funds.

9. ACCTF De-Risking Strategy and Performance

In 2020/21, the Strathclyde Transport Fund formally merged with the Aberdeen City Council Transport Fund. In terms of re-organising the merged Transport Fund, an insurance 'Buy-In' was completed for both sets of liabilities (approximately two thirds of the total) which covers future benefit payments of those combined liabilities.

Remaining assets have now been transitioned into a new investment strategy, which is a liability driven / matched solution that seeks to hedge out inflation and interest rate risk. The Funding level is over 100%, with excess cash invested into Securitised Credit.

10. Risk

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

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

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

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

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

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

Risk Management

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

11. Funding Strategy Statement

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

The purpose of the FSS is therefore:

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

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

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

12. Statement of Investment Principles

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

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

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

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

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

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

13. Environmental, Social and Governance Issues

Responsible Investment & Engagement

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

What does this look like in practice?

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

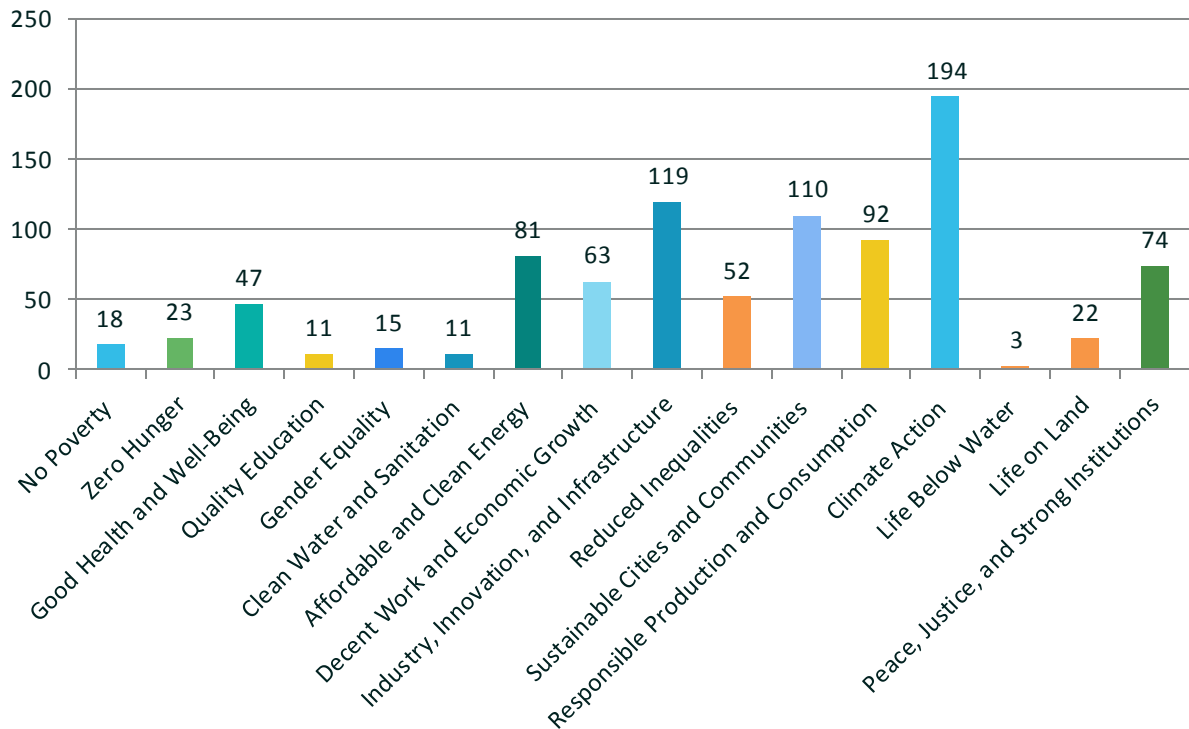
Collaboration

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

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £300 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

The below graph breaks down the engagements LAPFF has carried out in relation to the Sustainable Development Goals (SDG). The 17 SDGs are integrated, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.

SDG Engagements



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

1. Climate

Context - As part of long term engagement with National Grid, LAPFF has been pushing for group wide net zero targets to be set, particularly for scope 3 emissions, by far the largest proportion of the company's emissions.

Activities - Ongoing engagement has been taking place for the group's net zero transition plan to be put to shareholders for approval at the AGM. In addition, LAPFF asked about alignment with the new International Energy Agency Net Zero pathway and setting short term targets to 2025.

Outcomes - In 2020, an interim target of 20 percent reduction in scope 3 emissions by 2030 was announced. This was followed by an updated target to reduce emissions 37.5 percent below the 1990 baseline by 2034, a target aligned with the science-based targets initiative.

The board putting a 'Say on Climate' resolution to the 2021 AGM. The resolution seeks approval for annual reporting on the company's net zero strategy action plan up to 2030, and progress against emission reduction targets from the 2022 AGM.

National Grid's commitment to be able to fully operate the grid with zero carbon by 2025, has been supported by its buying of WPD, the UK's largest electricity distribution business, to strategically pivot its UK portfolio towards electricity.

2. Plastics

Context - Plastics continue to pollute the environment and drain resources associated with the fight against climate change. Rising levels of plastic found in our ecosystems are quickly becoming more and more hazardous to environments, animals, and humans.

Activities - This year, LAPFF joined a collaborative engagement which seeks to tackle the problem of microfibers coming away from clothes during a wash cycle and entering marine ecosystems through our waterways.

An estimated 9.4 trillion microfibres are being released every week from washes in the UK, resulting in 63 percent of shrimp in the North Sea containing synthetic fibres.

The Forum teamed up with Legal & General Investment Management (LGIM) to engage with Dixons Carphone and Sainsbury on their sourcing policies and application of microfilters in white label goods.

Outcomes - After some initial hesitancy, Dixon's has now started stocking washing machines with microfiber filters and Sainsbury has stated a preliminary intention to stock these products as the emerging technology develops.

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

Other ways the Pension Fund collaborates are by being members/signatories of the following ESG initiatives:

- Climate Action 100
- Carbon Disclosure Project
- Principles of Responsible Investment

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

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

Fund Managers

Through our fund managers we can engage with companies more directly by raising concerns and meeting with Senior Management and Executives.

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

The below is one example of such activity being undertaken through our Property Fund Manager.

Solar Panel Installation

The Fund is investing just under £1 million to install 3,000 photovoltaic solar panels on to the roof of a distribution warehouse owned by the Fund in Wolverhampton.

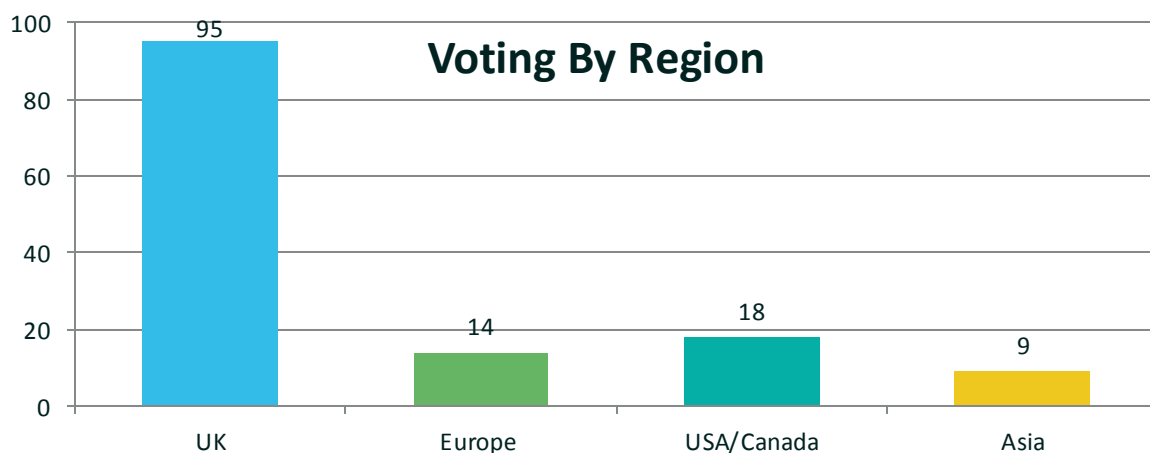
Once finished, the panels will be able to produce 979,200 kWh of electricity per annum, which is enough to boil a kettle 8,901,818 times or is the equivalent annual electricity use of 268 average UK households. The electricity generated will save 248 tonnes of CO2 emissions per annum, which is comparable to planting 1,550 trees.

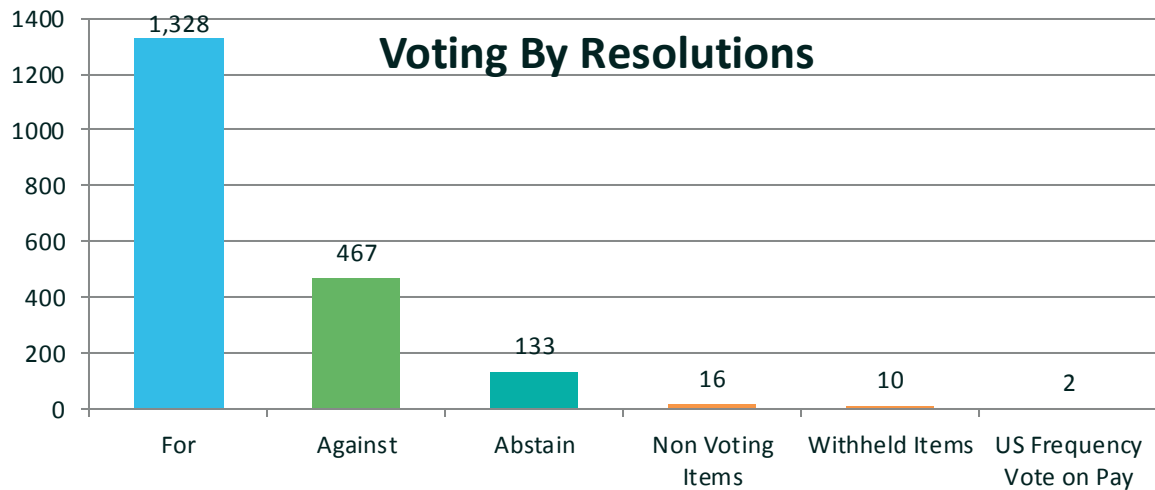
Voting

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

The Fund votes in-house on all our active managers holdings and over the last year have voted at 136 Annual General Meetings/Special meetings on 1,956 resolutions. The Fund's voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

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





During the year to 31 March 2022, the main reasons for casting a vote against a resolution are listed below:

Annual Reports

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

Share Issues/Re-purchase

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

Election of Directors

- Insufficient independent representation on the board.
- Lack of board diversity.

14. Acknowledgement

The production of the Unaudited Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2021/22 Unaudited Annual Report and Accounts.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

24 June 2022

Statement of Responsibilities

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

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

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 24 June 2022.

Signed on behalf of Aberdeen City Council

Councillor John Cooke
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

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

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Unaudited Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2022.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

Annual Governance Statement

Scope of Responsibility

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

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

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

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

Purpose of the Governance Framework for North East Scotland Pension Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2021/22 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

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

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

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

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

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

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

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

Review of Effectiveness

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

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

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2021/22, no significant areas of weakness were highlighted.

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

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

Assurance from Internal Audit

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

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

The Chief Internal Auditor's annual report concluded that in his opinion the NESPF had an effective framework for Governance, Risk Management and Control for the period 1 April 2021 to 31 March 2022. The full Internal Audit report can be found on the Fund's website www.nespf.org.uk.

At the Pensions Committee meeting on 25 March 2022, the 2022/25 3 year internal audit plan was approved. These audits will focus on:

- 2022-23: Pension Fund Governance arrangements including Risk Management
- 2023-24: Pension Fund Investment Strategy
- 2024-25: Pension Fund Payroll

External Audit and Other External Scrutiny

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the

requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of the Pensions Committee. In 2021/22, there were no significant issues to highlight on the Governance Compliance Statement.

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

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2021/22 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

24 June 2022

Governance Compliance Statement

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

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

Accounting Policies

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

The Annual Accounts summarise the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022.

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

The Fund's Annual Accounts are prepared on an accruals basis.

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £7,823,073 in 2021/22 (2020/21 £9,830,496).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2022 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

Additional Voluntary Contributions

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

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2022 was £755,405,560 (31 March 2021 £670,855,928).

Actuarial Present Value of Promised Retirement Benefits

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

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

Insurance Buy In Contract

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

The insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary.

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by The Code:

- **Property, Plant and Equipment: Proceeds before Intended Use.** This amendment to IAS 16 amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to operating capability.

The Fund will be required to reflect this change, as necessary in its 2022/23 Annual Accounts. It is not anticipated that these changes will have a significant impact on the Fund's financial statements.

The implementation of IFRS 16 for Lease Accounting which should have been adopted with effect from 1 April 2022 has now been deferred until 1 April 2024 with the Fund having the option to adopt earlier if they decide to do so. This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the specific exception criteria. The Fund has opted to defer implementation at this time.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2	32,047	33,563
Employers' Contributions	2	110,072	115,929
Transfer Values	3	1,369	2,776
Other Income		4	4
Additions		<u>143,492</u>	<u>152,272</u>
Retirement Pensions	4	129,178	124,135
Retirement Allowances	4	22,545	25,758
Death Gratuities	4	5,278	5,674
Contributions Refunded	5	328	490
Transfer Values	5	10,875	2,359
Withdrawals		<u>168,204</u>	<u>158,416</u>
Net (Additions)/Withdrawals from dealings with members		24,712	6,144
Management Expenses	6a	26,769	26,904
Net (Additions)/Withdrawals including Fund Management Expenses		51,481	33,048
Return on Investment			
Investment Income	7	59,548	71,323
Taxes on Income	7	(135)	(390)
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	1,402,715	86,771
Net Return on Investments		<u>1,462,128</u>	<u>157,704</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		1,410,647	124,656
Opening Net Assets of the Fund		4,366,542	5,777,189
Net Assets of the Fund at the end of the year		<u>5,777,189</u>	<u>5,901,845</u>

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Investment Assets			
Equities		2,258,827	2,319,608
Pooled Funds	9	2,308,311	2,345,916
Direct Property	13	361,325	427,375
Private Equity – Other		432,023	503,189
Private Debt		136,979	136,137
Funds held by Investment Managers		70,372	137,997
ACC Loans Fund Deposit	19	54,605	58,375
Investment Income Due		9,113	2,264
Investment Sales Amount Receivable		255	7,155
Investment Purchases Returned Amount Receivable		2,788	0
Total Investment Assets		<u>5,634,598</u>	<u>5,938,016</u>
Investment Liabilities			
Investment Purchases Amount Payable		(306)	(14,395)
Net Investment Assets		<u>5,634,292</u>	<u>5,923,621</u>
Long Term Assets	18a	467	0
Current Assets	18b	180,351	12,926
Current Liabilities	18c	(37,921)	(34,702)
Net Current Assets/(Liabilities)		142,430	(21,776)
Net Assets of the Fund at the end of the year		<u>5,777,189</u>	<u>5,901,845</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2a	133	124
Employers' Contributions	2a	1,800	14
Other Income	2b	9,073	1
Additions		<u>11,006</u>	<u>139</u>
Employer Surplus Refund (Exit Payment)	3	0	12,500
Retirement Pensions	4	9,816	9,620
Retirement Allowances	4	969	827
Death Gratuities	4	78	242
Transfer Value Paid	5	251	0
Withdrawals		<u>11,114</u>	<u>23,189</u>
Net (Additions)/Withdrawals from dealings with members		<u>108</u>	<u>23,050</u>
Management Expenses	6a	<u>650</u>	<u>366</u>
Net (Additions)/Withdrawals including Fund Management Expenses		<u>758</u>	<u>23,416</u>
Return on Investment			
Investment Income	7	480	233
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8a	18,380	2,850
Net Return on Investments		<u>18,860</u>	<u>3,083</u>
Revaluation of Insurance Buy In Contract	14c	<u>(22,320)</u>	<u>5,758</u>
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		<u>(4,218)</u>	<u>(14,575)</u>
Opening Net Assets of the Fund		<u>308,828</u>	<u>304,610</u>
Net Assets of the Fund at the end of the year		<u>304,610</u>	<u>290,035</u>

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Investment Assets			
Bonds		60,164	63,010
Pooled Funds	9	13,248	22,238
Funds held by Investment Managers		22,599	21,644
ACC Loans Fund Deposit	17	2,010	58
Investment Income Due		55	58
Total Investment Assets		<u>98,076</u>	<u>107,008</u>
Investment Liabilities			
Investment Purchases Amount Payable		0	(21,594)
Net Investment Assets		<u>98,076</u>	<u>85,414</u>
Insurance Buy In Contract		206,442	202,000
Lifetime Tax Allowance		242	216
Long Term Assets	16a	<u>206,684</u>	<u>202,216</u>
Current Assets	16b	796	3,317
Current Liabilities	16c	(946)	(912)
Net Current Assets/ (Liabilities)		<u>(150)</u>	<u>2,405</u>
Net Assets of the Fund at the end of the year		<u>304,610</u>	<u>290,035</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

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

Information from the 2020 Actuarial Valuation is detailed below:

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

Funding Level

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

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

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

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

Schedule to the Rates and Adjustments Certificate

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

Assumptions used to Calculate Funding Target

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

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

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

Post Valuation Events

The government proposal on the remedy in relation to the ‘McCloud’ judgement was consulted upon in July 2020. However, for the purposes of the valuation the estimated costs of applying the remedy were included for calculation of the funding level and Primary contribution rate.

As a result of the impact of Covid 19, the conflict in Ukraine and the cost of living crisis there has been significant volatility in world markets. This has far reaching consequences for the Fund in relation to both funding and risk. The situation requires careful monitoring at a Fund and actuarial level and therefore the position will be kept under review and carefully considered as part of the valuation process.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £6,107m (2021 £6,003m). Included within the calculation for 2022 is the estimated cost of extending GMP indexation to all members reaching State pension Age after 6th April 2021 in line with Government requirements. In addition, the annual recharge of pre 86 benefits obligations from the ACCTF to the NESPF are no longer included in this calculation as a result of a capitalisation payment of £8.7m made to the ACCTF in March 2021 meaning that the responsibility for these benefits now lies entirely with the ACCTF.

The IAS 26 figures are used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the standardised accounting requirements.

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

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

Note 2: Contributions Receivable

By Category	2020/21	2021/22
	£'000	£'000
Employees' Normal Contributions	32,047	33,563
Employers' Normal Contributions	107,424	113,362
Employers' Deficit Recovery Contributions	2,648	2,567
Total Employers' Contributions	110,072	115,929
Total	142,119	149,492

By Authority	2020/21	2021/22
	£'000	£'000
Administering Authority	40,221	38,971
Scheduled Bodies	87,681	95,243
Admitted Bodies	14,217	15,278
Total	142,119	149,492

Note 3: Transfers in from other Pension Funds

	2020/21	2021/22
	£'000	£'000
Individual Transfers	1,369	2,776
Total	1,369	2,776

Note 4: Benefits Payable

By Category	2020/21	2021/22
	£'000	£'000
Pensions	129,178	124,135
Commutation and Lump Sum Retirement Benefits	22,545	25,758
Lump Sum Death Benefits	5,278	5,674
Total	157,001	155,567

By Authority	2020/21	2021/22
	£'000	£'000
Administering Authority	40,249	41,337
Scheduled Bodies	103,910	97,409
Admitted Bodies	12,842	16,821
Total	157,001	155,567

Note 5: Payment to and on Account of Leavers

	2020/21	2021/22
	£'000	£'000
Refunds to Members Leaving Service	341	492
Payments for Members Joining State Scheme	(13)	(2)
Individual Transfers	4,221	2,232
Bulk Transfers*	6,654	127
Total	11,203	2,849

*Bulk Transfer of Visit Scotland to Lothian Pension Fund

Note 6a: Management Expenses

	2020/21	2021/22
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,252	1,361
Information Technology	491	459
Supplies & Services	136	131
Accommodation	334	426
Printing and Publications	23	11
Administration Expenses Total	2,236	2,388
Pension Fund Staffing Costs – Investment	172	192
Pension Fund Committee	3	6
Pension Board	0	1
External Audit Fee	42	43
Internal Audit Fee	7	9
Actuarial Fees	321	212
General Expenses	168	152
Oversight and Governance Expenses Total	713	615
Investment Management	11,950	12,692
Performance Fees	9,830	7,823
Direct Operating Property Expenses	744	1,184
Transaction Costs	1,154	2,040
Custody Fees	142	162
Investment Management Expenses Total	23,820	23,901
Management Expenses Grand Total	26,769	26,904

Note 6b: Investment Management Expenses by Asset Class

2021/22	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Equities	4,919	6,939		1,984	13,842
Pooled Funds	235	407		56	698
Direct Property	1,184		1,184		2,368
Private Equity	4,814	(54)			4,760
Private Debt	1,540	531			2,071
Subtotal	12,692	7,823	1,184	2,040	23,739
				Custody Fees	162
				Grand Total	23,901

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

Note 6c: Analysis of Transaction Costs

Commission	Fees/ Tax	2020/21 Total	Asset Type	Commission	Fees/ Tax	2021/22 Total
£'000	£'000	£'000		£'000	£'000	£'000
297	777	1,074	Equities	708	1,276	1,984
0	80	80	Pooled Funds	0	56	56
297	857	1,154	Total	708	1,332	2,040

Note 7: Investment Income

	2020/21	2021/22
	£'000	£'000
Equity Dividends	20,825	21,331
Property Rental Income	16,634	17,896
Interest on Cash Deposit	160	130
Pooled Funds	12,207	15,993
Private Equity	3,223	2,649
Private Debt	6,695	10,268
Other (including P/L from Currency & Derivatives)	(196)	3,056
Total	59,548	71,323
Tax		
Withholding Tax – Equities	(25)	(238)
Withholding Tax – Pooled Infrastructure	(75)	0
Withholding Tax – Private Equity	(35)	(152)
Total Tax	(135)	(390)
Net Total	59,413	70,933

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2021	Purchases	Sales	Change in Market Value	Market Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Equities	2,258,827	3,253,202	(3,002,363)	(190,058)	2,319,608
Pooled Funds	2,308,311	315,266	(401,606)	123,945	2,345,916
Property	361,325	8,089	(2,129)	60,090	427,375
Private Equity	432,023	144,785	(172,047)	98,428	503,189
Private Debt	136,979	7,015	(2,223)	(5,634)	136,137
	5,497,465	3,728,357	(3,580,368)	86,771	5,732,225
Other					
Cash	124,977				196,372
Investment Income Due	9,113				2,264
Investment Sales Amount Receivable	255				7,155
Investment Purchases Returned Amount Receivable	2,788				0
Investment Purchases Amount Payable	(306)				(14,395)
Net Investment Assets	5,634,292				5,923,621

Reconciliation of Movements in Investment and Derivatives (continued)

	Market Value 31 March 2020	Purchases	Sales	Change in Market Value	Market Value 31 March 2021
	£'000	£'000	£'000	£'000	£'000
Equities	1,372,264	501,526	(504,555)	889,592	2,258,827
Pooled Funds	2,124,895	535,484	(749,953)	397,885	2,308,311
Property	348,750	29,153	(18,715)	2,137	361,325
Private Equity	322,825	52,486	(51,681)	108,393	432,023
Private Debt	83,435	50,167	(1,331)	4,708	136,979
	4,252,169	1,168,816	(1,326,235)	1,402,715	5,497,465
Other					
Cash	127,746				124,977
Investment Income Due	3,685				9,113
Investment Sales Amount Receivable	0				255
Investment Purchases Returned Amount Receivable	0				2,788
Investment Purchases Amount Payable	(1,711)				(306)
Net Investment Assets	4,381,889				5,634,292

Note 9: Analysis of Investments

	2020/21	2021/22
	£'000	£'000
Equities	2,258,827	2,319,608
Pooled Funds Breakdown:		
Bonds	746,001	1,025,291
Equities	1,170,458	1,090,534
Diversified Growth Funds	186,158	0
Infrastructure - Unit Trust	103,840	114,011
Infrastructure - Limited Partnership	101,854	116,080
Pooled Funds	2,308,311	2,345,916
Direct Property	361,325	427,375
Private Equity	432,023	503,189
Private Debt	136,979	136,137
Other Investments	930,327	1,066,701
Funds held by Investment Managers	70,372	137,997
ACC Loans Fund Deposit	54,605	58,375
Investment Income Due	9,113	2,264
Investment Sales Amount Receivable	255	7,155
Investment Purchases Returned Amount Receivable	2,788	0
Other Balances	137,133	205,791
Investment Assets Total	5,634,598	5,938,016
Investment Liabilities		
Investment Purchases Amounts Payable	(306)	(14,395)
Investment Liabilities Total	(306)	(14,395)
Net Investment Assets	5,634,292	5,923,621

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2022.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2022.

Note 11: Investments Analysed by Fund Manager

	31 March 2021		31 March 2022	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,454,889	25.2	1,582,819	26.9
Baillie Gifford	1,824,861	31.6	1,329,092	22.5
BlackRock Asset Management	504,659	8.7	1,018,010	17.3
BlackRock Diversified Growth Fund	186,163	3.2	0	0
Blackrock Renewable Power III	8,571	0.2	14,767	0.3
AAM Property (API)	387,485	6.7	465,719	7.9
AAM Property Residential	21,064	0.4	27,844	0.5
HarbourVest	212,576	3.7	362,849	6.1
Standard Life	18,049	0.3	0	0
ACC Loans Fund Deposit	54,605	1.0	58,375	1.0
Global Custodian	9,659	0.1	65,161	1.1
Partners Group	56,183	0.9	54,952	0.9
Maven Capital	1,182	0.0	625	0
Capital Dynamics	53,061	0.9	0	0
RCP Advisors	35,923	0.6	0	0
Unigestion	48,742	0.8	54,129	0.9
Russell Multi Asset Credit	108,399	1.9	107,397	1.8
Russell Transition	16	0.0	0	0
Aviva Infrastructure	103,840	1.8	114,011	1.9
Hermes Infrastructure	96,218	1.7	101,421	1.7
Alcentra	70,523	1.2	65,978	1.1
Hayfin Direct Lending	66,455	1.2	70,159	1.2
Insight Credit	311,169	5.4	425,610	7.2
Allianz Home Equity	0	0.0	4,703	0.1
	5,634,292	97.5	5,923,621	100.4
Net Long and Current Assets				
Bank Account	164,003	2.9	15	0.0
Long Term and Current Debtors Less Creditors	(21,106)	(0.4)	(21,791)	(0.4)
Net Assets	5,777,189	100.0	5,901,845	100.0

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

Security	Market Value 31 March 2021	% of Net Investment Assets	Market Value 31 March 2022	% of Net Investment Assets
	£'000		£'000	
MPF UK Equity Pooled Fund	561,352	9.96	549,547	9.28
MPF International Equity Index Pooled Fund	562,934	9.99	540,986	9.13
MPF UK Index Linked Gilts	326,454	5.79	492,285	8.31
Insight Investment Mgt Global Funds	311,148	5.52	425,610	7.18

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

Note 12: Stock Lending

	31 March 2021	Collateral Percentage	31 March 2022	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	384,346		569,160	
Total Exposure	384,346		569,160	
Total Collateral	406,101	106%	601,644	106%

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

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

Note 13: Property Holdings

	2020/21	2021/22
	£'000	£'000
Opening Balance	348,750	361,325
Purchases	28,538	3,991
Construction	614	4,098
Subsequent Expenditure	1	0
Disposals	(18,715)	(2,129)
Net Increase in Market Value	2,137	60,090
Closing Balance	361,325	427,375

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

It remains to be seen what impact the conflict in Ukraine will have on property markets and the situation will be closely monitored. However, the valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

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

	2020/21	2021/22
	£'000	£'000
Within One Year	16,722	17,115
Between One Year and Five Years	60,965	63,016
Later than Five Years	98,716	93,432
Total	176,403	173,563

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

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2021-22 has seen no adjustment being required for a credit loss allowance.

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2021				31 March 2022		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
2,258,827			Equities	2,319,608		
2,308,311			Pooled Funds	2,345,916		
432,023			Private Equity	503,189		
136,979			Private Debt	136,137		
	124,977		Cash		196,372	
	12,156		Other Investment Balances		9,419	
	180,818		Debtors		12,926	
5,136,140	317,951		Subtotal	5,304,850	218,717	
			Financial Liabilities			
		(306)	Other Investment Balances			(14,395)
		(37,921)	Creditors			(34,702)
		(38,227)				(49,097)
5,136,140	317,951	(38,227)	Financial Instruments Total	5,304,850	218,717	(49,097)
			Non-Financial Instruments			
361,325			Property	427,375		
5,497,465	317,951	(38,227)		5,732,225	218,717	(49,097)
		5,777,189	Net Assets of the Fund			5,901,845

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

31 March 2021		31 March 2022
£'000	Financial Assets	£'000
1,400,578	Fair Value through Profit and Loss	26,681
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,400,578	Net Gains and Losses on Financial Instruments	26,681
	Non-Financial Instruments	
2,137	Fair Value through Profit and Loss	60,090
1,402,715	Net Gains and Losses of the Fund	86,771

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 16a: Fair Value – Basis of Valuation

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2022	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,549,444		755,406	5,304,850
Non-Financial Assets at Fair Value through Profit and Loss		427,375		427,375
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,549,444	427,375	755,406	5,732,225

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2021	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,465,284		670,856	5,136,140
Non-Financial Assets at Fair Value through Profit and Loss		361,325		361,325
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,465,284	361,325	670,856	5,497,465

Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

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

	Market Value 31 March 2021	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000	£'000
Infrastructure – Limited Partnership	101,854	8,746	(1,372)	1,372	5,480	116,080
Private Equity	432,023	144,785	(172,047)	70,385	28,043	503,189
Private Debt	136,979	7,015	(2,223)	2,223	(7,857)	136,137
Total	670,856	160,546	(175,642)	73,980	25,666	755,406

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

Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2022.

	Assessed Valuation Range (+/-)	Value at 31 March 2022	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Infrastructure – Limited Partnership	26%	116,080	146,261	85,899
Private Equity	26%	503,189	634,018	372,360
Private Debt	26%	136,137	171,533	100,741
Total		755,406	951,812	559,000

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

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Adviser, the Fund has determined that the following movements in market price risk are possible for the 2021/22 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	26.0%
Private Equity	26.0%
Private Debt	26.0%
Property	13.0%
Cash	1.0%

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

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

Asset Type	Value as at 31 March 2022 £'000	% Change	Value on Increase £'000	Value on Decrease £'000
UK Bonds	492,285	7.5	529,206	455,364
Overseas Bonds	533,006	7.5	572,981	493,031
UK Equities	957,027	16.0	1,110,151	803,903
Overseas Equities	2,453,115	20.5	2,956,004	1,950,226
Pooled – Diversified Growth Funds	0	12.5	0	0
Infrastructure - Other	114,011	13.0	128,832	99,190
Infrastructure - Limited Partnership	116,080	26.0	146,261	85,899
Private Equity	503,189	26.0	634,018	372,360
Private Debt	136,137	26.0	171,533	100,741
Total	5,304,850		6,248,986	4,360,714

Asset Type	Value as at 31 March 2021	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	326,453	7.0	349,305	303,601
Overseas Bonds	419,548	7.0	448,916	390,180
UK Equities	1,475,045	15.9	1,709,577	1,240,513
Overseas Equities	1,954,240	20.5	2,354,859	1,553,621
Pooled – Diversified Growth Funds	186,158	12.5	209,428	162,888
Infrastructure - Other	103,840	13.0	117,339	90,341
Infrastructure - Limited Partnership	101,854	30.0	132,410	71,298
Private Equity	432,023	30.0	561,630	302,416
Private Debt	136,979	30.0	178,073	95,885
Total	5,136,140		6,061,537	4,210,743

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2021	As at 31 March 2022
	£'000	£'000
Cash and Cash Equivalents	124,977	196,372
Cash Balances	164,003	15
Bonds	746,001	1,025,291
Total	1,034,981	1,221,678

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2022	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	196,372	198,336	194,408
Cash Balances	15	15	15
Bonds	1,025,291	1,035,544	1,015,038
Total	1,221,678	1,233,895	1,209,461

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

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2022 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2021	Asset Value as at 31 March 2022
	£'000	£'000
Overseas Quoted Securities	1,391,306	978,422
Overseas Unquoted Securities	499,439	559,775
Overseas Unit Trusts	982,482	1,073,993
Total Overseas Assets	2,873,227	2,612,190

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 9.4%.

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

A 9.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the Net Assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2022	Potential Market Movement	
		+9.4%	-9.4%
	£'000	£'000	£'000
Overseas Quoted Securities	978,422	1,070,394	886,450
Overseas Unquoted Securities	559,775	612,394	507,156
Overseas Unit Trust	1,073,993	1,174,948	973,038
Total	2,612,190	2,857,736	2,366,644

Assets Exposed to Currency Risk	Asset Value as at 31 March 2021	Potential Market Movement	
		+9.7%	-9.7%
	£'000	£'000	£'000
Overseas Quoted Securities	1,391,306	1,526,263	1,256,349
Overseas Unquoted Securities	499,439	547,885	450,993
Overseas Unit Trust	982,482	1,077,783	887,181
Total	2,873,227	3,151,931	2,594,523

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2022 was £196,387,000 (31 March 2021 was £288,980,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2021 £'000	Balance as at 31 March 2022 £'000
Liquidity Funds			
HSBC Liquidity Funds	AA-	40,450	95,772
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	54,605	58,375
HSBC	AA-	29,922	42,225
Subtotal		124,977	196,372
Bank Current Accounts			
Clydesdale Bank	A-	164,003	15
Total		288,980	196,387

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to

convert into cash. As at 31 March 2022 the value of illiquid assets was £1,182,780,560 which represented 20.0% of the total net assets of the Fund (31 March 2021 £1,032,180,928 which represented 17.9% of the total net assets of the Fund)

Note 18a: Long Term Assets

	31 March 2021	31 March 2022
	£'000	£'000
Merge – Transport Funds	467	0
Total Long Term Assets	467	0

Note 18b: Current Assets

	31 March 2021	31 March 2022
	£'000	£'000
Employees' Contributions due	2,601	2,743
Employers' Contributions due	7,946	8,069
Sundry Debtors	5,801	2,099
Subtotal	16,348	12,911
Bank	164,003	15
Total Current Assets	180,351	12,926

Note 18c: Current Liabilities

	31 March 2021	31 March 2022
	£'000	£'000
Sundry Creditors	25,952	23,001
Benefits Payable	11,969	11,701
Total Current Liabilities	37,921	34,702

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,773,912 (2020/21 £1,736,111).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £58,375,000 (2020/21 £54,605,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £89,722 (2020/21 £53,854) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

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

		Accrued Pension 2020/21	Accrued Pension 2021/22
		£'000	£'000
Steven Whyte	Director of Resources	44	46
Jonathan Belford	Chief Officer - Finance	38	40

Governance

As at 31 March 2022, 9 members of the Pensions Committee and 7 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2021/22 Elected Members' had interests in Sport Aberdeen, Aberdeen International Youth Festival, Aberdeen Foyer, Aberdeen Sports Village, Grampian Valuation Joint Board and Aberdeen Endowments Trust.

Note 21: Contractual Commitments as at 31 March 2022

As at 31 March 2022 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	560,813	268,779
Partners Group	85,351	19,012
Maven (SLF)	6,308	44
Unigestion	54,929	6,643
AAM Residential Property	30,000	3,923
Hermes Infrastructure	100,000	2,535
Alcentra EDL	84,506	16,838
Hayfin DLF	84,506	11,202
Blackrock Renewable	75,950	63,240
Allianz Home Equity	25,000	20,000
Total	1,107,363	412,216

Note 22: Additional Voluntary Contributions (AVC)

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

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

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

2020/21	Income (AVCs Paid by Members)	2021/22
£'000		£'000
11	Standard Life	7
1,355	Prudential*	2,632

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

Market Value	Additional Voluntary Contributions	Market Value
31 March 2021		31 March 2022
£'000		£'000
1,114	Standard Life	1,076
19,713	Prudential*	24,981

* Prudential are experiencing ongoing administrative problems. As a result of these difficulties, the 2020/21 figures were estimates. The actual figures for 2020-21, released in April 2022, are Income £2,576k and Market Value £24,981k.

For 2021-22, estimates are based on:

- Income – monthly AVC contribution amounts per member from employers
- Market Value – last year actual as an estimate

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation of the scheme. Insurance bonds are drawn up in favour of the Pension Funds and payment will only be triggered in the event of an employer default. A review of the bond requirements for the participating employers within the Fund was undertaken by the scheme actuary in 2021 following the completion of the triennial valuation to ensure that the bond amounts were still appropriate. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made to the bonds held.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total the Fund has secured guarantees for 21 Community Admission Bodies and Transferee Admission Bodies currently participating in the scheme.

The McCloud judgement, a legal decision around the Sargent/McCloud cases, has meant that protections put in place for older members when scheme changes were applied in 2015 were deemed as age discriminatory. The impact of this ruling has meant that it is likely that the underpin put in place to ensure that members have not lost out because of the introduction of the CARE scheme will be applied to younger members too. The government has outlined their intended approach to remedy this issue which will have a financial impact on the liabilities held. The cost of both extending the GMP Indexation to all affected members and the increased benefits arising from the McCloud judgement has been taken into account by the scheme actuary when assessing the value of the liabilities for the valuation as at 31 March 2020. The combined effect of these has increased the past service liabilities by broadly £45 million and increased the Primary Contribution Rate requirement by 0.8% per annum from 2020 to 2022. The McCloud project which will deal with the work around application of the underpin for eligible members to identify those effected will begin upon receipt of the amended regulations and will be completed in line with the government deadlines.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2021/22 two admission bodies exited from the Fund and were issued with a termination certificate to discharge the liabilities. Following termination, the assets and liabilities held for both employers were subsumed but the scheme guarantor with a calculated termination fee of zero being due upon exit from the Fund.

Changes to the regulations are to be brought in with effect from 1 June 2022 to provide administering authorities greater flexibility in their approach to employers exiting from the scheme. Funds will be able to enter a deferred debt arrangement that will allow the employers to exit from the Fund over a period of time without accruing more liabilities whilst still being able to service the termination debt. The NESPF are currently in discussions with one admission body in relation to deferring their debt within the Fund.

Note 25: Investment Principles

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

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

Note 26: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2022 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £503 million. Private Debt £136 million. Pooled Infrastructure (Unquoted) £116 million. There is a risk that these investments may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 24 June 2022. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

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

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

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

	2020/21	2021/22
	£'000	£'000
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,390	2,351
Aberdeenshire Council	1,381	1,363
Moray Council	707	692
Scottish Water	1,291	1,278
Other	289	276
Total	6,058	5,960

	2020/21	2021/22
	£	£
Associated Payroll Cost	4	4

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

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

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

Funding Level

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

Achieving the Solvency Funding Target

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

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

Assumptions used to Calculate Funding Target

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

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

Post Valuation Events

The government proposal on the remedy in relation to the 'McCloud' judgement was consulted upon in July 2020. However, for the purposes of the valuation the estimated

costs of applying the remedy were included for calculation of the funding level and Primary contribution rate.

As a result of the impact of Covid 19, the conflict in Ukraine and the cost of living crisis there has been significant volatility in world markets. This has far reaching consequences for the Fund in relation to both funding and risk. The situation requires careful monitoring at a Fund and actuarial level and therefore the position will be kept under review and carefully considered as part of the valuation process.

Following the merge of the Strathclyde No.3 Fund into the ACCTF the Fund have entered a buy in arrangement with Rothesay Life to ensure the pensions that were in payment for both First Aberdeen and First Glasgow as at the transaction date. The £232m transaction was another step in the de-risking strategy for this maturing, closed Fund.

Historically, some First Aberdeen members were members of the NESPF whilst they were employed under the Grampian Regional Transport Authority. Following deregulation and the creation of the ACCTF responsibility for pension increase on the benefits accumulated before 26 October 1986 remained with the NESPF. The recharging of these benefits was carried out monthly on a £ for £ basis. For administrative ease First Group agreed that the responsibility for these liabilities could be transferred to the ACCTF and therefore a capitalisation payment of £8.7m was made in respect of the calculated value. The 2020 valuation liabilities above are net of these liabilities due to the date of transaction

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £226m (2021 £238m). Included within the calculation for 2022 is the estimated cost of extending GMP indexation to all members reaching State pension Age after 6th April 2021 in line with Government requirements. These figures are used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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

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

Note 2a: Contributions Receivable

	2020/21	2021/22
	£'000	£'000
Employees' Normal Contributions	133	124
Employers' Normal Contributions	300	14
Employers' Deficit Recovery Contributions	1,500	0
Total Employers' Contributions	1,800	14
Total	1,933	138

	2020/21	2021/22
	£'000	£'000
Scheduled Bodies	1,933	138
Total	1,933	138

Note 2b: Other Income

	2020/21	2021/22
	£'000	£'000
Divorce Quote Fees	0	1
Pre 1986 Monthly Payments (Ended Jan'21)	291	0
Pre 1986 Final Settlement	8,782	0
Total	9,073	1

Note 3: Employer Surplus (Exit Payment)

	2020/21	2021/22
	£'000	£'000
Employer Surplus (Exit Payment)*	0	12,500
Total	0	12,500

*On 25 March 2022, First Glasgow terminated their admission agreement with the Fund. An employer surplus (exit payment) was calculated by the Scheme Actuary and an exit payment was then payable to First Group Holdings Limited.

Note 4: Benefits Payable

	2020/21	2021/22
	£'000	£'000
Pensions	9,816	9,620
Commutation and Lump Sum Retirement Benefits	969	827
Lump Sum Death Benefits	78	242
Total	10,863	10,689

	2020/21	2021/22
	£'000	£'000
Scheduled Bodies	10,863	10,689
Total	10,863	10,689

Note 5: Payment to and on Account of Leavers

	2020/21	2021/22
	£'000	£'000
Individual Transfers	251	0
Total	251	0

Note 6a: Management Expenses

	2020/21	2021/22
	£'000	£'000
Pension Fund Staffing Costs – Administration	42	42
Information Technology	15	16
Supplies and Services	4	9
Accommodation	10	13
Printing and Publications	1	1
Administration Expenses Total	72	81
Pension Fund Staffing Costs – Investment	9	6
External Audit Fee	1	1
Actuarial Fees	116	143
General Expenses	5	7
Oversight and Governance Expenses Total	131	157
Investment Management	427	111
Custody Fees	20	17
Investment Management Expenses Total	447	128
Management Expenses Grand Total	650	366

Note 6b: Investment Management Expenses by Asset Class

2021/22	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	£'000	£'000	£'000
Bonds	82	0	0	82
Pooled Funds	29	0	0	29
Subtotal	111	0	0	111
			Custody Fees	17
			Grand Total	128

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

Note 7: Investment Income

	2020/21	2021/22
	£'000	£'000
Bonds	457	233
Pooled Funds	20	0
Interest on Cash Deposits	1	0
Other (including P/L from Currency & Derivatives)	2	0
Total	480	233
Tax -		
Withholding Tax – Bonds	0	0
Withholding Tax – Pooled Funds	0	0
Total Tax	0	0
Net Total	480	233

Note 8a: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2021	Purchases	Sales	Change in Market Value	Market Value 31 March 2022
	£'000	£'000	£'000	£'000	£'000
Bonds	60,164	0	0	2,846	63,010
Pooled Funds	13,248	77,346	(68,360)	4	22,238
	73,412	77,346	(68,360)	2,850	85,248
Other					
Cash	24,609				21,702
Investment Income Due	55				58
Investment Purchases Amount Payable	0				(21,594)
Net Investment Assets	98,076				85,414

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

Note 9: Analysis of Investments

	2020/21	2021/22
	£'000	£'000
Bonds	60,164	63,010
Pooled Funds Breakdown:		
Bonds	13,248	22,238
Pooled Funds	13,248	22,238
Cash Deposits	24,609	21,702
Investment Income Due	55	58
Other Balances	24,664	21,760
Investment Assets Total	98,076	107,008
Investment Liabilities		
Investment Purchases Amount Payable	0	(21,594)
Investment Liabilities Total	0	(21,594)
Net Investment Assets	98,076	85,414

Note 10: Investments Analysed by Fund Manager

Investment Assets	31 March 2021		31 March 2022	
	£'000	%	£'000	%
Schroders	95,250	97.2	85,356	99.9
Schroders (Transition)	816	0.8	0	0.0
ACC Loans Fund Deposit	2,010	2.0	58	0.1
Net Investment Assets	98,076	100.0	85,414	100.0

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

Security	Market Value 31 March 2021 £'000	% of Net Investment Assets	Market Value 31 March 2022 £'000	% of Net Investment Assets
Schroder ISF Securitised Credit I ACC	0	0.0	21,594	25.3
UK Treasury 1.25% IL 22/11/2032	5,044	5.1	5,318	6.2
UK Treasury Gilt 0.125% IL 22/03/2026	0	0.0	4,729	5.5
Schroder SSF Sterling Liq Fund	13,248	13.5	643	0.8

Note 11: Stock Lending

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

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

There was no stock lending in operation as at 31 March 2022.

Note 12: Financial and Non-Financial Instruments

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

31 March 2021				31 March 2022		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
60,164			Fixed Interest	63,010		
13,248			Pooled Funds	22,238		
206,442			Insurance Buy In Contract	202,000		
	24,609		Cash		21,702	
	55		Other Investment Balances		58	
	1,038		Debtors		3,533	
279,854	25,702	0	Subtotal	287,248	25,293	0
			Financial Liabilities			
		0	Other Investment Balances			(21,594)
		(946)	Creditors			(912)
279,854	25,702	(946)		287,248	25,293	(22,506)
		304,610	Financial Instruments Total			290,035
0			Non - Financial Instruments	0		
279,854	25,702	(946)		287,248	25,293	(22,506)
		304,610	Net Assets of the Fund			290,035

Note 13: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2021		31 March 2022
£'000		£'000
	Financial Assets	
18,380	Change in Market Value of Investments	2,850
(22,320)	Revaluation of Insurance Buy In Contract	5,758
(3,940)	Fair Value through Profit and Loss	8,608
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(3,940)	Net Gains and Losses on Financial Instruments	8,608
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
(3,940)	Net Gains and Losses of the Fund	8,608

Note 14: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 14a: Fair Value – Basis of Valuation

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2022	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	85,248	0	202,000	287,248
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	85,248	0	202,000	287,248

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

Note 14b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 14c: Reconciliation of Fair Value Measurements within Level 3

Bulk Annuity Insurance Buy In Contract

	Total
	£'000
Opening Balance as at 1 April 2021	206,442
Level Pensions Paid by Insurer	(10,200)
Actuarial Revaluation	5,758
Closing Market Value as at 31 March 2022	202,000

Note 14d: Sensitivity of Assets Valued at Level 3

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

		Valuation 31 March 2022	Valuation Increase	Valuation Decrease
Change in Assumptions	Adjustment	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	202	215	191
Life Expectancy Adjustment	(+/-) 1 Year	202	213	192

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

Note 15: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%

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

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

Asset Type	Value as at 31 March 2022	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	85,248	7.5	91,642	78,854
Total	85,248		91,642	78,854

Asset Type	Value as at 31 March 2021	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	73,412	7.0	78,551	68,273
Total	73,412		78,551	68,273

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2021 and 31 March 2022 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2021	As at 31 March 2022
	£'000	£'000
Cash and Cash Equivalents	24,609	21,702
Cash Balances	758	3,230
Bonds	73,412	85,248
Total	98,779	110,180

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2022	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	21,702	21,919	21,485
Cash Balances	3,230	3,262	3,198
Bonds	85,248	86,100	84,396
Total	110,180	111,281	109,079

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

Currency Risk

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

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

The Fund had no currency exposure as at 31 March 2022 and as at the previous year end.

Currency Risk – Sensitivity Analysis

As there is no currency exposure, no sensitivity analysis is required.

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2022 was £24,932,000 and at 31 March 2021 £25,367,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2021	Balance as at 31 March 2022
		£'000	£'000
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	2,010	58
HSBC	AA-	22,599	21,644
Subtotal		24,609	21,702
Bank Current Accounts			
HSBC	AA-	756	3,229
Clydesdale Bank	A-	2	1
Total		25,367	24,932

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. There were no illiquid assets as at 31 March 2022 and 31 March 2021.

Note 16a: Long Term Assets

	31 March 2021	31 March 2022
	£'000	£'000
Insurance Buy In Contract	206,442	202,000
Lifetime Tax Allowance	242	216
Total Long Term Assets	206,684	202,216

Note 16b: Current Assets

	31 March 2021	31 March 2022
	£'000	£'000
Employees' Contributions due	3	4
Employers' Contributions due	7	0
Sundry Debtors	28	83
Subtotal	38	87
Bank	758	3,230
Total Current Assets	796	3,317

Note 16c: Current Liabilities

	31 March 2021	31 March 2022
	£'000	£'000
Sundry Creditors	360	318
Benefits Payable	586	594
Total Current Liabilities	946	912

Note 17: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £53,217 (2020/21 - £57,854).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £58,000 (2020/21 - £2,010,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £846 (2020/21 - £426) for the Aberdeen City Council Transport Fund.

Note 18: Contingent Assets/Liabilities

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

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

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

Note 19: Key Management Personnel

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

Governance

In 2021/22, one Board member had an interest in First Group plc.

Note 20: Investment Principles

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

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

Note 21: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement at 31 March 2022 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

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

Note 22: Events after the Balance Sheet Date

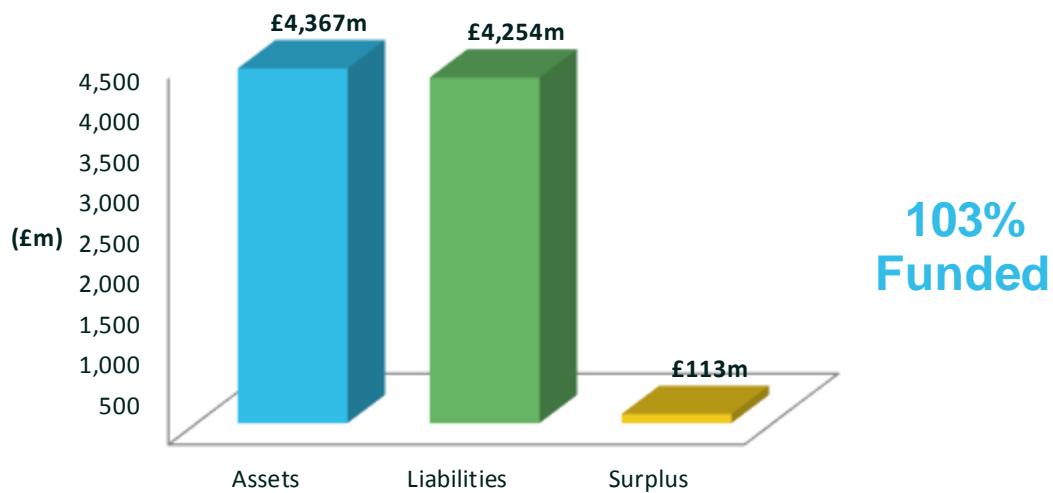
The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 24 June 2022. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Appendix 1 – Statement by the Consulting Actuary

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

North East Scotland Pension Fund

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



On the basis of the assumptions adopted, the Fund’s assets of £4,367 million represented 103% of the Fund’s past service liabilities of £4,254 million (the “Solvency Funding Target”) at the valuation date. The surplus at the valuation was therefore £113 million.

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

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

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

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

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

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

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

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

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

The assets were assessed at market value.

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

The McCloud Judgment

The “McCloud judgment” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider

group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2015. The above funding level and Primary contribution rate include an allowance for the estimated cost of the McCloud judgment.

Impact of COVID-19 / Ukraine

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

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of pay increases*	4.2% per annum	4.8% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.8% per annum	3.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.7% per annum	3.3% per annum

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

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was predominately offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £6,003 million, including an estimate of the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£125 million and allowing for net benefits accrued/paid over the period this also increased the liabilities by c£104 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £125 million due to "actuarial gains" (i.e. the effects of the *changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed*).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £6,107 million.

GMP Indexation

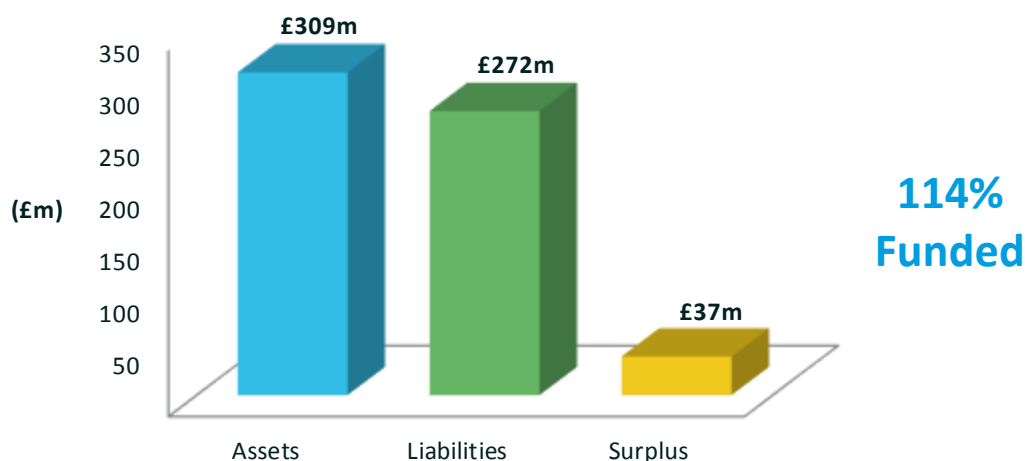
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from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

Pre 1986 recharges

Previously, recharges were passed from the ACCTF to the NESPF for c£350,000 p.a. The liabilities quoted above at 31 March 2021 and 31 March 2022 are net of the related liabilities which were recharged to the NESPF in respect of pre 1986 pension increases. This is because a capitalisation payment of £8.7m was made to the ACCTF on 30 March 2021 in respect of these, which means that they are now the responsibility of the ACCTF.

Aberdeen City Council Transport Fund

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



On the basis of the assumptions adopted, the Fund's assets of £309 million represented 114% of the Fund's past service liabilities of £272 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £37 million.

The valuation also showed that a Primary contribution rate of 43.7% of pensionable pay per annum was required from the employer. Due to the rapidly declining payroll, admin expenses have been quoted as a £ amount separately meaning an additional £140,000 p.a. is payable on top of the above rate. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan. The surplus at the last actuarial valuation date (including allowance for the estimated costs in relation to the McCloud judgement) is sufficient to offset the primary contribution requirements for the projected future working lifetime of the active membership. Therefore the administering authority and employers have agreed that no employer contributions will be required for the period of the rate certificate.

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

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

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

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

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

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

The McCloud Judgment

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

Impact of COVID-19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2020. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which will need to be kept under review. We believe that it is important to take stock of the situation as opposed to making immediate decisions in

what is an unprecedented set of events. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. Further flexibilities allowing for intervaluation contribution reviews are expected to be consulted on soon.

First Glasgow, pensioner buy in transaction and pre 1986 recharges

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

In relation to existing and former employees of First Aberdeen Ltd, pension increases in deferment and payment in respect of benefits accrued prior to 26 October 1986 were previously recharged monthly on a £ for £ basis to the North East Scotland Pension Fund (NESPF). This was because as part of the deregulation of transport services the liability remained with the Grampian Regional Transport Authority (a historic employer in the NESPF) and not First Aberdeen Ltd. Recharges passed to the NESPF were c£350,000 p.a. The IAS26 liabilities quoted at both the 31 March 2021 and 31 March 2022 are shown gross of the liabilities which were recharged to the NESPF in respect of the pre 1986 pension increases. This is because a capitalisation payment of £8.7m was made on 30 March 2021 in respect of these which means that they are now the responsibility of the ACCTF. Please note however, that the 2020 valuation liabilities quoted are net of these liabilities.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of pay increases (First Aberdeen)	3.2% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.8% per annum	3.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.7% per annum	3.3% per annum

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was predominately offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £238 million.

Interest over the year increased the liabilities by c£5 million and allowing for net benefits accrued/paid over the period this decreased the liabilities by c£10 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £7 million due to "actuarial gains" (i.e. the effects of the *changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2022 pension increase award was more than assumed*).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £226 million.

GMP Indexation

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

Paul Middleman
Fellow of the Institute
& Faculty of Actuaries

Mark Wilson
Fellow of the Institute
& Faculty of Actuaries

Mercer Limited
May 2022

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2021	New Admissions	Ceased	Employers as at 31 March 2022
Scheduled Bodies	10	0	0	10
Admission Bodies	38	0	2	36
Total	48	0	2	46

Ceased during 2021/22:

- | | | |
|----|------------------------|----------|
| 1. | Archway | Admitted |
| 2. | Citymoves Dance Agency | Admitted |

Participating Employers as at 31 March 2022:

- | | | |
|-----|---|-----------|
| 1. | Aberdeen City Council (Administering Authority) | Scheduled |
| 2. | Aberdeenshire Council | Scheduled |
| 3. | The Moray Council | Scheduled |
| 4. | Scottish Water | Scheduled |
| 5. | Grampian Valuation Joint Board | Scheduled |
| 6. | Scottish Fire and Rescue Service | Scheduled |
| 7. | Scottish Police Authority | Scheduled |
| 8. | North East Scotland College | Scheduled |
| 9. | Moray College | Scheduled |
| 10. | NESTRANS | Scheduled |
| 11. | Robertson Facilities Management (Shire) | Admitted |
| 12. | Bon Accord Care Ltd | Admitted |
| 13. | Bon Accord Support Services Ltd | Admitted |
| 14. | Aberdeen Heat & Power Ltd | Admitted |
| 15. | Station House Media Unit | Admitted |
| 16. | Aberdeen Sports Village | Admitted |
| 17. | Sport Aberdeen | Admitted |
| 18. | Robertson Facilities Management (City) | Admitted |
| 19. | Forth & Oban Ltd | Admitted |
| 20. | Alcohol and Drugs Action | Admitted |
| 21. | Idverde UK | Admitted |
| 22. | Xerox (UK) Ltd | Admitted |
| 23. | Forth and Oban Ltd (Shire) | Admitted |
| 24. | Aberdeen Endowments Trust | Admitted |
| 25. | North East Sensory Services | Admitted |
| 26. | Aberlour Child Care Trust | Admitted |
| 27. | Fraserburgh Harbour Commissioners | Admitted |
| 28. | Peterhead Port Authority | Admitted |

29.	Robert Gordon University	Admitted
30.	Robert Gordon's College	Admitted
31.	Aberdeen Cyrenians	Admitted
32.	Mental Health Aberdeen	Admitted
33.	Fersands & Fountain Community Project	Admitted
34.	SCARF	Admitted
35.	Inspire (Partnership Through Life) Ltd	Admitted
36.	St Machar Parent Support Project	Admitted
37.	Printfield Community Project	Admitted
38.	HomeStart Aberdeen	Admitted
39.	Aberdeen Foyer	Admitted
40.	HomeStart NEA	Admitted
41.	Pathways	Admitted
42.	Outdoor Access Trust for Scotland	Admitted
43.	Osprey Housing	Admitted
44.	Aberdeen Performing Arts	Admitted
45.	Sanctuary Scotland Housing Association Ltd	Admitted
46.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled
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Ceased during 2021/22:

1.	First Glasgow	Scheduled
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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 JUNE 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	FUNDING STRATEGY STATEMENT 2022
REPORT NUMBER	PC/JUN22/FSS
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	CLAIRE MULLEN
TERMS OF REFERENCE	PENSIONS COMMITTEE 1.1

1. PURPOSE OF REPORT

- 1.1 To seek approval of the draft Funding Strategy Statement 2022 (FSS) which incorporates changes to reflect the new regulations on employer flexibilities which come into force with effect from 1 June 2022 and also provides the ability for the Fund to adopt different investment strategies as a risk management solution.

2. RECOMMENDATION

That the Committee: -

- 2.1 Approve the draft Funding Strategy Statement.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 The FSS outlines the approach taken to ensure that the Fund can meet the pension liabilities held in respect of the members. The FSS is a critical document that underlines the financial obligations of the Fund around solvency and long term cost efficiency.
- 4.2 However, the 2022 draft document has only been amended to outline the Funds approach to both employer flexibilities, including Deferred Debt Arrangements, and to allow the Fund to adopt different investment strategies in advance of the next valuation.
- 4.3 No changes have been made around the Funds objectives or the actuarial assumptions that were set in the 2020 valuation. There is therefore no financial impact on the Fund or the participating employers.

5. LEGAL IMPLICATIONS

- 5.1 The Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 were published in May 2022 and came into force on 1 June 2022. These regulations allow greater flexibility when dealing with exiting employers.
- 5.2 The Funds approach in applying the above regulations, specifically in relation to employer flexibilities, need to be outlined within the FSS prior to entering into any arrangement of this type.
- 5.3 Although the regulations allow for this type of arrangement greater clarity and Fund specific requirements are provided through the FSS.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendation of this report.

7. RISK

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to comply with regulatory requirements.	The Fund has engaged with the Scheme Actuary to draft the FSS in line with the regulatory requirements.	L	Yes
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

8.1 This report does not impact on the Council Delivery Plan.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not required
Data Protection Impact Assessment	Not Required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

NESPF Funding Strategy Statement 2022

June 2022

1. Background

The NESPF are required to outline their Funding Strategy Statement under the Local Government Pension Fund (Scotland) Regulations 2018. The FSS clearly sets out how the Fund will meet the pension liabilities held within the Fund going forward.

The current finalised version of the FSS was drafted in line with the last triennial valuation and outlines the assumptions used to determine the funding level as at 31 March 2020 and the employer contribution requirements for the three years from 1 April 2021.

2. Regulation Changes

In May 2022 the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022 were published. These regulations, which came into effect on 1 June 2022, were much anticipated and included changes which provide administering authorities with greater flexibilities for dealing with employers exiting the Fund.

In addition to the new regulations and in advance of the 2023 valuation the Fund is looking to adopt different investment strategies known as 'investment buckets' as a risk management tool for managing employer liabilities and potential exits.

Two papers were brought to the Pensions Committee in December 2021 in advance of these changes. The first: PC/DEC21/RISK sought approval to move forward with a policy on investment buckets and the second PC/DEC21/DDA was a private paper covering employer flexibilities and the intention to enter into a Deferred Debt arrangement with an exiting employer.

As a result of the changes to the regulations and the introduction of investment buckets the scheme actuary has drafted the attached NESPF FSS 2022. The draft FSS outlines the Funds approach in relation to these changes and allows the Fund to adopt these changes where required.

3. Consultation

In accordance with the regulations the draft FSS is required to be shared with all employers as the detail held in the document will have financial and operational impact on those that participate within the Fund.

We have therefore issued the draft FSS to all employers on 1 June 2022. The consultation period that allows employers to comment on the document runs from 1 June 2022 to 21 June 2022.

As the new regulations have been anticipated for some time and provide greater flexibility for exiting employers it is not expected that significant changes will be required. All

comments will be considered in advance of adopting the new strategy and finalising the document.

4. Finalising the FSS and Next Steps

Approval of the NESPF FSS 2022 will allow the Fund to comply with the Local Government Pension Scheme (Scotland) regulations and will ensure that we are transparent around our approach to the new changes.

As part of the 2023 valuation process the funding strategy for the NESPF will be considered in full and therefore a new FSS, including the 2023 assumptions and Fund approach, will be brought to Pensions Committee in advance of the valuation being signed off in early 2024.

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North East Scotland Pension Fund

Funding Strategy Statement

May 2022

Aberdeen City Council

This Funding Strategy Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund (the “Fund”), in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2014 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA)

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- Appendix A – Actuarial Method and Assumptions**
- Appendix B – Admission Policy, Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements**
- Appendix C – Review of Employer Contributions between Valuations**
- Appendix D – Covenant Assessment and Monitoring Policy**
- Appendix E – Glossary**

Executive Summary

Ensuring that the North East Scotland Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Aberdeen City Council). The Funding Strategy adopted by the North East Scotland Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the North East Scotland Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the North East Scotland Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

MEETING THE FUND’S SOLVENCY OBJECTIVE



The Administering Authority’s long term objective is for the Fund to achieve and maintain a 100% solvency level over a reasonable time period. Contributions are set in relation to this objective which means that once 100% solvency is achieved, if assumptions are borne out in practice, there would be sufficient assets to pay all benefits earned up to the valuation date as they fall due.

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next to meet the primary objectives. This in turn means that contributions will be subject to change from one valuation to another.

This objective is considered on an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities. The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for this objective to be reasonably achieved in the long term at each valuation.

The funding strategy set out in this document has been developed alongside the Fund's investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund to meet the objective for all employers over different periods. The funding strategy includes appropriate margins to allow for the possibility of adverse events (e.g. material reduction in investment returns, economic downturn and higher inflation outlook) leading to a worsening of the funding position which would normally lead to volatility of contribution rates at future valuations if these margins were not included.

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its primary solvency objective. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.



LONG TERM COST EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency requires that any funding plan must provide equity between different generations of taxpayers. This means that the contributions must not be set at a level that is likely to give rise to additional costs in the future which fall on later generations of taxpayers or put too high a burden on current taxpayers. The funding parameters and assumptions e.g. deficit recovery period must have regard to this requirement which means a level of prudence is needed. Furthermore, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure its "solvency" and "long term cost

efficiency" of the Local Government Pension Scheme (Scotland) (the "LGPS") so far as relating to the Fund.

SURPLUS/DEFICIT SPREAD PERIOD AND CONTRIBUTIONS



As the solvency level of the Fund is 103% at the 2020 valuation date i.e. the assets of the Fund are greater than the liabilities, the surplus can potentially be used to reduce ongoing contribution requirements. However, the funding position at individual employer level will vary and for some employers a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund / surplus run off in respect of each employer will generally be expressed as a percentage of pensionable pay and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures and based on the Administering Authority's view of the employer's covenant and risk to the Fund. For employers in deficit, this may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to pay above the minimum contribution certified if they wish or to select any shorter deficit recovery period if they wish. Employers may also elect to make prepayments of deficit contributions which could result in a cash saving over the valuation certificate period. For employers in surplus, this will be removed at a rate which depends on the circumstances of each employer. This will depend on the financial covenant and if the employer may potentially exit the Fund in the near future. In some cases this may mean the employer pays the primary contribution rate unadjusted.

Where a deficit exists, the maximum period that it should be recovered over is 19 years, which in the long term provides equity between different generations of taxpayers whilst ensuring the deficit payments are eliminating a sufficient proportion of the capital element of the deficit, thereby reducing the interest cost. This will be periodically reviewed depending on the maturity profile of the Scheme. Similar principles apply to employers in surplus. However, where an employer is expected to exit the Fund, then in normal circumstances, any surplus/deficit would be spread over the remaining period to exit. Full details are set out in this FSS.

The period for recovering any deficit will vary by employer and this is covered in further detail in Section 5.

Where there is a material increase in contributions required at this valuation the employer will be able to 'phase in' their contributions over a period of 3 years in a pattern agreed with the Administering

Authority and depending on the affordability of contributions as assessed considering the covenant of an employer, with effect from 1 April 2021.

The government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. A consultation was issued in July 2020, which confirms that the remedy will have the effect of removing the current age criteria applied to the underpin implemented in 2015 for the LGPS, which would then apply to all eligible members who were in service on or before 31 March 2012. The relevant estimated costs of the remedy have been quantified and notified to employers on this basis. The final funding position and certified contributions for each employer include the estimated costs of the McCloud remedy.



ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the “Primary” contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the “Secondary” rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the “real discount rate”) has been derived from the expected return on the Fund’s assets based on the long term strategy set out in its Statement of Investment Principles (SIP). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 1.25% per annum and 1.50% per annum for determining the future service (“Primary”) contribution rates. This compares to 1.75% per annum (past and future) at the last valuation.

The assumption for the long term expected future real returns has fallen since the last valuation. This is principally due to a combination of expectations: the returns on the Fund’s assets and the level of inflation in the long term. This is also taken into account by the Actuary when proposing the assumptions and at this valuation means that the level of prudence has been reduced. The assumption has therefore been adjusted so that in the Actuary’s opinion, when allowing for the resultant employer contributions emerging from the valuation, the Fund can reasonably be expected to meet the Solvency and Long Term Cost Efficiency objectives.

Where warranted by an employer’s circumstances, the Administering Authority retains the discretion to apply an adjusted discount rate to reflect the termination assumptions for that employer if it were to

exit the Fund to protect the Fund as a whole. Such cases will be determined by the Section 95 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES



The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on the investment strategy applying to the employer. In addition, the asset shares may be restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.



FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant Assessment and Monitoring Policy

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a

proportionate manner, and an employer's ability to meet its obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer. More details are provided in the relevant appendix to this statement.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is set out in the relevant Appendix. Examples of new employers include:

- Scheme Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or Scottish Government.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Admission Policy, Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate. At the discretion of the Administering Authority, suspension notices may be agreed to in certain circumstances – see Termination Policy for further details.

Where there is **no guarantor** who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to a minimum risk basis and a more prudent longevity assumption is used for assessing liabilities on termination. With the exception of where a suspension notice has been issued, any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. Any exit credits (surplus assets

over liabilities) will be paid from the Fund to the exiting employer . The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

Where there is a **guarantor** who would subsume the assets and liabilities of the outgoing employer the policy is that any deficit or surplus would normally be subsumed into the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. In some instances an exit debt may be payable by an outgoing employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. In the case of a service which has been outsourced, this will be determined by the commercial contract and arrangements which exist between the guarantor and the outgoing employer. Where the outgoing employer is responsible for an exit debt, an exit credit may be payable to the outgoing employer if a surplus of assets over liabilities exists on termination of an admission agreement. This would be based on a determination by the Administering Authority. Please see the termination policy for full details.

The policy for repayment of exit debts:

The default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). At the discretion of the administering authority, payment plans over an agreed period or a Deferred Debt Agreement may be entered into (subject to the Fund's policy in relation to flexibility for exit payments) if an employer makes a request in writing outlining the reasons for such a request. Any deviation from this position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements. Further details are set out with in the relevant Appendix.

2

Introduction

The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) (“the 2018 Regulations”), the Local Government Pension Scheme (Transitional) Regulations 2014 (“the 2014 Transitional Regulations”) (collectively; “the Regulations”) provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the North East Scotland Pension Fund (the “Fund”), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
 - the guidance issued by CIPFA for this purpose; and
 - the Statement of Investment Principles (SIP) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the SIP.

Benefits

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

The Fund is a defined benefit arrangement with principally final salary related benefits earned by contributing members up to 1 April 2015 and Career Averaged Revalued Earnings (“CARE”) benefits earned thereafter. There is also a “50:50 Scheme Option”, where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the “primary” and “secondary” rate of the employer’s contribution).

Primary Rate

The “Primary rate” for an employer is the contribution rate required to meet the cost of the future accrual of benefits, including ancillary death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer’s covenant.

The Primary rate for the whole Fund is the weighted average (by payroll) of the individual employers’ Primary rates.

Secondary Rate

The “Secondary rate” is an adjustment to the Primary rate to reflect any past service deficit or surplus, to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

The Secondary rate is specified in the rates and adjustments certificate.

For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary rates.

Secondary rates for the whole Fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole Fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

3

Purpose of FSS in Policy Terms

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

4

Aims and Purpose of the Fund

The aims of the Fund are to:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, exit credits, costs, charges and expenses as defined in the Regulations.

5

Responsibilities of the Key Parties

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee), the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

Key parties to the FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension scheme as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance with the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an SIP, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/SIP as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)

- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context
- notify the Administering Authority promptly of any changes to membership which may affect future funding.
- understand the pensions impacts of any changes to their organisational structure and service delivery model, and
- understand that the quality of the data provided to the Fund will directly impact on the assessment of the liabilities and contributions. In particular, any deficiencies in the data would normally result in the employer paying higher contributions than otherwise would be the case if the data was of high quality.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc.
- provide advice and valuations on the termination of admission agreements including in relation to exit credit payments
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

6

Solvency Funding Target

Securing the “solvency” and “long term cost efficiency” is a regulatory requirement. To meet these requirements, the Administering Authority’s long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the “funding target”) assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer’s total contribution rate would ultimately revert to its Primary rate of contribution.

Solvency and Long Term Efficiency

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary’s Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the “solvency” of the pension fund and “long term cost efficiency” of the LGPS so far as relating to the Fund.

Determination of the solvency Funding Target and Recovery Plan

The principal method and assumptions to be used in the calculation of the funding target are set out in the relevant Appendix. The principles underlying the Employer Recovery Plans are set out below. This covers the recovery of deficits and the run off of any surplus assets over liabilities where applicable.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Fund Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2021 at the latest.

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers and employer groups in the Fund.

Individual employer contributions will be expressed and certified as two separate elements:

- the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits and ancillary death in service and ill health benefits
- the **Secondary rate**: a percentage of pensionable payroll over 2021/24 in respect of an employer's surplus or deficit

For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2024 based on the results of the 2023 actuarial valuation.

Spreading of Surplus / recovery of Deficit contributions

It is the Fund's objective that, where a deficit exists, it is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

In the case of a deficit, recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum either on an annual basis or a one-off payment. This will be reflected in

the monetary amount requested via a reduction in overall deficit contributions payable. The Administering Authority does retain ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength.

The key principles when considering surplus/deficit spreading are as follows:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan where deficits remain unless there is compelling reason to do so.
- Subject to consideration of affordability, where a deficit exists, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. This is to maintain (as far as possible) equity between different generations of taxpayers and to protect the Fund against the potential for an unrecoverable deficit. The deficit recovery period will be set to at least cover the expected interest costs (actual interest costs will vary in line with investment performance) on the deficit. Where an employer is expected to exit the Fund then in normal circumstances, any deficit would be recovered over the remaining period to exit. Where an employer is closed to new entrants then, as a general rule, the spread period should be no more than the average expected future working lifetime of the active membership.
- Employers will have the freedom to pay above the minimum contributions if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted. The average recovery period adopted by all employers will be set out within the Actuary's report. Employers will be notified of their individual deficit recovery period as part of the provision of their individual valuation results.
- Where an employer is in surplus this will be run off over a period determined by the Administering Authority on the advice of the Actuary. This will depend on the nature of employer, allowing for the financial covenant strength and reasonable affordability of contributions. The objective is to maintain stability of total contributions at this and future valuations. Where an employer is expected to exit the Fund then in normal circumstances, the surplus would be spread over the remaining period to exit.
- In determining the actual recovery period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:
 - The size of the funding shortfall / surplus;
 - The business plans of the employer;

- The assessment of the financial covenant of the Employer, and security of future income streams;
- Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

The objective is to recover any deficit or remove any surplus over a reasonable timeframe, and this will be periodically reviewed.

- Where increases (or decreases) in employer contributions are required from 1 April 2021, following completion of the 2020 actuarial valuation, the increase (or decrease) from the rates of contribution payable in the year 2021/22 may be implemented in steps, over a maximum period of 3 years, depending on affordability of contributions as determined by the administering authority. However, where a surplus exists or where there has been a reduction in contributions paid in respect of an employer's deficit at the valuation, the Fund would not consider it appropriate for any increase in contributions paid in respect of future accrual of benefits to be implemented in steps.
- As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities.
- It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidence-based affordable level of contributions for the organisation for the three years 2021/2024. Any application of this option is at the ultimate discretion of the Fund officers and Section 95 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.
- For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
- Notwithstanding the above principles, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Employers Exiting the Fund

- Employers must notify the Fund as soon as they become aware of their planned exit date. Where appropriate, or at the request of the Scheme Employer, the Fund will review their certified contribution in order to target a fully funded position at exit. Consideration will be given to any cap and collar arrangements when reviewing contribution rates.
- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment, with a different actuarial basis applied to reflect whether or not the outgoing employer has a guarantor participating in the Fund who is prepared to absorb the pension obligations of the former employees. The detail is provided in the Termination Policy in the relevant Appendix which covers operational procedure (including details of repayment plans over an agreed period and Deferred Debt Agreements).
- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

Funding for Non-III Health Early Retirement Costs

Employers are required to meet all costs of early retirement strain by capital payments into the Fund as determined on the advice of the Actuary.

7

Link to Investment Policy and the Statement of Investment Principles (SIP)

The results of the 2020 valuation show the liabilities to be 103% covered by the current assets.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist mainly of a mixture of long-term index-linked, fixed interest gilts and possible "swaps".

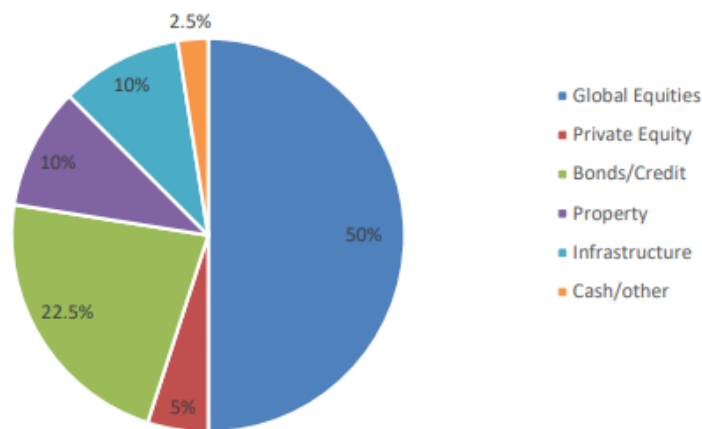
Investment of the Fund's assets in line with the minimum risk portfolio would minimise fluctuations in the Fund's ongoing funding level between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of minus 1.4% per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 62%. This is a measure of the level of reliance on future investment returns i.e. level of investment risk being taken.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The overall strategic asset allocation is set out in the Statement of Investment Principles and the current strategy is set out below:

Growth Assets 55% (+/- 5%), Income/Protection Assets 45% (+/- 5%)



Based on the investment strategy above and the Actuary’s assessment of the return expectations for each asset class, this leads to an overall best estimate average expected return of 1.95% per annum in excess of CPI inflation as at the valuation date. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations. This margin, however, has been reduced to take account of the risk management strategies implemented to reduce the volatility of returns within the investment strategy.

A measure of overall prudence to protect against adverse experience in the future is to consider the funding level if it was assessed on a “best estimate” basis for all the principal assumptions (mainly the investment return and life expectancy). The actuary has assessed this funding level as 115%. This level of prudence is built in to allow the Fund to address adverse events whilst maintain stability (within reasonable parameters) in employer contributions where appropriate.

Investment strategy buckets

The Fund is considering the merits of implementing a choice of investment strategies to use with employers, which would exhibit a different risk/return profile than the current whole fund strategy. This

may be appropriate for employers who are deemed to have a weaker covenant than others in the Fund or those who wish to target a lower risk strategy (e.g. if planning for termination).

The “investment” strategies would be called:

- Standard risk strategy
- Medium risk strategy
- Lower risk strategy

The current Fund investment strategy will apply to the “standard risk”. The “medium risk strategy” and “lower risk strategy” will reduce the level of investment risk taken, and may be appropriate particularly for those employers that are considering leaving the Fund. In addition any orphaned liabilities once an employer exits the Fund will generally be moved into the lower risk strategy.

The final strategic allocation for each strategy has not yet been finalised but once implemented it will be reflected in future updates of the Statement of Investment Principles.

Once implemented, the strategy will be reflected in the relevant employer’s asset share, funding basis and contribution requirements. However, in the normal course of events, the contribution requirements for employers will not be reviewed until the following actuarial valuation of the Fund. However, the fund reserves the right to review contributions in the interim period.

If, based on the assessments carried out by the Administering Authority, the employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move the employer (typically following discussions with the employer) into a medium or lower risk investment strategy to help protect against a deterioration in the funding position and protect the Fund as a whole.

8

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. Funding of the Fund is based on both financial and demographic assumptions. These assumptions are specified in the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes a quantification of the key risks in terms of the effect on the funding position.

Financial

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Any risk management policies fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation (including in each separate investment bucket) is kept under constant review and the performance of the investment managers is regularly monitored.

Demographic

The demographic risks are as follows:-

- Future changes in life expectancy (longevity) that cannot be predicted with any certainty
- Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Ill health retirements can be costly for employers, particularly small employers where one or two costly ill health retirements can take them well above the "average" implied by the valuation assumptions. Increasingly we are seeing employers mitigate the number of ill health retirements by employing HR / occupational health preventative measures. These in conjunction with ensuring the regulatory procedures in place to ensure that ill-health retirements are properly controlled, can help control exposure to this demographic risk.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the number of ill-health retirements.**

Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Governance

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members to make their views known to the Fund and to participate in the decision-making process. The first draft of this FSS was consulted on during Q4 2020. The revisions to the FSS have been incorporated into this draft and the updated draft was finalised following the Committee meeting on 26 March 2021. Further revisions have been incorporated into this updated draft and are to be finalised following the consultation period and the Committee meeting on 24 June 2022.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk. Nevertheless, where an employer defaults on its liabilities the risk in some cases may be borne by the whole Fund, so to that extent all Fund employers have joint and several liabilities to the Fund.

9

Monitoring and Review

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.
- there has been a change in Regulations or Guidance which materially impacts on the policies within the funding strategy.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations and this will be considered in conjunction with the employer affected and any associated guarantor of the employer's liabilities (if relevant).

Cost Management Process

The cost management process was set up by HMT, with an additional strand set up by the Local Government Pension Scheme (Scotland) Advisory Board (for the Scottish LGPS). The aim of this was

to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcome of the initial cost management valuation was expected to be implemented by now, based on data from the 2017 valuations for the Scottish LGPS. This had been put on hold due to age discrimination cases (the McCloud judgment) brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2015 for the Scottish LGPS). The cost cap has now been un-paused and we expect more detail to emerge in due course over 2022. Consideration of the outcome of this process would be expected to be taken in to account at the next valuation (in 2023) unless the outcome requires this to be done prior to then.

The McCloud judgment

The government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. A consultation was issued in July 2020, which confirms that the remedy will have the effect of removing the current age criteria applied to the underpin implemented in 2015 for the LGPS, which would then apply to all eligible members who were in service on or before 31 March 2012. The relevant estimated costs of the remedy have been quantified and notified to employers on this basis. The final funding position and certified contributions for each employer include the estimated costs of the McCloud remedy.

As a consequence of McCloud, cost management had been paused until recently (HMT and GAD are now considering the LGPS specific impact before commenting on the outcomes). No allowance for cost management has been made in this valuation. This will be reconsidered once the final outcomes are known.

Appendix A – Actuarial Method and Assumptions

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted, which makes advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate.

Financial assumptions – solvency Funding target

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets based on the long term strategy set out in the Statement of Investment Principles (SIP). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation date has been derived based on an assumed return of 1.25% per annum above CPI inflation i.e. a real return of 1.25% per annum equating to a total discount rate of 3.35% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. The discount rate will be reviewed as a matter of course at the time of a formal valuation or a formal employer rate review.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a different investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the Fund's accrued liabilities) but subject to an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index.

The overall average reduction to the assumption to long term RPI inflation to arrive at the CPI inflation assumption at the valuation date is 0.6% per annum. The CPI inflation assumption at the valuation date is 2.1% per annum. This adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any changes in market expectations caused by the reform of the RPI index. Any change will then be implemented for all relevant policies in this Funding Strategy Statement.

Salary increases

In relation to benefits earned prior to 1 April 2015, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In addition to the long term salary increase assumption allowance has been made for expected short term pay restraint for some employers as budgeted in their financial plan. Depending on the circumstances of the employer, the variants on short term pay that have been applied are either no allowance or allowances based on evidence from the employer of 1% or 2% per annum, or alternatively assuming the increase will be in line with the CPI assumption set out above, for each year from the valuation date up to 31 March 2023. The allowance made has been notified to each employer separately on their individual results schedule.

Application of bespoke salary increase assumptions as put forward by individual employers will be at the ultimate discretion of the Administering Authority but as a minimum must be reasonable and practical. To the extent that experience differs to the assumption adopted, the effects will emerge at the next actuarial valuation.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation). The exception to this is for members who will reach state pension age after 5 April 2021. In line with expected future changes to the regulations, we have allowed for increases on Guaranteed Minimum Pensions to increase in line with the inflation (CPI) assumption described above.

For members in pensionable employment, their CARE benefits are also indexed by CPI although this can be less than zero, i.e. a reduction in benefits, whereas for pension increases this cannot be negative, as pensions cannot be reduced.

Demographic assumptions

Mortality/Life Expectancy

The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the Fund. The mortality base tables used are set out below, with a loading reflecting Fund specific experience. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary.

A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health. For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2019 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2019 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2020 assumptions:

	Male Life Expectancy at 65		Female Life Expectancy at 65	
	2017	2020	2017	2020
Pensioners	22.6	21.4	24.6	24.1
Actives aged 45 now	25.5	23.0	27.8	26.2
Deferreds aged 45 now	23.4	21.7	26.6	25.2

For example, a male pensioner, currently aged 65, would be expected to live to age 86.4. Whereas a male active member aged 45 would be expected to live until age 88.0. This is a reflection of the expected improvement in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (this is the same assumption as at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual (or primary rate)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the Primary rate should take account of the market conditions applying at future dates, not just the date of the

valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the Primary rate) are based on an overall assumed real discount rate of 1.50% per annum above the long term average assumption for consumer price inflation of 2.10% per annum. This leads to a discount rate of 3.60% per annum.

Investment Strategies

At the actuarial valuation, following implementation, for employers not in the standard risk strategy, the investment return / discount rate assumption will be adjusted accordingly.

Employer Asset Shares

The Fund is a multi-employer pension scheme that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. The investment return credited will depend on which investment strategy is applied to the employers' assets.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the “primary rate”) for the 2020 actuarial valuation

Market implied RPI inflation	2.70% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	3.35% p.a.
CPI price inflation	2.10% p.a.
Short Term Salary Increases	Varies by employer - 3 year period to 31 March 2023 as noted above
Long Term Salary increases	3.60% p.a.
Pension increases/indexation of CARE benefits	2.10% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	3.60% p.a.
CPI price inflation	2.10% p.a.
Short Term Salary Increases	Varies by employer - 3 year period to 31 March 2023 as noted above
Long Term Salary increases	3.60% p.a.
Pension increases/indexation of CARE benefits	2.10% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation are set out below:

	Normal Health	114% S3PMA_CMI_2019 [1.75%]
		101% S3PFA_M_CMI_2019 [1.75%]
		150% S3PMA_CMI_2019 [1.75%]
Annuitant	Dependant	104% S3DFA_CMI_2019 [1.75%]
		136% S3IMA_CMI_2019 [1.75%]
	Ill Health	144% S3IFA_CMI_2019 [1.75%]

		146% S3PMA_CMI_2019 [1.75%]
	Future Dependant	
		121% S3DFA_CMI_2019 [1.75%]
		121% S3PMA_CMI_2019 [1.75%]
	Normal Health	
Active		101% S3PFA_M_CMI_2019 [1.75%]
		134% S3IMA_CMI_2019 [1.75%]
	Ill Health	
		151% S3IFA_CMI_2019 [1.75%]
		144% S3PMA_CMI_2019 [1.75%]
Deferred	All	
		116% S3PFA_M_CMI_2019 [1.75%]
		153% S3PMA_CMI_2019 [1.75%]
Future Dependant	Dependant	
		128% S3DFA_CMI_2019 [1.75%]

All life expectancies are normal health “cohort” expectancies from age 65 in 2020 and non-pensioners’ current age assumed to be 45.

Other demographic assumptions are set out in the Actuary’s formal report.

Appendix B – Admission Policy, Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements

Introduction

This document details the North East Scotland Pension Fund's (NESPF) policy on the methodology for assessment of ongoing contribution requirements and termination payments in the event of the cessation of an employer's participation in the Fund. This document also covers NESPF's policy on admissions into the Fund and sets out the considerations for current and former admission bodies. It supplements the general policy of the Fund as set out in the Funding Strategy Statement (FSS).

- Admission bodies are required to have an "admission agreement" with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the NESPF is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the NESPF.

Please see the glossary for an explanation of the terms used throughout this Appendix.

Entry to the Fund

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS (Scotland) Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the minimum risk methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation's funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the Regulations.

Admitted bodies providing a service

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities on default. Accordingly, in general, the minimum risk approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a "risk assessment report" provided by the actuary to the NESPF. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the NESPF it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery periods for Admitted Bodies will be set in line with the Fund's general policy as set out in the FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

An exception to the above policy applies if the guarantor is not a participating employer within the NESPF, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the NESPF the Administering Authority may in this case treat the

admission body as pre-funding for termination, with contribution requirements assessed using the minimum risk methodology and assumptions.

Pre-Funding for Termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to a minimum risk methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the minimum risk basis or alternative approach based on advice from the actuary

For any employing bodies funding for termination, the assets applied will be credited in line with a notional or actual strategy (e.g. if a modified investment strategy has been implemented for the employer) based on the advice of the actuary to provide more stability in the termination funding position.

Exiting the Fund

Assumptions to adopt for termination assessment

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically, this will be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

The assumptions will typically be applied based on gilt yields and inflation based on the duration of the employer liabilities. Alternative approaches may be used on the advice of the actuary to be consistent with any modified investment strategy applying to the employer.

In addition to using a more cautious discount rate, the Actuary will also use a more prudent mortality assumption when assessing the size of the liabilities for termination purposes to protect against future adverse demographic experience. In particular, the Actuary will assume a higher improvement rate for future life expectancy than is used for ongoing funding purposes by increasing the long term

improvement rate to 2.25% per annum. The rate be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

Termination of an employer's participation

i) Admission bodies participating by virtue of a contractual arrangement

The residual assets and liabilities and hence any surplus or deficit will normally transfer back to the guarantor. For Admission bodies, this process is sometimes known as the “novation” of the admission agreement where a successor body exists to take over the employing body's liabilities; this may (if agreed by the successor body) constitute a complete amalgamation of the assets and liabilities.

In circumstances where an exiting employer is expected to still be responsible for the termination position, an exit payment/exit credit may be payable from/to the exiting employer. This is subject to “representation” from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).

In some instances, the outgoing employer may only be responsible for part of the residual deficit or surplus as per a separate risk sharing agreement. The default is that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor unless agreed otherwise by all parties. For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then the default position is no exit credit will be paid.

No payment of an exit credit will be payable unless representation is made as set out below:

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, parties will need to make ‘representations’ to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the ‘determination’ on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of completion of the final cessation by the Actuary.
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution

collection or at the next valuation depending on the circumstances.

If requested, the Administering Authority may provide details of the information considered as part of the 'determination'.

As the guarantor will generally absorb the residual assets and liabilities, it is the view of the Actuary that the ongoing valuation basis described above should be adopted for the termination calculations. For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in alternative strategies. This is the way the initial admission agreement would typically be structured i.e. the admission would be fully funded based on liabilities assessed on the valuation basis.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the termination basis. In this situation the size of the termination payment would also depend on what has happened to the active members e.g. if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As any transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy below and the termination assessment will assume that the liabilities are orphaned and the termination basis would apply.

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary and the representations from the interested parties. For the avoidance of doubt in the case of an Exit Credit the determination process will be followed as set out above.

- **ii) Non-contract based admission bodies with a guarantor in the Fund**

The approach for these will be the same as (i) above and will depend on whether the guarantor is prepared to accept responsibility for residual liabilities.

iii) Admission bodies with NO guarantor in the Fund

These are cases where the residual liabilities would be “orphaned” within the Fund, although it is possible that a bond would be in place. The termination calculation would be on the termination basis as noted above.

The actuarial valuation and the revision of any Rates and Adjustments Certificate in respect of the outgoing admission body must be produced by the Actuary at the time when the admission agreement ends; the policy will always be subject to change in the light of changing economic circumstances and legislation.

The policy for such employers will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of completion of the cessation by the Actuary). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.
- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

The Administering Authority also reserves the right to modify this approach on a case by case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary. Where the approach is modified, a separate schedule will be provided to that employer. Setting out the approach to adopt and this will be done using consistent principles.

The above funding principles will also impact on the **bond requirements** for certain admitted bodies. The purpose of the bond is that it should cover any unfunded liabilities arising on termination that cannot be reclaimed from the outgoing body.

Allowing for the McCloud Remedy in Termination Valuations

The government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. A consultation was issued in July 2020, which confirms that the remedy will have the effect of removing the current age criteria applied to the underpin implemented in 2015 for the Scottish LGPS, which would then apply to all eligible members who were in service on or before 31 March 2012.

As part of any termination assessment, a reasonable estimate for the potential cost of McCloud will be included.

The allowance will be calculated in line with the treatment set out in this Funding Strategy Statement for all members of the outgoing employer using the termination assessment assumptions. For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made. Once the remedy is known, any calculations will be performed in line with the prevailing regulations and guidance in force at the time.

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the.

Policy in relation to the flexibility for spreading exit debt payments and Deferred Debt Agreements (DDA)

The Fund's policy for spreading termination exit debts (referred to as 'payment plans') is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of other stakeholders e.g. the

Fund/Other employers/taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer.

The following policy and processes will be followed in line with the principles set out in the statutory guidance published XX YY 2022.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payment can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted.
 - b. The initial and annual payments due and how these will change over the period

- c. The interest rates applicable and the costs associated with the payment plan devised
 - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
 - e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Fund Actuary, covenant, legal and any other specialists necessary
 - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
 - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS

As opposed to paying the exit debt (immediately or spread over an agreed period of time), an employer may participate in the Fund with no contributing members and utilise the “Deferred Debt Agreement” (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement. As part of this, the following will be considered and agreed:
 - What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
 - The investment strategy that would be applied to the employer e.g. the standard, medium or lower risk strategy which could support the arrangement.
 - Whether an upfront cash payment should be made to the Fund initially to reduce the potential future debt.
 - What the updated secondary rate of contributions would be required up to the next valuation.
 - The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
 - The advice of the Actuary, covenant, legal and any other specialists necessary.
 - The responsibilities that would apply to the employer while they remain in the Fund.
 - What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the secondary contributions (e.g. provision of security).
 - The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
 - Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be invoiced to the employer by the Fund.

Future Terminations

In many cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

'Minimum Risk' Termination basis

The minimum risk financial assumptions that applied at the actuarial valuation date (31 March 2020) are set out below in relation to any liability remaining in the Fund. These will be updated on a case-by-case basis, with reference to prevailing market conditions at the relevant employing body's cessation date.

Minimum risk assumptions	31 March 2020
Discount Rate	0.70% p.a.
CPI price inflation	2.10% p.a.
Pension increases/indexation of CARE benefits	2.10% p.a.

The financial assumptions above are as at 31 March 2020. These assumptions will be reviewed on an ongoing basis to allow for changes in market conditions along with any other structural or legislative changes.

In particular, since the valuation date it has been confirmed that RPI inflation will be reformed with effect from 2030 to align the index with the CPIH inflation measure. This therefore needs to be reflected when deriving an updated market estimate of CPI inflation.

For example, when assessing a termination position (at March 2020) we will adjust the market RPI inflation to arrive at the CPI inflation assumption by deducting 0.6% per annum when assessing an employer's termination position. This adjustment will be kept under review over time.

All demographic assumptions will be the same as those adopted for the 2020 actuarial valuation, except in relation to the life expectancy assumption. Given the minimum risk financial assumptions do not protect against future adverse demographic experience a higher level of prudence will be adopted in the life expectancy assumption.

The termination basis for an outgoing employer will include an adjustment to the assumption for longevity improvements over time by increasing the rate of improvement in mortality rates to 2.25% p.a. from 1.75% used in the 2020 valuation for ongoing funding and contribution purposes.

Appendix C – Review of Employer Contributions between Valuations

In line with the Regulations that came into force on 1 June 2022, the Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and/or changes in actuarial assumptions), the overarching policy intent is that contribution reviews are not permitted outside of a full valuation cycle. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be

considered on a case by case basis which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed and employers will be notified if the Administering Authority becomes aware of any of the following scenarios.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Restructuring of an employer
 - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
 - iii. A bulk transfer into or out of the employer
 - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements (for employers not included in the captive arrangement) or large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form

of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement which may impair the security provided to the Fund.

- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.
- d) The Fund becoming subordinate behind other creditors of the employer such as banks or other pension funds.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet this obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements.

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy via the employer investment buckets (once implemented).

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions if a contribution review is deemed necessary. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material impact on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (in line with the Funding Strategy Statement).
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the secondary contributions should be adjusted including whether the length of the recovery period adopted at the previous valuation remains appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available.

The review of contributions may take up to 3 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process the Administering Authority will consider whether it is appropriate to consult other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Appendix D – Covenant Assessment and Monitoring Policy

Introduction

This document sets out the Fund's approach to Employer risk management and in particular in respect of those bodies in the Fund defined as 'admission bodies'. This document supports the Fund's Employer Engagement Strategy

1.1 ADMISSION BODIES

Under the Local Government Pension Scheme (LGPS) (Scotland) Regulations, certain employers are allowed to participate in the North East Scotland Pension Fund (the Fund) if they satisfy the relevant criteria. These are known as admission bodies. An admission body is required to have an 'admission agreement' with the Fund. In conjunction with the regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

In line with Schedule 2 of the Regulations, all new admission bodies are required to carry out, to the satisfaction of the administering authority, an assessment, taking account of actuarial advice, of the level of risk arising on premature termination of the provision of service or assets by reason of insolvency, winding up or liquidation of the admission body.

The admission body is required to enter into a bond to cover this risk but, where it is not possible for the admission body to enter into a bond then a guarantee can be obtained from another entity provided certain conditions are met.

It is acceptable for the original transferring employer to instruct in writing to the Administering Authority that they should waive the requirement for a bond/indemnity and/or other guarantee on the basis of the guarantee provided by the original scheme employer under the Regulations. The Administering Authority will consider if this is acceptable depending on the covenant of the original scheme employer.

1.2 EMPLOYER COVENANT

An employer's covenant underpins its legal obligation and ability to fund the Scheme now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and

the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Scheme is exposed, including underfunding, longevity, investment and market forces.

An Assessment of employer covenant focuses on determining the following:

- Type of body and its origins.
- Nature and enforceability of legal agreements.
- Whether there is a bond in place and the level of the bond.
- Whether a more accelerated recovery plan should be enforced.
- Whether there is an option to call in contingent assets.
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital.

2 RISK

2.1 DEFINITION OF RISK

Risk can be defined as the combination of the probability of an event and its consequences. In this instance, the probability centres around participation in the Fund coming to an end or being prematurely terminated and if employees are not transferred to another employer, pension rights will be retained within the Fund in respect of the outgoing employer. These pension rights, deferred benefits, immediate retirement benefits or existing pensions in payment form the employer's liabilities. In the event that liabilities arise that cannot be recovered from the admission body, these will normally fall to be met by the original Scheme employer where they are acting as a guarantor, or the Fund as a whole where there is no guarantor in the Fund. Therefore, the consequence is that the Fund is exposed to risk where employers are unable to meet their liabilities and there is no cover provided by a guarantor.

Risk management includes identifying and assessing risks (the 'inherent risks') and responding to them.

Response to risk, which is initiated within the organisation, is through management of risk and may involve one or more of the following:

- Tolerating risk.
- Treating risk in an appropriate way to constrain the risk to an acceptable level.
- Transferring the risk.
- Terminating the activity giving rise to the risk.

The level of risk remaining after a review is that which has been accepted (the ‘residual risk’) and is the exposure in respect of that risk, and should be acceptable and justifiable.

2.2 IDENTIFYING RISK

The North East Scotland Pension Fund (the Fund) is exposed to a number of risks associated with admission bodies and other employers. In order to mitigate these risks, it is necessary to identify them and prescribe them certain levels so as to ascertain which are deemed tolerable and those that need to be addressed.

Broadly speaking the key risks specific to the Fund are as follows:

Financial - Market fluctuations, investment returns and pay/price inflation.

Demographic - Increased longevity and the cost of early retirements/death-in-service.

Regulatory - Changes to regulations and changes to national pension requirements and/or HMRC rules.

Governance - Administering authority unaware of structural changes in employer’s membership, administering authority not advised of an employer closing to new entrants, and an employer ceasing to exist with insufficient funding or adequacy of a bond. In addition lack of quality data from the employer can impact of the risk profile.

Employers - Sustainability of an employer or their ability to meet their liabilities within the agreed funding strategy.

Clearly some of the risks identified are beyond the control of the Fund and, therefore, it is important to target those where it does have influence when mitigating risk. With this in mind, the focus of this document will be in the areas of governance and employers’ activities or actions, but consideration should also be given to the cost of early retirements (including in ill health) and death in service and the potential for the transfer of such risk through appropriate insurance whether externally or internally within the Fund.

2.3 LEVELS OF RISK

The levels of risk facing the Fund can be generally classified as lower, medium and higher risk as illustrated below:

Participating Employers

Lower Risk	Medium Risk	Higher Risk
Local Authorities	Bodies which are part of a group or pooled bodies which share unfunded costs on default	Admission bodies with no guarantors and a significant deficit
Bodies with local authority guarantor	Admission bodies with small deficit or surplus of assets over liabilities	Bodies with potentially limited life span and in deficit
Bodies with long-term funding from local or central government		No active members or is closed with a significant deficit
		Relies on voluntary or charitable source of income with significant deficit

A key aspect of the risk categorisation will be the level of deficit in the Fund. This will be monitored as noted below.

The Fund will consider whether further banding of risk is required for employers and in certain cases it may be full assessment of potential risk is needed on a bespoke basis.

In addition in the context of those employers providing a guarantee to the Fund for certain employer liabilities (typically Local Authorities) the risk would be re-categorised ignoring the guarantee. This will be to show the guarantors the level of exposure in terms of their existing guarantees.

2.4 NATURE OF RISK

The principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its regular pension contributions and/or its liabilities upon termination. A deficit upon termination of an admission agreement might arise in the following scenarios:

- a) Non-payment of contributions to the Fund by an employer prior to closure
- b) Premature termination of a contract where market values are depressed relative to the liabilities in respect of an admission body, assessed on consistent assumptions to those adopted in the previous actuarial valuation.
- c) The reality is less favourable than the assumptions used in setting contribution rates for that employer – for instance, lower than expected investment returns, higher than expected rates of early retirement or excessive pay increases.
- d) Additional liabilities created as a result of the body closing, in particular the possible payment of immediate retirement benefits to all those eligible at that time.
- e) A pre-existing deficit in the Fund (past service liability).
- f) A change from open to closed status.

3 ASSESSMENT OF RISK

3.1 RISK CRITERIA

The Pensions Regulator has set out prescribed guidelines detailing the assessment criteria upon which an employer should be reviewed:

- Nature and prospects of the employer's industry.
- Employer's competitive position and relative size.
- Management ability and track record.
- Financial policy of the employer.
- Profitability, capital structure, cashflow and financial flexibility.
- Employer's credit rating.
- Position of the economy as a whole.

CIPFA also include information on how covenant and risk should be considered in their guidance Preparing and Maintaining a Funding Strategy Statement in the Local Government Pension Scheme.

Not all of the above would be applicable to assessing employer risk within the North East Scotland Pension Fund rather a balanced approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow.
- The relative priority placed on the pension scheme compared to corporate finances.
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

3.2 RISK PARAMETERS

For the North East Scotland Pension Fund, the risk a particular employer represents will be quantified using a five pronged approach, governed by the assessment criteria or triggers outlined below. Where one or more of these triggers is engaged, such employers will be subject to a more detailed review by the Fund. These criteria, when analysed in conjunction with the strength of the employer covenant (Section 5), will provide the basis for the framework upon which risk will be continually assessed and employer stability monitored.

1. Employer with less than five active members
2. Employer where significant member movements are imminent
3. Employer with a known participation length of 18 months or less
4. Employer with a known deficit of a significant level, relative to size of its financial metrics
5. Employer with a funding level identified at the last review of less than 80% or a deficit greater than £0.5m

4 MONITORING/SCREENING OF THE EMPLOYER COVENANT

4.1 ASSESSING THE EMPLOYER COVENANT

The employer covenant should be assessed objectively and the ability of employers or guarantors to meet their obligations should be viewed in the context of the Fund's exposure to risk and volatility, while preserving the interests of other employers within the Fund. The monitoring of covenant strength by itself does not strengthen the Fund's security; however, it does enable the Fund to anticipate and pre-

empt employer funding issues and thus adopt a proactive approach with a view to reminding employers of their obligations and managing their expectations. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, the proposal is for a number of fundamental financial metrics to be appraised to develop an overview of the employer's stability. These financial metrics centre around the following:

- Does the employer have a guarantor within the Fund or employer structure?
- The employer's funding source and length (if known).
- The employer's cashflow forecast, ideally over the next three to five years.
- If the employer has any contingent assets which can be used by the Fund to provide security.

In order to accurately monitor employer covenant, it will be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted sensitively to gather as much information as possible. Focus will be placed on the continual monitoring of employers with a proactive rather than reactive view to mitigating risk.

An overview of the framework upon which an employer's covenant will be monitored is detailed in the diagram overleaf (4.4). It is considered that this will provide the basis for actions to be taken and ultimately the management of risk, covered in the next section.

4.2 FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed as a matter of course with each triennial actuarial valuation. However, it is important that the relative financial strength of employers is reviewed regularly to allow for a thorough assessment of the financial metrics. There will be instances where known 'events' or individual employer circumstances are to be taken into consideration, and they will be incorporated into the monitoring framework.

Employers subject to a more detailed review, where a risk criterion is triggered, will be reviewed at least every six months, but more realistically with a quarterly focus. In such cases a more in depth analysis will be carried out taking into consideration all of the financial metrics and extenuating circumstances.

Separately the funding position will be monitored in conjunction with the Actuary to consider the potential exposure of the Fund in light of the covenant strength.

4.3 EMPLOYER MEETINGS

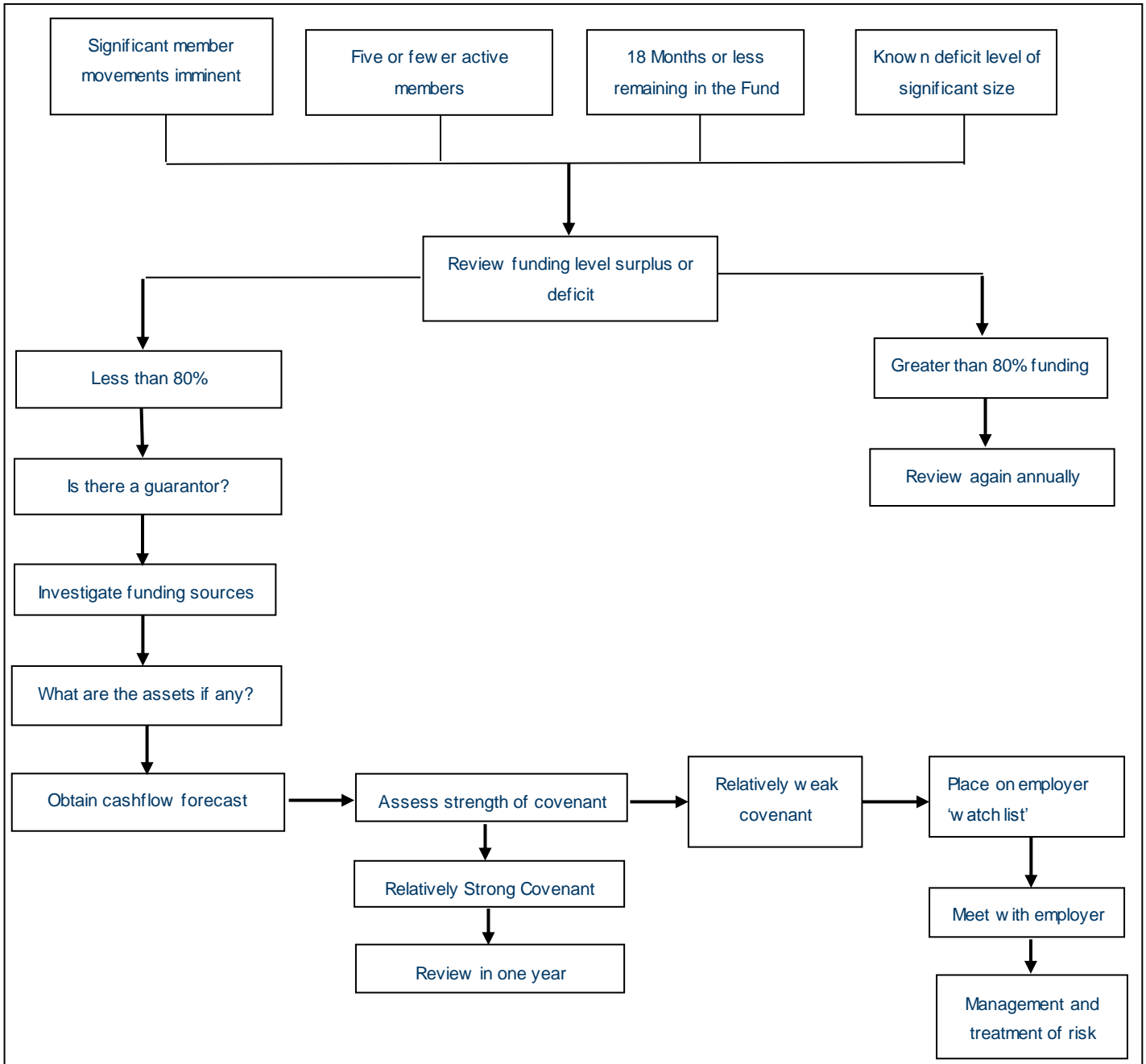
As a basis for the monitoring of employers within the Fund, meetings are to be scheduled with those organisations where there is a particular concern over strength of their covenant, accrual of liabilities

and future funding levels. Priority will be given to those employers requiring a more detailed review and the aim would be for meetings to be scheduled every six months for such organisations. In addition, it will also be necessary to arrange meetings with employers where there is a need to gain an understanding of their financial position with a view to assisting the monitoring process.

It is recognised that meetings will be tailored to each employer's needs, in conjunction with the Fund's assessment of that organisation; however, it is anticipated that the payment of pension liabilities on termination will feature heavily in these discussions.

There may also be a requirement for such organisations to draft a payment proposal for the Fund's consideration, along with a projection of future cash flows and income/expenditure.

4.4 GUIDE TOWARDS MONITORING OF THE EMPLOYER COVENANT



5 MANAGEMENT OF RISK

5.1 OVERVIEW

The focus of the Fund's risk management is the identification and treatment of the risks. It will be a continuous and evolving process which runs throughout the Fund's strategy. This management of risk is not a linear process; rather it is the balancing of a number of interwoven elements which interact with each other and which have to be in balance with each other if the management is to be effective.

5.2 INITIAL STEPS

For new bodies seeking admission to the Fund, the Pension Fund will conduct an audit to review the financial strength of the organisation, based on their accounts and other key criteria (scored out of 100).

- Regulation requires that relevant admission agreements must contain a provision requiring all bodies to undertake an assessment of the level of risk posed to the Fund in the event that the service contract terminates prematurely as a result of the organisation's insolvency, winding up or liquidation. Such assessments must take into account actuarial advice and must be carried out to the satisfaction of the relevant administering authority.
- In respect of outsourcing bodies, the North East Scotland Pension Fund (the Fund) will send out a risk assessment form to be completed by the outsourcing body at their expense. In order for a risk assessment to be conducted by the Fund actuary, the Scheme employer will need to provide a standard data file of the transferring staff to include names, national insurance numbers and details of current salary.
- For admission bodies, upon receipt of the results of the risk assessment, which will include a calculation of the employer contribution rate, details of the contracted arrangement between the Scheme employer and organisation will be clarified. The Scheme employer will be required to confirm the responsibility for pension costs and any other contractual arrangements which may affect the participation and also whether a bond or separate guarantee is required. If there is a limit on the amount that should be reclaimed directly from the outgoing employer due to contractual arrangements then the Scheme employer must notify the Fund in writing that this needs to be taken into account. Any residual deficit (or surplus) will revert to the Scheme employer subject to the other conditions in the FSS
- On termination of the admission agreement, any contributions due will first be reclaimed from the organisation. If the organisation defaults on any payments then the bond (if a bond is in place) would be called on. Any outstanding monies or residual surplus would then be dealt with as per the relevant Appendix.

The Fund will require confirmation of a suitable guarantor or indemnity for any admission body applications (see comments in 5.3 below).

5.3 BOND/GUARANTEE

In the event that an organisation becomes insolvent, it is unlikely to be able to meet its funding obligations to the Fund. Allowing organisations to become an admission body, therefore, creates an element of risk for the Fund, for other employers participating in the Fund and, in particular, for any outsourcing employing body.

If a risk assessment identifies a material level of risk, for an admission body, the administering authority will require the organisation to provide an indemnity or bond to protect against the identified risk or alternatively a separate guarantee.

Outsourcing employing bodies should regularly review the level of risk relating to an admission agreement, and require the admission body to put in place a revised bond or indemnity as appropriate.

The bond is the third party legal instrument required in respect of an organisation's admission to the LGPS (together with the service contract and the admission agreement). Organisations should consider employer rate and/or cost of bonds when making tender. Therefore, it is ideal these increased costs are considered early in contract/tender discussions.

Where a bond has been requested by the parent body or administering authority there will be a defined amount and timescale set. It is, therefore, important for the Fund to document the expiry date of such bonds and to monitor these closely. Bond information will be reviewed annually or when an expiry date is approaching. The aim would be to inform parent bodies where an expiry date is imminent to allow them to consider whether a revised bond is required. In cases where a revised bond is not required or cannot be obtained, it will be emphasised to the parent body that the potential for liability exists as ultimate guarantor.

As an alternative to a bond, the Fund will allow the organisation in question to set up an alternative guarantee or contingent assets e.g. an escrow account to which the Fund has direct claim upon in the event of insolvency or default, for the equivalent of the bond amount calculated by the Fund actuary. The Fund will require satisfactory evidence of such an alternative particularly on the understanding that it can only be closed or terminated via mutual consent. More detail is set out in 5.5 below.

5.4 SHORTENED RECOVERY PERIOD

The Fund actuary, in line with the Fund's Funding Strategy Statement (FSS), assumes a deficit recovery period based on the specifics of each employer group or individual employer. The Fund reserves the right to adjust this recovery period, where appropriate, dependent on the strength of an individual employer's covenant, its financial stability and future prospects.

In doing so, the Fund makes provision for any potential liability to be recouped over a shorter timescale, particularly where there is a risk the body in question may cease to exist. The shortening of the recovery period will of course increase the rates at which the employer must contribute and this needs to be weighed up in terms of its reasonable affordability vs impact on longer term covenant.

This involves a fine balancing act as it is not in the Fund's or guarantor's interest to impose an employer rate which is unaffordable and ultimately results in the premature cessation of that employer.

5.5 CONTINGENT ASSETS

Contingent assets are assets which exist upon the occurrence of one or more specified future events, at the behest of the Fund – for instance, the failure to achieve a specified funding level. They are not typically included as Scheme assets, for the purpose of assessing whether a scheme meets its funding objective, until they are transferred to the scheme. Examples of contingent assets include:

- a known guarantor, which agrees to cover all liabilities/, a proportion of those liabilities (or equally receive all surplus or proportion of surplus), arising upon termination (the contingent event). This can take place through the absorption of the assets and liabilities by the guarantor to form part of its own position or through the payment of a specified amount.
- security over other assets – for instance, property or securities, such that the asset is transferred to the Fund if the contingent event occurs.
- a letter of credit or a bond (see 5.3).
- sterling cash put aside in a bank account whereby some or all of the cash would be released to the Fund on the occurrence of the contingent event – for example, an escrow account.

The above list is not exhaustive and the Fund will consider alternatives as appropriate to each individual circumstance.

5.6 PHASED IMPLEMENTATION OF EMPLOYER CONTRIBUTION RATE

For certain bodies, the decision may be taken for the Fund's actuary to certify an employer rate lower than the target rate calculated for that particular body. This will usually involve the certified rate being set at the same level as that from the previous actuarial valuation and is with a view to providing that employer with a period of stability to alleviate short term cash funding issues. In such cases, the Fund will look for employers to increase their contributions on a phased basis, culminating in their reaching the Fund actuary's target rate at the end of an agreed period - typically a 3 year implementation period. The underpayment would be expected to be paid as soon as practical.

In order to calculate the annual increments applicable, the methodology will be based on the Fund actuary's target contributions, over the current contributions payable by the employer.

It will be stressed to employers that such rates still remain subject to change at the next triennial actuarial valuation and the approach will be taken on a case by case basis, including the treatment of the underpayment.

5.7 INFLATED EMPLOYER CONTRIBUTION RATE (RISK PREMIUM)

Consistent with the Funding Strategy Statement (FSS), the funding objective for triennial actuarial valuations is to achieve and then maintain assets equal to the funding target. The funding target is the present value of 100% of projected accrued liabilities, including allowance for projected final pay, on the appropriate assumptions applicable to that employer.

In practice, each new employer's position is assessed separately and their individual rates take into account the differing circumstances of each employer and the funding plan covered in the FSS.

It is an avenue open to the Fund that contributions for an admitted body, where there is a weak employer covenant and an associated concern, could be set relative to the funding target in excess of 100% of the liabilities. This higher target represents a "risk premium" against potential additional liabilities on failure of that admitted body. For example, the employer contributions could be based upon a funding target of 110% of projected accrued liabilities or set dependent upon the Fund's view towards each employer's risk.

6. TRANSFER OF RISK FOR OUTSOURCED BODIES

6.1 TRANSFER OF RISK

In order to preclude cross subsidy within the Fund between certain admitted bodies and other employers, the costs and financial effects of employers' participation in the Fund are separately identified ('separation basis'). One result of this approach is that the risks associated with a defined-benefit scheme promise in respect of the transferring staff, are transferred to the new employer. The costs relating to salary increases and early retirements also become the responsibility of the new employer. This allocation of risk to the new employer is very important to protect the position of other employers in the Fund, particularly the letting authority. There are ways in which risks can be shared with the original employer and new employer such as via the separate contractual arrangement. This can include fixing or limiting the contribution requirements on an ongoing or termination basis within certain parameters. Whilst not a direct party in these arrangements the Administering Authority would need to be notified of any such arrangements if these are to be taken into account at the termination of participation.

7. TREATMENT OF MATERIALISED RISK

7.1 OVERVIEW

The Fund recognises that there will be instances where, despite the monitoring of employer covenant and steps taken to both manage and transfer risk (where practical), this risk will nevertheless materialise. As identified previously, the principal risk facing the North East Scotland Pension Fund is the inability of an employer to be able to meet its liabilities upon termination or otherwise. Therefore, a prescribed set of measures need to be agreed to respond to this eventuality, in order to minimise the impact on the Fund.

7.2 TERMINATION OF AN ADMISSION AGREEMENT

In the event of termination of an admission agreement, for any one of the reasons covered in section 2.4, it will be necessary for the Fund actuary to calculate the associated deficit or surplus. The organisation in question will be responsible for paying the actuary's fee for this work, and the Administering Authority reserves the right to include it in the termination assessment and final contribution due from the employer or recharge it directly from the employer. The Fund will emphasise to employers their responsibility for the position upon termination; however, in certain circumstances where an exit payment is required, it may not be possible for an organisation to pay the total

termination deficit in one lump-sum. In this scenario, the Fund would request the organisation provides a payment plan for review and, if this is not satisfactory, consideration will be given to an independent financial and governance review (see 7.6). In addition, in certain circumstances the Fund may agree to issue a “suspension notice” to an employer to suspend that employer’s liability to pay an exit payment starting from the date when that employer would otherwise become an exiting employer. Should this occur, the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer’s current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn. The Fund reserves the right to require a side legal agreement alongside any suspension notices detailing the terms of the arrangement including for example the length of such a notice, and the conditions for cessation of the agreement/notice.

In addition, at the discretion of the administering authority, payment plans over an agreed period or a Deferred Debt Agreement may be entered into if an employer makes a request in writing outlining the reasons for such a request. Any deviation from this position will be based on the Administering Authority’s assessment of whether the full exit debt is affordable and whether it is in the interests of taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

7.3 WINDING-UP, INSOLVENCY, OR CESSATION OF AN EMPLOYER

In the event an employer ceases to exist, the Fund would act as a creditor engaging with the administrator to recovery monies.

As part of the covenant assessment the Fund will consider the legal responsibility the employer has on termination in light of other legislation and priority order of other creditors.

7.4 INDEPENDENT FINANCIAL AND GOVERNANCE STANDING REVIEW BY THIRD PARTY AUDITOR

In addition to the Fund taking preventative steps towards risk and responding in the appropriate fashion to address materialising risk, it may be necessary for the Fund to appoint a third party agent to conduct an independent review.

This review would be centred upon the financial measures and wider robustness of the governance of the organisation, particularly with a view to instances of substandard management or negligent practice.

The appraisal also provides the Fund with an external audit of the monitoring and risk aversion process employed, which is aimed at preserving the interests of all other participating employers and/or guarantor. The key objectives of this review will be to evaluate the financial standing and underlying governance arrangements, specifically:

- an assessment of the strength of the balance sheet and, based on this, drawing conclusions on the affordability of proposed termination payments. This element of the review will include, for example, structure/liquidity ratios; and
- a high-level evaluation of the body's overall governance structures and the adequacy of management's medium-term planning arrangements in addressing weaknesses and risks; and
- to develop an assessment methodology that can be applied to bodies in assessing their capability and capacity to manage and meet pension liabilities.

The above is not an exhaustive list of criteria that will be applied and each case will be considered on its own merits by the third party agent.

Appendix E – Glossary

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2015, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

Contingent Assets: assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it

appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

Deferred Debt Agreement (DDA): A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Future Service Contribution Rate (Primary Rate): the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Equities: shares in a company which are bought and sold on a stock exchange.

Exit Credit: the amount payable from the Fund to an exiting employer in the case where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Funding or solvency Level: the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Hedging: a strategy that aims to reduce funding volatility using Liability Driven Investment (LDI) or other techniques. This is achieved by investing in assets that capture levels of yields based on agreed trigger levels so the assets mimic the change in liabilities.

Investment Strategy Bucket: this describes a bespoke investment strategy which applies to one or more employers and is dependent on the liability and risk profile.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Fund's objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility, members' contribution rates, benefit calculations and certain governance requirements.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment: This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members: the individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum Risk Basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund. At the valuation date this was equivalent to a discount rate of CPI less 1.4% p.a.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Payment plans: Sometimes known as “Debt Spreading Arrangements” this is where the Fund agree to receiving the payment of the exit Debt in installments across a specified period/payment plan.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer’s long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Primary rate: the contribution rate required to meet the cost of future accrual of benefits, ignoring any past service surplus or deficit but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS (Scotland) Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery period: the target length of time over which the current deficit is intended to be paid off or the current surplus is intended to be refunded.

Recovery Plan: a strategy by which an employer will make up a funding deficit or run off surplus over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Secondary rate: the adjustment to the Primary rate to arrive at the total contribution each employer is required to pay. It is essentially the additional contribution (or reduction in contributions) resulting from any deficit (or surplus) attributable to the employer within the Fund.

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Scottish Public Pensions Agency (SPPA) in connection with reviewing the 2020 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Suspension Notice: A notice that may be issued to an employer to suspend that employer's liability to pay an exit payment in circumstances where the employer would otherwise exit. Should a notice be made, the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer's current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn. A side legal agreement may be required alongside such notices.

SWAPS: a generic term for contracts put in place with financial institutions such as banks to limit the Fund's investment and other financial risks.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 JUNE 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/JUN22/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS & MAIRI SUTTIE
TERMS OF REFERENCE	1.1-1.4, 3-5

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. RECOMMENDATIONS

That the Committee:-

- 2.1 Note the revisions to the NESPF Policy documents set out in the main report;
- 2.2 Approve the updated Authorised Signatory List in respect of the Aberdeen City Council Pension Fund, to take effect from 1 September 2022; and
- 2.3 Authorise the Chief Officer – Governance (following consultation with the Chief Officer – Finance) to (i) make further updates to the Authorised Signatory List to reflect any changes to personnel holding the posts listed therein and any changes to the post titles listed therein, and (ii) make any minor amendments to the List which may be necessary.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Appendix I, Copy of Risk Register (May 2022)

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	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.	L	Yes
Compliance	No significant risks identified.	N/A	N/A	N/A
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (May 2022)

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting June 2022

1. Background

1.1 Quarterly Report to June 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 and Investment Strategy Report

Separate reports, 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.lapffforum.org>.

3. Accounting

3.1 Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Annual Report & Accounts (draft)

Separate report, provided

4. Benefit Administration

4.1 Regulatory updates

The Local Government Pension Scheme (Scotland)(Miscellaneous Amendments) Regulations 2022

These regulations change the rules for calculating pre-April 2015 survivors pensions in response to two court cases: Walker v Innospec and Goodwin v Department for Education. The regulations place surviving same-sex civil partners, survivors of married same-sex couples and male survivors of female married members in a similar position to female survivors of male married members.

These regulations also amend The Local Government Pension Scheme (Scotland) Regulations 2018 to provide further flexibilities for fund authorities in dealing with employers and allow for amendments to an employers contribution rate in between tri-ennial valuations.

The cost cap figure is also amended from 15.5% to 15.2% in the regulations after the Government Actuary's Department identified an error in their original calculations.

The LGA have confirmed the changes to survivor benefits will count as a material alteration under the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, therefore the Fund will need to communicate these changes to members who are potentially impacted as soon as possible after, 1 June 2022 and no later than 31 August 2022.

"McCloud Remedy" Regulations

Scottish Ministers will publish the results of their consultation and intend to lay the "McCloud Remedy" regulations in October 2022, in The Local Government Pension Scheme Transitional Provisions and Savings)(Scotland) Regulations 2022.

These regulations will address the unintentional age discrimination that resulted from the transitional protection (through the "underpin") for members when the new LGPS scheme was introduced in 2015.

5. Systems

5.1 Performance Reporting

Quarterly update covering the period to 31 March 2022. Pension Administration Strategy (PAS) reporting will change from September 2022 (Quarter 1 report) due to an exercise to review both the PAS and quarterly reporting to Committee.

Appendix II, 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 Breaches of Law

A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 23 breaches of law recorded in the NESPF breaches register during 21/22. The majority were scheme employers failing to meet their statutory obligations e.g. late payment of pensions contributions. The remainders were personal data breaches resulting mostly from human error.

The Pension Fund will continue to engage with scheme employers during 22/23 and build on the training and support already provided. The Employer Relationship Team are in the process of trialling a new Microsoft Teams channel with Aberdeenshire Council and will look to roll this out to other employers if successful.

Following assessment none of the above breaches were deemed to be of material significance to require reporting to the Pensions Regulator.

In line with the UK Data Protection legislation certain data breaches must be reported to the Information Commissioners' Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 21/22.

6.3 Pensions Committee and Board Training

Separate report, provided

6.4 Document Update

The following documents have been updated and are available in the secure trustee area of the NESPF website or from the Governance Team on request:

- *Appointment Process for the Local Pensions Board* (update to include reference to Hymans Online Learning Academy)
- *Governance Policy* (amended from 9 to 13 Committee members)
- *Compliance with the Myners Principles* (minor corrections/design changes)
- *Overpayments Policy* (minor corrections/design changes)
- *Fire Safety (Local) Policy* *NEW* (covers fire safety procedures for MSq2)
- *Training Policy* (update to include reference to Hymans Online Learning Portal, clarification to wording on minimum training requirements)

6.5 Authorised Signatory List

An updated Authorised Signatory List is attached at Appendix III for approval, to take effect from 1 September 2022.

The current Authorised Signatory list was approved at a Pensions Committee meeting on 16 March 2018 and subsequently varied (updated) at a meeting on 13 September 2019.

The updated List at Appendix III takes account of changes in personnel across Aberdeen City Council. For the sake of efficiency, it is recommended that the Committee authorise the Chief Officer – Governance, following consultation with the Chief Officer – Finance, to make further updates and minor amendments to the List.

7. Employer Relationship

7.1 Procurement Update

A report was taken to Committee in December (PC/Dec21/Pro) for approval to direct award to Hymans Robertson for 20 licences for their online learning portal and to approve entering into a call off contract with Target Professional Services under the LGPS Framework for member data services.

The Council at its meeting on 18th May 2022 voted to increase membership of Committees including the Pensions Committee from 9 to 13. Officers will now look to acquire 24 licences for the Hymans portal. Approval for the additional expenditure was granted by the Chief Officer-Finance under Delegated Powers.

Following approval by Committee, discussions were held with Target which provided officers with further insight into the additional services they could offer. Officers would like to expand the scope to include validation of addresses traced digitally and manual tracing of members

who have not been traced by digital means. By taking these additional steps the Fund will ensure the exercise is fully successful, the Fund is complying with its data protection requirements and there is an audit trail in relation to validation.

Further discussions will be held between procurement colleagues and the Chief Officer-Finance to approve the costs for these additional services.

7.2 Funding Strategy Statement (FSS)

Separate report, provided

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.

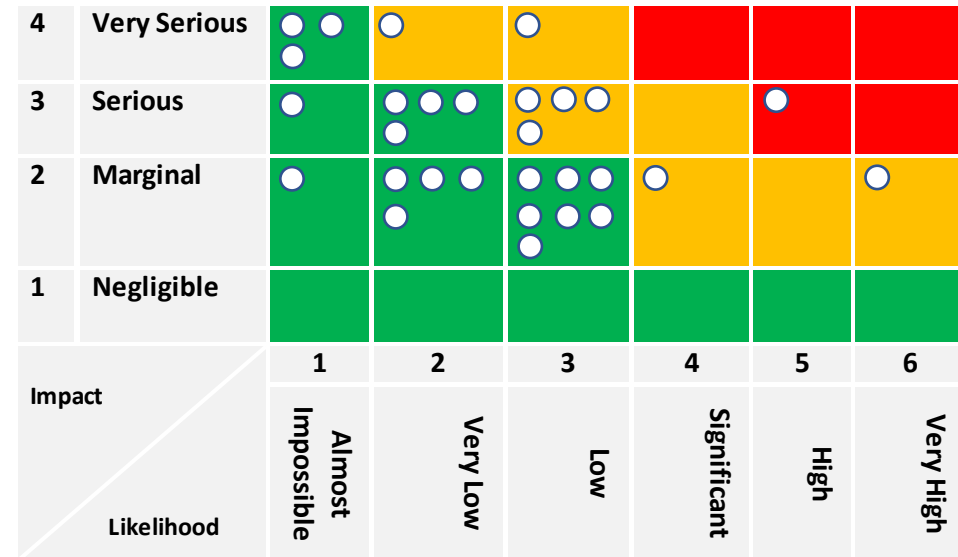
The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Reference.

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)



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 	3	3	9	↓	TREAT	Risk score reduced this quarter; vaccination and booster rollout has been very successful, last legal restrictions lifted in March 2022 due to declining numbers/deaths with Omicron variant. However possibility of more severe future variant remains.	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 2022 meeting.</p> <p>Normal governance arrangements are operating. ACC Scheme of Governance annual review completed in April 2022.</p>	
NESPF004	<p>Risk: Lack of performance measures</p> <p>Causes: Failure to develop performance reporting framework</p> <p>Potential Impact: Lack of transparency, poor performance could go unaddressed</p>	<ul style="list-style-type: none"> • Statutory and local KPI's • Pension Administration Strategy published quarterly • Investment performance (against benchmark) reported to Committee quarterly 	2	3	6	↔	TREAT		Ongoing
NESPF005	<p>Risk: Failure of Pensions Committee and Pension Board to operate effectively</p> <p>Causes: Poor attendance/commitment to role, high turnover of members, lack of training</p> <p>Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk</p>	<ul style="list-style-type: none"> • Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Annual Committee Effectiveness Report 	3	2	6	↔	TREAT	<p>Normal Governance arrangements are operating. Pension Board report to be taken to June 2022 meeting.</p>	Ongoing

NESPFO06	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> • ACC Disaster Recovery policy in place • NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	2	2	4	↔	TOLERATE		Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPFO07	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> • All staff have individual development plans which are reviewed regularly through CR&D • Training register to monitor • 2 full time training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review 	3	2	6	↔	TREAT	A number of posts have now been filled and operating at almost full staffing capacity.	Laura Colliss, ongoing
	Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								
	Potential Impact: Loss of service delivery, risk to succession planning								
NESPFO08	Risk: Pay and price inflation valuation assumptions either higher or lower	<ul style="list-style-type: none"> • Quarterly funding updates to Committee (using FSM) • Tri-ennial valuation • Individual employer contribution rates 	3	5	15	↑	TOLERATE	Discussions to commence for 2023 valuation. Inflation risk and pay inflation continue to be a serious concern, risk level raised as a result.	Ongoing
	Causes: Economic factors								
	Potential Impact: Potential increase in employer contribution rates and liabilities								
Governance									

NESPFO09	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								
NESPFO10	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								
NESPFO11	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									
NESPFO12	Risk: Fraud/Negligence		2	3	6	↔	TREAT		Ongoing

	<p>Causes: Dishonesty or human error by staff, scheme members</p> <p>Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> • Segregation of duties for benefits staff authorising/submitted lump sum payments • Pension payments signed off by benefits senior • Participation in National Fraud Initiative exercise • Overseas pensioner existence checking • Breaches Policy & register • Internal Audit control reviews 						Enhanced Admin to Pay module to provide secondary calculation checks as system requirement implemented into Live system in October 2020.	
Investments									
NESPF013	<p>Risk: Insufficient assets to meet the Funds long term liabilities</p> <p>Causes: Failure of investment strategy or fund managers to produce expected returns</p> <p>Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss</p>	<ul style="list-style-type: none"> • Quarterly assessment of investment performance and funding updates • Tri-ennial valuation and investment strategy review • Diversification of assets • Due diligence of fund managers • External advisor for specialist guidance on strategy 	4	3	12	↔	TREAT	<p>Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021.</p> <p>Investment Management Consultancy Services appointed in August 2021.</p>	Ongoing
NESPF014	<p>Risk: Failure to monitor investment managers and assets</p> <p>Causes: Lack of internal procedures</p>	<ul style="list-style-type: none"> • Quarterly assessment and reporting of asset performance 	3	3	9	↔	TREAT		Ongoing

	<p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> Regular meetings with investment managers 			8	↔			
NESPF015	<p>Risk: Failure of world stock markets</p>	<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
	<p>Causes: Systemic</p>								
	<p>Potential Impact: Increase in employer contribution rates, financial loss</p>								
NESPF016	<p>Risk: Negligence/Fraud/Default</p>	<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
	<p>Causes: Dishonesty by fund managers, lack of care or human error</p>								
	<p>Potential Impact: Financial loss, reputational damage</p>								
NESPF017	<p>Risk: Failure of Global Custodian</p>	<ul style="list-style-type: none"> Regular meeting with custodian Receipt of SAS 70 reports and monitoring 	4	1	4	↔	TOLERATE		Ongoing
	<p>Causes: Financial market crisis, regulatory/political</p>								
	<p>Potential Impact: Loss of assets or control of assets</p>								
NESPF018	<p>Risk: Failure to implement ESG policy</p>	<ul style="list-style-type: none"> Member training on roles and fiduciary duties Policy incorporated within SIP PRI membership, annual signatory assessment Monitor impact of climate change Adoption of TCFD 	2	3	6	↔	TREAT		Ongoing
	<p>Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy</p>								
	<p>Potential Impact: Reputational damage</p>								

		<ul style="list-style-type: none"> Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. 							
Accounting									
NESPF019	Risk: Poor financial reporting	<ul style="list-style-type: none"> Comprehensive policies and procedures in place and review of <i>the Code</i> Attending CIPFA meeting and reviews Regular reconciliations e.g. fund managers, custodian Internal/External Audits 	3	2	6	↔	TREAT	Draft Annual Report and Accounts to June 2022 meeting.	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									
NESPF020	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 protections against cyber threats including encryption, firewalls, 	4	1	4	↓	TREAT	No personal data breaches this quarter, risk rating reduced. Staff have begun undertaking annual information governance refresher training and majority have returned to the office. Policies reviewed.	Ongoing
	Causes: Cyber-attack, human processing error								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties								

		annual 3 rd party penetration testing etc							
NESPF021	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	Increased risk of cyber attacks globally from Russia but mitigations in place.	Ongoing
	Causes: Outages, hardware and software failures and cyber attacks								
	Potential Impact: Staff downtime, loss of service delivery								
NESPF022	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	Tracing exercise underway with Target following committee approval in December 2021.	Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								
Employer Relationship									
NESPF023	Risk: Failure to monitor employer covenant	<ul style="list-style-type: none"> Continued implementation of Covenant Assessment and Monitoring Policy (within FSS) 	2	3	6	↓	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								
NESPF024	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none"> Management through Covenant Assessment and Monitoring Policy (within FSS) 	3	3	9	↔	TREAT		Ongoing
	Causes: Public service cuts to funding								
	Potential Impact: Pressure on cash flows								

NESPFO25	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none"> • Management through Covenant Assessment and Monitoring Policy (within FSS) • Cost Cap mechanism introduced in LGPS regulations 	2	6	12	↔	TREAT	Regulation changes to allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities now introduced. Risk level remains static due to continuing uncertainty following Covid-19 pandemic.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPFO26	Risk: Longevity	<ul style="list-style-type: none"> • Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Discussions underway to prepare for 2023 valuation. Preparation of new FSS. CMI 2021 published in March'22 provides most up to date information on mortality data and will be used for 2023 valuation assumptions.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								
NESPFO27	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> • Internal escalation procedures • Breaches policy and register Monthly data submission reconciled by ERT • Quarterly PAS reporting to Committee & Board 	2	3	6	↔	TREAT	New flexibilities to LGPS (Scotland) Regulations due Summer 2022 which will help manage risk. Move to investment buckets will	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

		<ul style="list-style-type: none"> Ongoing training provided by dedicated ERT to scheme employers Employer Briefings 			4	↔		provide greater control to manage exits over longer term.	
NESPF028	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								
NESPF029	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	Work has begun communicating with employers and updating member records ahead of “McCloud Regulations” and Altair database sign off.	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								

Notes:

* Former risk **NESPF012:** Requirement to complete GMP reconciliation has been removed from this quarter as the rectification stage is nearing completion.

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North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting March 2022

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

1.1 Key administration tasks

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

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	41	37	90.2%	97.6%	97.6%	97.6%	1		90.2%
Notification of retirement estimate	10 days	468	467	99.8%	99.8%	99.8%	100.0%		15	96.7%
Notification of retirement benefits	10 days	2029	1818	89.6%	95.1%	96.8%	98.4%	32	86	86.0%
Notification of deferred benefits	10 days	1117	1085	97.1%	98.3%	98.6%	99.1%	10	59	92.3%
Notification of refund	10 days	1289	1248	96.8%	98.3%	99.1%	99.3%	9	17	95.6%
Notification of transfer in value	10 days	88	67	76.1%	77.3%	80.7%	84.1%	14	23	60.4%
Notification of transfer out value	10 days	433	276	63.7%	64.9%	66.1%	69.3%	133	43	58.0%
		5465	4998	91.5%				199	243	87.6%

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

- The overall percentage has increase by 10% on previous year with 4998 cases processed within target compared with 4591 in 2020/21
- More than 500 retirements were processed in target compared with 2020/21 with volumes returning to pre pandemic levels.

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:

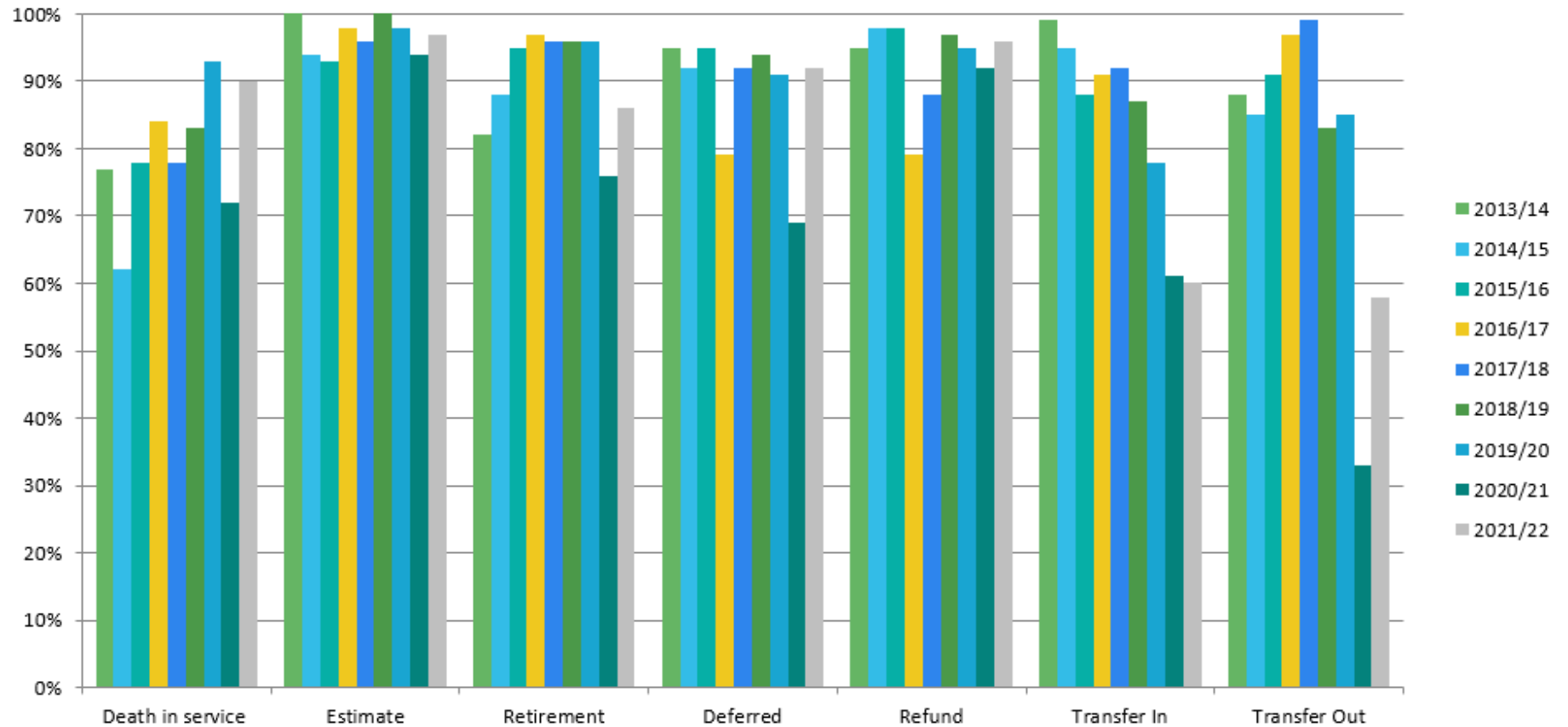
- Cases taking more than 20 days over target have reduced significantly from 287 in 2020/21 to 199.

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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 reduced significantly from 830 in 2020/21 to 243.*

1.2 Previous years comparison



*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

1.3 McCloud remedy

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 dashboard 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.

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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

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	

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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 (1,011,909)

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)	6,756
Amendments (address, personal details, hours and absence)	32,598
Leavers (exit and opt out)	5,026
Contributions (employee, employer and additional)	324,270
Salary	324,571
Cumulative CARE Pay	311,422
Works Address	7,266

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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

* 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												

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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												

*Ongoing work continuing to ensure records are updated in advance of the regulations coming into effect and the required database system changes are in place.

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AUTHORISED SIGNATORY LIST in respect of the Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund and including the Aberdeen City Council Transport Fund)

The Pensions Committee for the Aberdeen City Council Pension Fund (“the Fund”), at its meeting on 24 June 2022, authorised the following named officers of Aberdeen City Council to sign documents in respect of the Fund, with effect from 1st September 2022.

Aberdeen City Council is the Administering Authority for the Fund.

For the avoidance of any doubt, such signing may be by “wet ink” signature or by electronic signature.

OFFICERS AUTHORISED TO SIGN ALL AND ANY DOCUMENTS IN RESPECT OF THE ABERDEEN CITY COUNCIL PENSION FUND	
NAME AND POSITION	SIGNATURE
Jonathan Belford Chief Officer - Finance	
Fraser Bell Chief Officer - Governance	
Jennifer Lawson Service Manager - Legal Services	
Jessica Anderson Team Leader – Regulatory & Compliance, Legal Services	
Steven Inglis Team Leader – Regulatory & Compliance, Legal Services	
Elaine Falconer Team Leader – Litigation, Legal Services	
Alan Thomson Team Leader – Licensing, Planning and Environment, Legal Services	

Ross Campbell Team Leader - Property (<i>Interim</i>), Legal Services	
Craig Innes Head of Commercial and Procurement	
Michele Pittendreigh Team Leader, Commercial Legal Team Commercial and Procurement	

OFFICERS AUTHORISED TO SIGN IN RESPECT OF THE DAY-TO-DAY ADMINISTRATION OF THE ABERDEEN CITY COUNCIL PENSION FUND

NAME AND POSITION	SIGNATURE
Laura Colliss Pensions Manager	
Gary Gray Operations Manager	
Michael Scroggie Accounting Manager	
Caroline Mann Senior Pensions Officer Investments	
April Schelbert Senior Pensions Officer Investments	
Graham Buntain Investment Manager	

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	24 JUNE 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	TRAINING
REPORT NUMBER	PC/JUNE22/TRA
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFOR
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	4.1 AND 4.2

1. PURPOSE OF REPORT

- 1.1 To provide details of the training plan (2022/23) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATION

That the Committee:-

- 2.1 Agree the annual and one off proposed training set out in the attached report:
- Approve the travel of members to the training session in London
 - Approve the travel of members to attend external training opportunities
 - Approve the travel of members to attend LAPFF meetings; and
- 2.2 Note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

3. CURRENT SITUATION

See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 Training costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

- 5.1 Failing to ensure the Committee and Board members have sufficient training as detailed in the Fund's Training Policy, could result in the Fund being in breach of the Pensions Regulator Code of Practice 14 and the Public Service Pensions Act 2013 which set out knowledge and understanding requirements.

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

The risks associated with failure to ensure appropriate training are managed through the Pension Fund's Risk Management Policy and Risk Register, which is updated and reported to the Committee on quarterly basis.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to acquire and retain adequate levels of knowledge and understanding would result in non-compliance with tPR Code of Practice and PSPA 2013	Committee and Board meet at the same time, with the same agenda. Governance review carried out annually.	M	Y
Operational	Poor governance, inability of Pensions Committee and Board effectively	Committee and Board meet at the same time, with the same agenda. Governance review carried out annually.	M	Y
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	Fund's reputation may be negatively affected by breach of	Issues will be identified through governance review and rectified.	L	Y

	regulatory duties and tPR action.			
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

None

11. APPENDICES

None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Training Report

Annual Report June 2022

1. Current Situation

1.1 Background

There is a requirement under the Pensions Regulator (tPR) and CIPFA/Myners guidance that members sitting on Local Government Pension Scheme Committee and Board hold a certain level of knowledge and understanding.

The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the functions of a member of the Pensions Committee or Board.

1.2 Training Delivery and Content

Officers propose to deliver training over the coming period via 1 hour sessions following the committee meetings, these sessions will address various topics across the fund. There will also be additional training opportunities throughout the period including externally delivered training when available.

Due to the ongoing Covid-19 pandemic some of the proposed training may be delivered online or in hybrid, rather than in person, depending how the situation continues to evolve but at present the intention is to deliver the majority of training in person as legal restrictions have now been lifted.

Given the requirements under the Pensions Regulators, CIPFA/Myners and generally good practice enabling the delivery of members fiduciary duty falls to ensuring member training across the Fund.

The Fund has an increasing number of investment mandates/external fund managers delivering complex investment strategies across various asset classes and strategies, it is vital that members have access to these and the ability to engage.

Further to the above the Fund has provided the opportunity to deliver this in an environment that is focused and engaging that also enabled the fund managers to bring a wider team to deliver varying topics including;

1. Mandate/strategy
2. Performance
3. Business update
4. Industry update
5. Economic environment
6. ESG

This has previously been delivered where most fund managers are logistically based as it does deliver that wider format and suggest that this format should continue to be delivered in London.

Further external training opportunities are available, including but not limited to:

- **Scottish Local Government Pension Scheme Conference**
Date, Agenda and Venue (TBC)
- **LGC Investment Seminar Scotland**
Date, Agenda and Venue (TBC)
(<https://investmentseminarscotland.lgcplus.com>)
- **Local Authority Pension Fund Forum (LAPFF) Conference**
Date, Agenda and Venue (TBC)

In addition to the above, the Pensions Regulator have an e-learning toolkit for those involved in the governance and administration of a public service pension scheme, specifically aimed at local pension board members. The Pensions Regulator Toolkit can be found at the following link:

<http://www.thepensionsregulator.gov.uk/public-service-scheme.aspx>

Pensions Committee and Board members agreed to complete tPR's online toolkit as part of their individual training plans (PC/JUN19/TRA) and provide evidence of this to the Governance Manager to record on the training register.

At the time of writing this report, the training register shows 3 members of the Pensions Board and 3 members of the Pensions Committee have completed the training. Committee and Board members who have not already done so or who are new to their role are required to complete this training requirement as soon as possible as part of their personal training plans for 22/23. There are seven short modules to complete and a new optional module covering pensions scams.

Training attendance is reported in the annual Committee Effectiveness Report and respectively for members of the Board, in the Pension Board Annual Report.

The latest version of the Training Policy for the Pensions Committee and Board is attached in Appendix I.

1.3 Hymans Online Learning Academy

The Fund has procured licenses for Hymans Online Learning Academy for Pensions Committee and Board members, following approval by the Pensions Committee in December 2021 (PC/DEC21/PRO).

Members will receive personal log in details from officers. The online portal covers a range of modules, with over 5 hours of training video material available. It will also be a useful tool for members to record other training undertaken for reporting and audit purposes.



North East Scotland Pension Fund
nespf

Training Policy

May 2022

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Purpose Statement

This statement details the training agenda for members of the Pensions Committee and Pension Board of the North East Scotland Pension Fund (NESPF), as administered by Aberdeen City Council.

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

Application & Scope

All Pension Fund Committee and Board members (including substitutes) to whom this policy applies are expected to continually demonstrate their own personal commitment to training. It's important that members commit to participating in appropriate training events to ensure they have the necessary skills required to support them in their decision making role.

Induction Process

On appointment to the Pensions Committee or Board, a member will receive a formal induction by the Scheme Manager, as well as copies of and/or access to the key documentation relevant to the Fund and other useful information, including;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [the Statement of Investment Principles and Compliance with Myners Principles](#)
- [copy of the LGPS \(Scotland\) Regulations](#)

The induction will provide an overview of the structure and operation of the Funds and insight into the responsibilities of their respective role.

Policy documentation is available to Committee and Board members via the Pension Fund website at www.nespf.org.uk.

Training Plan

Myners Principles

As per the Myners Principles, administering authorities should ensure that:

- decisions are taken by persons or organisation with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they received and manage conflicts of interest.

Markets in Financial Instruments Directive (MiFID II) Requirements

Since the introduction of MiFID II from 3rd January 2018, financial institutions including the Local Government Pension Scheme (LGPS) are required to opt up to be classified as an elective professional client, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

To maintain this status, the Pension Fund needs to be able to demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

Training Opportunities

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Training is therefore ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions
- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training including use of the Hymans Learning Academy
- seminars and training events offered by the Fund's investment managers and advisors
- use of the secure 'trustee' area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

Training is provided to members of the Pensions Committee and Pension Board through the above range of opportunities in respect of the following topics;

Scheme Governance	Investment Strategy	Support Services
LGPS Status and Legal Framework	Asset Classes	Custody Services
LGPS Regulations	Risk	Service Organisation
Role of Elected Members	Investment Structure	Role of the Chief Officer – Finance
Advisors and their Role	Investment Management and Performance Monitoring	Role of the Pensions Manager and Pensions Team
Actuarial Valuation and Funding Strategy Statement		
Myners Principles		
Risk Management		

Hymans Online Learning Academy covers a range of modules, with over 5 hours of training video material available, including the following topics:

- **Introduction**
Introduction to the LGPS, Role of Elected Members on Committee
- **Governance & Regulators**
LGPS Governance, LGPS Oversight Bodies & Regulators (TPR), LGPS Oversight Bodies & Regulators (Section 13), Business Planning
- **Administration & Management**
Introduction to Administration, Policies & Procedures, Public Procurement, Additional Voluntary Contributions, Accounting & Audit
- **Funding & Actuarial Matters**
Introduction to Funding Strategy, LGPS Actuarial Valuation (Process & Technical Aspects), LGPS Employers
- **Investments**
Introduction to Investment Strategy, Performance Monitoring, Responsible Investment, MiFID II
- **Current Issues**
McCloud, Goodwin, Cost-sharing

Officers recommend Committee and Board members work through and complete the Hymans modules by March 2023, and on an ongoing basis thereafter as new or updated modules are delivered.

The Pensions Regulator's E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are eight short modules covering:

- **Conflicts of Interest**
- **Managing Risk and Internal Controls**
- **Maintaining Accurate Member Data**
- **Maintaining Member Contributions**
- **Providing Information to Members and Others**
- **Resolving Internal Disputes**
- **Reporting Breaches of Law**
- **Pensions Scams (optional)**

All members of the Pensions Committee and Pension Board are expected to complete the tPR Toolkit modules following appointment.

CIPFA Knowledge and Skills Framework

An updated Code of Practice and Knowledge and Skills Framework was published by CIPFA in 2021. The Fund has formally adopted the Framework and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

The CIPFA framework sets out the following key areas:

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

Pensions Committee and Board members are expected to have collective understanding of these areas of knowledge and skills.

Pension Board Specific Requirements

In accordance with Section 248A of the Pensions Act 2004, and redrafted by the Public Service Pensions Act 2013, the members of the NESPF Pension Board must be conversant with:

- The rules of the scheme (the Local Government Pension Scheme (Scotland))
- Any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme

NESPF Pension Board members should also have knowledge and understanding of:

- The law relating to pensions
- Such other matters as may be prescribed

CIPFA have published a separate [Technical Knowledge and Skills Framework](#) for Local Pension Board members.

Policy Performance

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown)
- agreement of an improvement plan; and
- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

Supporting Procedures & Documentation

This policy is supported by the policies and procedures that make up the wider governance framework and those prescribed by the Local Government Pension Scheme (Scotland) Regulations. Copies of which are available online at www.nespf.org.uk.

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

Responsibilities

All training costs are met directly by the Pension Fund.

The Pensions Committee will review this policy annually, or in the event of a policy revision and taking account of the results from any training needs analysis and emerging issues.

Day to day responsibility for the implementation of this policy sits with the Chief Officer - Finance and dedicated staff within the Pension Fund section.

Any questions or feedback on this document should be forwarded to the NESPF Governance Team at:

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

Email: governance@nespf.org.uk
Web: www.nespf.org.uk

CIPFA Knowledge and Skills Framework

This framework identifies the level of knowledge required by Pensions Committee members and senior officers to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

For committee members:

- An awareness i.e. recognition that the subject matter exists
- A general understanding i.e. understanding the basis in relation to the subject matter
- A strong understanding i.e. a good level of knowledge in relation to the subject matter but not necessary at a detailed level

For senior officers:

- a strong understanding i.e. a good level of knowledge in relation to the subject matter (but not necessary at a detailed level)
- a detailed level of knowledge in relation to the subject matter
- an expert level of knowledge in relation to the subject matter

CIPFA Knowledge and Skills	
Pensions and Guidance	Legislations General Pensions Framework <p>A general understanding of the pensions legislative framework in the UK.</p> <p>A general understanding of other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, General Data Protection Regulation (GDPR) and local authority legislation.</p> <p>Scheme-specific legislation A general understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including:</p>

	<p>a general understanding of the LGPS Regulations 2018</p> <p>A general understanding of the LGPS (Scotland) (Management and Investment of Funds) Regulations 2010</p> <p>An awareness of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members.</p> <p>A regularly updated awareness of the latest changes to the scheme rules and current proposals or potential changes to the scheme.</p> <p>Guidance</p> <p>A general understanding of the requirements of statutory guidance from the Responsible Authority, Scottish Government.</p> <p>A general understanding of the requirements of TPR Code of Practice.</p> <p>An awareness of the requirements of guidance from the Scheme Advisory Board.</p> <p>An awareness of requirements of guidance from the Government Actuary's Department.</p> <p>An awareness of other guidance relevant to the LGPS, such as from CIPFA.</p>
<p>Pensions Governance</p>	<p>An awareness of the LGPS regulations main features and requirements relating to the pension scheme governance.</p> <p>An awareness of statutory and other guidance relating to pension scheme governance including statutory governance guidance, TPR Code of Practice, CIPFA/SOLACE, Scheme Advisory Board guidance and the Myners Principles.</p> <p>Pension regulators, Scheme Advisory Board and other bodies</p> <p>A general understanding of how the roles and powers of the Scottish Government, TPR, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. A general understanding of the role of the Scheme Advisory Board and how it interacts with other bodies.</p>

General constitutional framework

A general understanding of the role of the administering authority in relation to the LGPS.

A general understanding of the role of the pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

An awareness of the role and statutory responsibilities of the CFO and monitoring officer.

Fund specific governance

A strong understanding of the terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers.

A general understanding of the stakeholders of the fund and the nature of their interests.

A general understanding of who the key officers responsible for the management of the fund are, how the pension team is structured and how services are delivered.

A general understanding of the fund's strategies, policies and other key documents.

A general understanding of how risk is monitored and managed, and the fund's current key risks.

A general understanding of how conflicts of interest are identified and managed.

A strong understanding of how breaches in law are recorded and managed, and if necessary reported to TPR, including each individual's personal responsibility in relation to breaches.

A general understanding of the fund's knowledge and skills policy and associated training requirements.

An awareness of the fund's process for dealing with complaints, including its Internal Dispute Resolution Procedure.

A general understanding of how the effectiveness of the fund's governance is reviewed.

	<p>Service Delivery</p> <p>A general understanding of the required budget and resources needed to manage and administer the fund.</p> <p>A general understanding of the annual business planning cycle and budget setting.</p> <p>A general understanding of the fund’s key performance indicators and other performance measures.</p> <p>A general understanding of the fund’s business continuity policy and cyber security policy.</p>
<p>Funding strategy and actuarial methods</p>	<p>An awareness of the LGPS regulations main features and requirements relating to funding strategy and the setting of employer contributions including associated guidance.</p> <p>A general understanding of the role of the fund actuary.</p> <p>A general understanding of the funding strategy statement and the expected delivery of the funding objectives.</p> <p>A general understanding of the key risks to the fund relating to the funding strategy.</p> <p>Valuations</p> <p>A general understanding of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>An awareness of the costs to the employer including employer contributions and early retirement strain costs.</p> <p>An awareness of the different types of employers that participate in the fund.</p> <p>A general understanding of the importance of employer covenant, the relative strengths of the covenant across the fund’s employers, and how this impacts the funding strategy statement adopted.</p> <p>A general understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy.</p>

	<p>A general understanding of the Scheme valuation and other work carried out by the Government Actuary's Department and the impact this has on the valuation process (i.e. cost management process/Section 13 report).</p> <p>New employer and exits</p> <p>A general understanding of the implications of including new employers into the fund and of the exist of existing employers.</p> <p>A general understanding of the relevant considerations in relation to the different types of new employer, e.g. outsourcings, alternative delivery models and also the considerations in relation to bulk transfers.</p>
<p>Pensions administration and communications</p>	<p>An awareness of the LGPS regulations main features and requirements relating to:</p> <ul style="list-style-type: none"> • Administration and communications strategies • Entitlement to and calculation of pension benefits • Transfers in and out of the scheme • Employee contributions and • The delivery of administration and communications. <p>Including associated guidance.</p> <p>A general understanding of the fund's pensions administration strategy including how it is delivered (including, where applicable, the use of third party suppliers and systems) performance measures and assurance processes.</p> <p>A general understanding of the fund's communications policy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes.</p> <p>A general understanding of best practice in pensions administration, e.g. performance and cost measures.</p> <p>A general understanding of the fund's processes and procedures relating to:</p> <ul style="list-style-type: none"> • Member data maintenance and record-keeping including data improvement plans and relationships with employers for data transmission • Contributions collection

	<p>An awareness of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances.</p> <p>A general understanding of additional voluntary contribution (AVC) arrangements including:</p> <ul style="list-style-type: none"> • The AVC arrangements that exist • The choice of investments to be offered to members • The provider's investment and fund performance • The payment of contributions to the provider • The benefits that can be received by scheme members • How and when the AVC arrangements, including the investment choices, are reviewed.
<p>Pensions financial strategy, management, accounting, report and audit standards</p>	<p>A general understanding of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the fund's accounts and annual report.</p> <p>A general understanding of the various elements of income and expenditure to the fund, including the operational budget.</p> <p>A general understanding of the cashflows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings.</p> <p>A general understanding of the role of both internal and external audit in the governance and assurance process.</p>
<p>Investment strategy, asset allocation, pooling, performance and risk management</p>	<p>An awareness of the LGPS regulations main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments including associated guidance.</p> <p>Investment strategy</p> <p>A general understanding of the key risks that the fund is exposed to and how a fund's investment strategy should be considered in conjunction with these risks.</p>

A general understanding of the risk and return characteristics of the main asset classes (equities, bonds, property), and the need to balance risk versus reward when determining the investment strategy.

A general understanding of the role of these asset classes in long-term pension fund investing.

A general understanding of the fund's cashflow requirements and how this impacts on the types of investments considered.

Total Fund

A general understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

Performance of the committee

An awareness of the Myners principles and the need to set targets for the committee and to report against them.

An awareness of the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime.

Responsible investment

An awareness of the latest developments and requirements in the area of responsible investment.

An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is signatory to these.

A general understanding of the fund's approach to responsible investment including how views on Environmental, Social and Governance issues are incorporated into the fund's investment strategy.

Risk Management

A general understanding about how to manage and reduce risk and lessen impact of risk on assets when it arises.

<p>Financial markets and products knowledge</p>	<p>Financial Markets</p> <p>A general understanding of the primary importance of the investment strategy decision.</p> <p>A general understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of associated risks.</p> <p>An awareness of the restrictions placed by legislation on the investment activities of LGPS funds.</p> <p>MiFID II</p> <p>A general understanding of MiFID II requirements relating to the knowledge of decision makers.</p>
<p>Pensions services procurement, contract management and relationship management</p>	<p>Understanding public procurement</p> <p>An awareness of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS.</p> <p>Fund suppliers</p> <p>Awareness of the key decision makers in relation to the Fund's procurements.</p> <p>A general understanding of the fund's suppliers and providers, and their roles in the management of the fund.</p> <p>An awareness of how the fund's suppliers are monitored, including:</p> <ul style="list-style-type: none"> The myners principles, and The need for strategic objectives for investment consultants <p>Supplier risk management</p> <p>A general understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting external suppliers and providers.</p>

	A general understanding of how the pension fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk.
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Role Profile for Convener of the Pensions Committee

The role of the Convener of the Pensions Committee requires post holders who have a wide experience of chairing meetings effectively, are good communicators and have at least some knowledge of pensions, financial or HR matters (through Council, personal and/or career experience).

The above Knowledge Framework is developed further for the Convener (and, by implication, the vice Convener) in the following paragraphs by introducing key skills elements unique to the Convener. This includes an expectation that the Convener should individually have the appropriate level of knowledge in relation to all the competencies in Annex I but noting that in some cases it will be necessary for a higher level of knowledge to be attained in some areas. The administering authority should ensure the Convener is provided with the appropriate training to meet these requirements, preferably within six months of appointment.

1. Convener of the Pensions Committee to preside over the determination of the following, after taking the advice of the Chief Officer – Finance and other advisors:
 - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
 - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - The appointment of investment and actuarial advisors and other third party services
 - The governance framework
 - The communication strategy of the Fund or Funds
2. And to monitor:
 - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
 - The costs of running the Pension Fund and Scheme
 - Comments and feedback from stakeholders

3. And to approve:

- The annual report and accounts of the Fund(s)
- Audit reports on the performance of the Pension Fund service
- Statements on Investment Principles, Governance, Administration and Communication
- The Risk Register and an annual risk analysis
- The medium term business plan and annual updates
- Training and development plans and updates
- Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors to understand the context and importance of forthcoming issues

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR CONVENER

Requirement	Essential	Desirable
1. Educational	A strong understanding of pensions, financial or HR matters (through council, personal and/or career experience). Commitment to individually achieving the required level of knowledge in relation to the CIPFA Framework competencies (or alternatively requirements as set out by the administering authority).	Demonstrable evidence of knowledge kept up to date. Knowledge of pension funds and schemes.
2. Work Experience	Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes.	Previously chaired a pensions committee or similar.

	<p>Has operated for 10 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p> <p>Communication and engagement skills.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish and maintain good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	<p>Diplomacy and tact.</p>
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Fund.</p>	
6. Equal Opportunities	<p>Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

Compliance with the Job Description

1. Pensions Legislative and Governance context

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

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

2. Pensions accounting and auditing standards

- 2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority financial statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

- 3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

- 4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that may impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

- 5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the

work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Convener have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

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

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