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

Town House,
ABERDEEN, 8 December 2022

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in the **Council Chamber - Town House on FRIDAY, 16 DECEMBER 2022 at 10.30am**. 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>

Please note that if the meeting finishes ahead of schedule, the training session will commence after the Committee & Board has met.

JENNI LAWSON
INTERIM 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

DEPUTATIONS

4.1. There are no deputations at this time

MINUTES OF PREVIOUS MEETINGS

5.1. Minute of Previous Meeting of 5 October 2022 (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

6.1. Business Planner (Pages 11 - 12)

NOTICES OF MOTION

7.1. There are currently no motions to the Pensions Committee

INTERNAL AND EXTERNAL AUDIT

8.1. External Audit Annual Audit Report 2021/22 (Pages 13 - 56)

ANNUAL REPORT AND ACCOUNTS

9.1. Consideration and signing of audited annual report and accounts - PC/DEC22/ARA (Pages 57 - 192)

9.2. Budget/Forecast and Projected Spend 2022/2023 - PC/DEC22/BUD (Pages 193 - 206)

SCRUTINY

10.1. Strategy - PC/DEC22/STRAT (Pages 207 - 232)

10.2. Pensions Administration Strategy - PC/DEC/PAS (Pages 233 - 278)

EXEMPT BUSINESS - NOT FOR PUBLICATION

11.1. Investment Strategy Update - PC/DEC22/INVSTRAT (Pages 279 - 286)

11.2. Asset and Investment Manager Performance Report - PC/DEC22/AIMPR (Pages 287 - 338)

Website Address: aberdeencity.gov.uk

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 5 October 2022. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- 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 I Hodgson, Chairperson; Mrs M Lawrence, Vice Chairperson, Councillors Copland (as substitute for Councillor Mennie), Leadbitter and Smith; and Mr N Stirling, 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 Colin Morrison, Audit Scotland.

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

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

WELCOME

1. The Convener welcomed everyone to the meeting, particularly Councillor Graham Leadbitter, who was the new Moray Council representative on the Pension Board.

DETERMINATION OF URGENT BUSINESS

2. At this juncture, Councillor Malik moved an urgent motion asking the Committee to consider the following:-

That Committee:-

- (a) notes that Aberdeen has been well served by having a member on the Local Authority Pension Fund Forum;
- (b) notes that the forum is made up from 83 local authorities throughout the UK;
- (c) notes that councillor Malik represented Aberdeen as Executive member on the LAPFF from 2020 to 2022 and was the only ethnic minority voice on the forum; and
- (d) agrees that Aberdeen City Council is a diverse Council that respects diversity as an inclusive organisation therefore agrees to endorse Councillor Malik as the LAPFF representative and amend the budget forecasts to reflect this position.

The Convener did not accept that the matter was urgent and therefore in terms of Standing Order 36.3, ruled that it would not be put before the Committee for consideration.

Councillor Tissera stated that she wished to record her dissent at the decision.

PENSIONS COMMITTEE AND PENSION BOARD
5 October 2022

DETERMINATION OF EXEMPT BUSINESS

3. 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.

SCHEME UPDATE

4. The Convener advised that he had asked Ms Colliss to provide a few words on the current financial situation. Ms Colliss advised that some of the reports in the press in relation to pension funds were misleading, grouping all funds together. She explained that the Local Government Pension Scheme was very different in how it was managed and the assets that were held, and that the funds referred to in press articles were in fact corporate schemes, rather than LGPS. Ms Colliss advised that when the articles referred to schemes having to sell assets to raise money and manage their responsibilities, the NESPF was not in that position, as the LGPS was a government backed, guaranteed scheme, and the NESPF was well-funded, with the backing of Aberdeen City Council as administering authority and the Scottish Government.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

5. There were no declarations of interest nor transparency statements made.

MINUTE OF PREVIOUS MEETING OF 24 JUNE 2022

6. The Committee had before it the minute of its previous meeting of 24 June 2022 for approval.

The Clerk advised that a member of the Board had raised that while the minute style stated that 'The Board resolved to note' the decisions of the Committee, this was not verbally stated at meetings and therefore to more accurately reflect the process, the Clerk proposed that this sentence be removed from both the previous minute of 24 June 2022 and future minutes, noting that if there was to be dissent from the Board at any point in future, this would of course be included in the minutes.

PENSIONS COMMITTEE AND PENSION BOARD
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The Committee resolved:-

to approve the minute, subject to the removal of the 'The Board resolved to note the decision of the Committee' from the text.

BUSINESS PLANNER

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

The Committee resolved:-

- (i) to note the reason set out in the planner for the delay to item 9 (NESPF Annual Report and Accounts) and that the report would now be presented to the December meeting; and
- (ii) to otherwise note the planner.

BUDGET/FORECAST 2022/23 - PC/SEP22/BUD

8. The Committee had before it a report by the Chief Officer – Finance which provided details of the Management Expenses Budget/Forecast 2022/23 for the North East Scotland Pension Fund (NESPF).

The report recommended:-

that the Committee approve the NESPF Management Expenses Budget/Forecast 2022/23, shown in Appendix 1 to the report.

The Committee resolved:-

to approve the recommendation.

INTERNAL AUDIT UPDATE REPORT - IA/22/002

9. The Committee had before it a report by the Chief Internal Auditor which provided an update on Internal Audit's work since the last update to Committee, including progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee.

Members heard from Mr Jamie Dale, Chief Internal Auditor, in respect of the report and asked a number of questions. Mr Dale advised the Committee that of the ten outstanding recommendations, all had been closed off.

The report recommended:-

that the Committee –

- (a) note the progress of the Internal Audit plan;

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- (b) note the progress that management had made with implementing recommendations agreed in Internal Audit reports;
- (c) note the approach to be taken for the 2023-2026 audit planning process; and
- (d) note the current staffing level within Internal Audit.

The Committee resolved:-

to note the report.

INTERNAL AUDIT REPORT AC2213 - PENSIONS SYSTEM - IA/AC2213

10. The Committee had before it a report by the Chief Internal Auditor which presented the Internal Audit report on the Pensions System, which had been undertaken to consider whether appropriate control was being exercised over the system used to administer the Fund, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems were accurate and properly controlled. The report set out a number of audit recommendations and Mr Dale advised that Management had agreed the recommendations.

The report recommended:-

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

The Committee resolved:-

to note the report.

STRATEGY - PC/SEPT22/STRAT

11. 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 the results of the first cost cap valuation for the LGPS (Scotland); the draft Pensions Dashboards Regulations and the requirement for Pension Schemes to meet the required standards (connection, security and technical) and to be able to respond to final requests, complete matching and provide administrative and signpost data on request; details of the progress with issuing pension fund annual benefits statements; and a copy of the Pension Board annual report for 2021/2022.

It was further noted that there had been minor amendments to the following documents which could be viewed in the secure trustee area of the NESPF website:-

- Data Protection Policy (minor updates for clarity)
- Corporate Governance and Corporate Social Responsibility Policy (minor updates e.g. fund asset amount)

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- Employer Engagement Policy (removal of temporary paragraphs relating to Covid-19 restrictions)
- Communication Policy (removal of temporary paragraphs relating to Covid-19 restrictions)
- Statement of Investment Principles (minor update to fund managers section)
- Governance Compliance Statement (updated to reflect changes in Committee structure from May 2022)

The report recommended:-

that the Committee note the work undertaken to review and update the scheme policy documents, as set out in section 6.4 of the main report, to ensure continuing compliance with the Local Government Pension Scheme Regulations.

The Committee resolved:-

to note the report.

In accordance with the decision taken under article 3, the following item was considered with the press and public excluded.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/AIMPR/SEP22**

12. The Committee had before it a report by the Director of Resources which presented a review of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 30 June 2022.

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.

- **COUNCILLOR JOHN COOKE, Convener**

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	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER								
	The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	16 December 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	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
6	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report			External Audit	External Audit	2.1		
7	Pension Administration Strategy	To present the draft NESPF Pension Administration Strategy 2022 to Committee for consultation and approval		Claire Mullen	Finance	Resources	4.1,4.2, 5.1		
8	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5	D	Due to the change in the committee structure, effectiveness reports will now be presented in August/September 2023. To ensure that Pensions Committee is reported in line with the other committees, this report will move to the September 2023 meeting of the Committee
9	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
10	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
11	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
12	24 March 2023								
13	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
14	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		
15	External Audit Annual Plan 2023/24	To present the annual plan			External Audit	External Audit	2.1		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
16	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		
17	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		
18	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
19	23 June 2023								
20	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
21	Internal Audit Annual Report	To present the annual report of Internal Audit		Jamie Dale	Internal Audit	Internal Audit	2.2		
22	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		
23	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		
24	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
25	15 September 2023								
26	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
27	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
28	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		
29	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
30	15 December 2023								
31	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
32	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		
33	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
34	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

Pensions Committee and Pension Board

16 December 2022

North East Scotland Pension Fund

Audit of 2021/22 annual report and accounts

Independent auditor's report

1. Our audit work on the 2021/22 annual report and accounts is now substantially complete. Subject to the receipt of a revised set of annual report and accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 16 December 2022 (the proposed report is attached at Appendix A).

Annual audit report

2. Under International Standards on Auditing in the UK we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee and Pension Board's consideration our draft annual report on the 2021/22 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual report and accounts.

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

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

Unadjusted misstatements

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

Fraud, subsequent events and compliance with laws and regulations

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

Representations from Section 95 Officer

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

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

Appendix A: Proposed Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the funds during the year ended 31 March 2022 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

These conclusions are not intended to, nor do they, provide assurance on the funds' current or future financial sustainability. However, I report on the funds' arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Reporting on other requirements

Other information

The Chief Officer - Finance is responsible for other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

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

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

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

consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gillian Woolman MA FCA CPFA

Audit Director

Audit Scotland

4th Floor

102 West Port

Edinburgh

EH3 9DN

Appendix B: Letter of Representation (ISA 580)

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

Dear Gillian

North East Scotland Pension Fund and the Aberdeen City Council Transport Fund Annual Report and Accounts 2021/22

1. This representation letter is provided in connection with your audit of the annual report and accounts of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (North East Scotland Pension Funds or the funds) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary, annual governance statement and governance compliance statement.

2. I confirm to the best of my knowledge and belief, and having made such enquiries as I considered necessary, the following representations given to you in connection with your audit of North East Scotland Pension Funds' annual report and accounts for the year ended 31 March 2022.

General

3. I have fulfilled my responsibilities for the preparation of the 2021/22 annual report and accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual report and accounts have been made available to you for the purposes of your audit. All transactions undertaken by North East Scotland Pension Funds have been recorded in the accounting records and are properly reflected in the financial statements.

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

Financial Reporting Framework

5. The annual report and accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (2021/22 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and the Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2022 and the transactions for 2021/22.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the note included in the financial statements. The accounting policies are determined by the 2021/22 accounting code, where applicable. Where the code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to North East Scotland Pension Funds' circumstances and have been consistently applied.

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

Going Concern Basis of Accounting

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

Assets

Investments

10. For the year ended 31 March 2022, the amounts included in the net assets statements reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2022. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Property Assets

11. For the year ended 31 March 2022, the amount included in the net assets statement is the valuation provided by Savills (UK) Limited. The valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

Long Term Assets

12. For the year ended 31 March 2022, the amount included in the Aberdeen City Council Transport Fund net assets statement for the insurance buy-in contract is the valuation provided by the Funds' actuary. The pension assumptions made by the actuary in this valuation have been considered and I confirm that they are consistent with management's own view.

Banking and Cash Flow Arrangements

13. The pension funds maintain separate bank accounts and while these accounts form part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the

administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

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

Liabilities

15. All liabilities at 31 March 2022 of which I am aware have been recognised in the financial statements.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2022 of which I am aware where the conditions specified in the 2021/22 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2022. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2022 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

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

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

Contingent Liabilities

20. There are no significant contingent liabilities, other than those disclosed in Note 23 of the Main Fund and Note 18 of the Transport Fund financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the accounting code 2021/22 and IAS 37.

Fraud

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

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

Laws and Regulations

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

Related Party Transactions

23. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with IAS 24 as interpreted by the accounting code 2021/22. I have made available to you the identity of all the North East Scotland Pension Funds' related parties and all the related party relationships and transactions of which I am aware.

Management Commentary

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

Corporate Governance

25. I confirm that the North East Scotland Pension Funds has undertaken a review of the system of internal control during 2021/22 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

26. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. In response to the Covid-19 pandemic, there have been several changes in governance arrangements including virtual committee meetings and homeworking for a range of staff. I am satisfied that our arrangements have been adequately maintained during the pandemic and that appropriate details have been disclosed in the Governance Statement. Otherwise, there have been no significant changes in governance arrangements or issues identified, since 31 March 2022, which require to be reflected.

27. I confirm that the Governance Statement has been prepared in accordance with the Scottish Public Finance Manual and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified since 31 March 2022 which require to be reflected.

Events Subsequent to the Date of the Statement of Financial Position

28. All events subsequent to 31 March 2022 for which IAS 10 as interpreted by the FReM requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford, CPFA
Chief Officer - Finance

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North East Scotland Pension Fund

2021/22 Annual Audit Report



 AUDIT SCOTLAND

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

16 December 2022

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Key messages

2021/22 annual report and accounts

- 1 Our audit opinions on the annual report and accounts are unmodified.
- 2 The financial statements of North East Scotland Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2022 and have been properly prepared in accordance with the financial reporting framework.

Financial management

- 3 Fund performance levels in 2021/22 were below the annual target. The annual performance of the Fund was significantly impacted by Covid-19 and other world events.
- 4 The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance.

Financial sustainability

- 5 The most recent triennial valuation, as at 31 March 2020, assessed both funds as fully funded and the funding strategy was updated accordingly.
- 6 Medium-term financial planning arrangements are appropriate and effective.

Governance and transparency

- 7 Governance arrangements were appropriate and operated effectively during 2021/22. More recently, political disagreement has entered into Pensions Committee discussions and detracted from engagement in the Committee's scrutiny role.
- 8 There have been several membership changes in the Pensions Committee during 2022 which reinforce the need for member engagement with robust training and development.

Best Value

- 9 The pension administration function performed well against targets.
- 10 The Fund has effective arrangements for monitoring investment performance and scrutinising investment management.
- 11 Fund investment performance levels in 2021/22 were below target but the longer-term increase in the value of net assets is the third largest across Scottish local government pension funds.

Introduction

1. This report is a summary of our findings arising from the 2021/22 audit of North East Scotland Pension Fund (NESPF or “the Fund”). The Fund consists of two funds, the North East Scotland Pension Fund (the main fund) and the Aberdeen City Council Transport Fund (the transport fund). Both funds are part of the Local Government Pension Scheme (LGPS). Hereafter we will refer to “the Fund” in the singular.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2022 meeting of the Aberdeen City Council Pensions Committee. This report comprises:

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

3. The main elements of our audit work in 2021/22 have been:

- an audit of the Fund’s 2021/22 annual report and accounts including the issue of an independent auditor’s report setting out our opinions
- a review of the Fund’s main financial systems
- consideration of the four audit dimensions of financial management, financial sustainability, governance and transparency and value for money.

Added Value

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

- identifying and providing insight on significant risks, and making clear and relevant recommendations
- sharing intelligence and good practice through our national reports ([Appendix 2](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

Responsibilities and reporting

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

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

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

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

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

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

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

Auditor Independence

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

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2021/22 audit fee of £44,100 as set out in our Annual Audit Plan remains unchanged.

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

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

Audit appointment from 2022/23

15. The Accounts Commission is responsible for the appointment of external auditors to local government bodies. External auditors are usually appointed for a five-year term either from Audit Scotland's Audit Services Group or a private firm of accountants. The current appointment round was due to end in 2020/21 but this was extended for a year so that 2021/22 is the last year of the current appointment round.

16. The procurement process for the new round of audit appointments was completed in May 2022. Audit Scotland will continue as the appointed auditor for North East Scotland Pension Fund for the new round of appointments starting in 2022/23. To maintain the independence and objectivity of the audit team, the engagement lead and other staff working on the audit will be changed for the 2022/23 audit. We will work closely with the new audit team to ensure a well-managed transition.

17. A new [Code of Audit Practice](#) applies to public sector audits for financial years starting on or after 1 April 2022. It replaces the Code issued in May 2016.

18. We would like to thank pension fund staff, Pensions Committee members and Pension Board members for their co-operation and assistance over the last six years.

1. Audit of 2021/22 annual report and accounts

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

Main judgements

Our audit opinions on the annual report and accounts are unmodified.

The financial statements of North East Scotland Pension Fund give a true and fair view of the state of affairs of the Fund as at 31 March 2022 and have been properly prepared in accordance with the financial reporting framework.

Our audit opinions on the annual report and accounts are unmodified

19. The annual report and accounts for the year ended 31 March 2022 were approved by the Aberdeen City Council Pensions Committee on 16 December 2022. We reported, within the independent auditor's report that:

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

The unaudited annual report and accounts were provided within the agreed timescale and were of a good standard

20. The unaudited annual report and accounts were received in line with our agreed audit timetable on 30 June 2022. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team during the audit. This helped ensure that the audit of the annual accounts process ran smoothly. As in the previous two years the audit was conducted remotely, observing social distancing measures.

21. Audit Scotland's audit timetable has been affected by the impact of Covid-19 pandemic. The target timescale in our 2021/22 Annual Audit plan was completion of the audit in October. The next scheduled Pensions Committee meeting was in December. The 2021/22 annual report and accounts were

signed off on 16 December which was after the Scottish Government's revised deadline for the submission of audited annual accounts.

There were no objections raised to the annual report and accounts

22. The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for North East Scotland Pension Fund was published on the website of the administering authority (Aberdeen City Council) and complied with the regulations. No objections were received to the North East Scotland Pension Fund accounts.

Overall materiality is £59.25 million

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

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

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

Exhibit 1 Materiality values

Materiality level	Main Fund	Transport Fund
Overall materiality	£59.25 million	£3 million
Performance materiality	£44.5 million	£2.25 million
Reporting threshold	£250 thousand	£75 thousand
Specific materiality (applied to benefits expenditure and contributions income in the fund account)	£16 million	£1.1 million

Materiality level	Main Fund	Transport Fund
Specific performance materiality	£12 million	£0.8 million

Source: Audit Scotland

We have one significant finding to report from the audit of the financial statements

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

27. We have one significant finding to report from the audit of the annual report and accounts as summarised in [Exhibit 2](#). We also identified a small number of disclosure and presentational matters which have been corrected in the audited accounts.

Exhibit 2

Significant findings from the audit of the annual report and accounts

Finding	Resolution
<p>1. Private equity level 3 investments valuations as at 31 March 2022</p> <p>The draft accounts were prepared using the latest available valuations of private equity level 3 investments (as at 31 December 2021). The valuations of private equity level 3 investments as at 31 March 2022 were subsequently received by the pension fund in August 2022. These valuations showed a £24 million increase in the value of these assets and management proposed to adjust the accounts so the most recent available information would be reflected in the audited accounts.</p>	<p>Management adjusted the accounts for the 31 March 2022 valuations, increasing Net Assets as at 31 March 2022 by £24 million. We have reviewed this adjustment and are satisfied that it reflects the most recent available 2021/22 valuations.</p>

Source: Audit Scotland

We have obtained audit assurances over the significant financial statements risk identified in our 2021/22 Annual Audit Plan

28. We have obtained audit assurances over the identified significant risk of material misstatement to the financial statements. [Exhibit 3](#) sets out the significant risk of material misstatement to the financial statements we identified in our 2021/22 Annual Audit Plan. It summarises the further audit procedures we performed during the year to obtain assurances over this risk and the conclusions from the work completed.

Exhibit 3 Significant risks of material misstatement in the financial statements

Audit risk	Assurance procedure	Results and conclusions
<p>1. Risk of material misstatement due to fraud caused by the management override of controls</p> <p>As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Results: Our detailed journals testing, review of accounting estimates and testing of year end entries identified no errors. Our review of the Transport Fund employer surplus refund (as a significant unusual transaction) concluded that this was appropriately accounted for.</p> <p>Conclusion: We concluded from our audit procedures that there was no evidence of management override of controls.</p>

Other areas of audit focus

29. In our 2021/22 Annual Audit Plan we identified areas where we considered there to be other risks of material misstatement to the financial statements. Based on our assessment of the likelihood and magnitude of the risk, we did not consider these to represent significant risks.

30. We kept these areas under review throughout our audit. As set out in [Exhibit 4](#) we have obtained audit assurances over these risks.

Exhibit 4

Other areas of audit focus

Audit risk	Results and conclusions
<p>Actuarial valuation of future retirement benefits</p> <p>Actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. As a result we will carry out a 'review of the work of an expert' in accordance with ISA 500 for the work of the actuary and review actuarial assumptions and consider the report by Audit Scotland's consulting actuary on the actuarial valuations.</p>	<p>Results: We carried out 'reliance on a management expert' work on the actuary. This included review of Audit Scotland's consulting actuary's report on actuarial assumptions. We concluded that we could place reliance on the valuations provided by the actuary.</p> <p>We reviewed the actuarial valuation reports for the Main Fund and the Transport Fund and confirmed these to the actuarial valuation disclosures in the accounts, with no issues identified.</p> <p>Conclusion: We did not identify any significant issues with the actuarial valuation of future retirement benefits disclosed in the annual report and accounts.</p>
<p>Valuation of unquoted investments</p> <p>There is a significant degree of subjectivity in the measurement and classification of certain investments. As a result we will carry out a 'review of the work of an expert' in accordance with ISA 500 and confirm valuations to valuation reports and/ or other supporting documentation for significant unquoted investments.</p>	<p>Results: We carried out 'reliance on a management expert' work on the custodian and on the valuer who provides the valuation of property (level 2) assets. We concluded that we could place reliance on the custodian and the valuer.</p> <p>We reviewed the Fund's arrangements for ensuring that the fund managers' valuations of unquoted investments were sufficiently robust.</p> <p>We reviewed the valuation reports and confirmed these to the asset valuations in the accounts with no issues identified.</p> <p>The draft accounts were amended to reflect the Private Equity level 3 investment valuations for 31 March 2022 which became available in August 2022. We confirmed all valuations to fund manager reports.</p> <p>Conclusion: We did not identify any significant issues with the valuation of unquoted investments (level 2 and level 3) in the annual report and accounts.</p>
<p>Actuarial valuation of Transport Fund Insurance buy-in contract</p> <p>The valuation depends on a number of assumptions about the future. These</p>	<p>Results: We reviewed the accounting disclosures and management commentary for appropriateness. We confirmed the valuation to supporting documentation.</p>

Audit risk	Results and conclusions
include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions. We will carry out a 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary and review actuarial assumptions	Conclusion: We did not identify any significant issues with the accounting treatment of the insurance buy-in contract or the valuation used in the annual report and accounts.

Source: Audit Scotland

We have no unadjusted misstatements above our reporting threshold to report

31. It is our responsibility to request that all misstatements above the reporting threshold are corrected. We have no unadjusted misstatements above our reporting threshold to report from the 2021/22 audit.

Additional voluntary contributions disclosure was based on estimates as the information was not available to the Fund

32. The Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 requires pension funds to disclose the amount of additional voluntary contributions (AVCs) paid by members during the year and the value at the Balance Sheet date of separately invested AVCs within a note to the annual report and accounts.

33. Note 22 Additional Voluntary Contributions in the annual report and accounts presented for audit included the required information for those members paying AVCs through Standard Life but included an estimate of this information for those members paying AVCs through Prudential for 2021/22.

34. Management explained that this information was not yet available for 2021/22 and Prudential had advised that it was unlikely to be available prior to the certification date. The late provision of this information from Prudential was also an issue for the 2020/21 annual report and accounts.

Good progress was made on prior year recommendations

35. North East Scotland Pension Fund has made good progress in implementing our prior year audit recommendations, as set out in [Appendix 1](#).

2. Financial management

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

Main judgements

Fund performance levels in 2021/22 were below the annual target. The annual performance of the Fund was significantly impacted by Covid-19 and other world events.

The Fund has appropriate and effective financial management arrangements, including comprehensive reporting of investment performance.

The annual performance of the Fund was significantly impacted by Covid-19 and other world events

36. When considering the investment performance of the Fund during 2021/22, it is important to recognise the impact of Covid-19 and other world events on financial markets and investments. The global impact of the pandemic and the conflict in Ukraine has significantly increased market volatility. The Fund's performance in 2021/22 is summarised in [Exhibit 5](#) and [Exhibit 6](#).

37. The Fund has faced a challenging year in 2021/22. The net assets of the Fund increased from £5,777 million at 31 March 2021 to £5,926 million at 31 March 2022, after reaching a peak of £6.3 billion in December 2021, the invasion of Ukraine cited as of significant impact. Consequently the Fund had a return of 2.4%, against a benchmark of 8.9%. We report on performance against other benchmarks at [paragraph 91](#).

38. The Fund's actuary, Mercer Limited, estimated that pension liabilities had increased by 1.7% from £6,003 million as at 31 March 2021 to £6,117 million at 31 March 2022 (£104 million increase) for the Main Fund.

39. During 2021/22 the £158 million benefits payable by the Main Fund exceeded the £152 million contributions receivable by the Fund. Pensioner numbers rose by 1,162, a 5.1% increase. Other factors also affected the rise in benefits payable, including individual members' entitlement. This is the fourth year that the Main Fund has reported negative cash flows and this position is expected to continue as the scheme matures.

Exhibit 5**Main fund assets and liabilities**

	Opening (as at 1 April 2021)	Closing (as at 31 March 2022)	Change in Year
Net Assets	£5,777 million	£5,926 million	+£149 million (+2.6%)
Estimated Liabilities	£6,003 million	£6,107 million	+£104 million (+1.7%)

Source: 2021/22 North East Scotland Pension Fund audited annual report and accounts

Exhibit 6**Main fund investment performance**

	1 Year	3 Year	5 Year
Return on Investments	2.4%	10.3%	10.1%

Source: 2021/22 North East Scotland Pension Fund audited annual report and accounts

40. As shown in [Exhibit 7](#), the Transport Fund's net assets have decreased from £304.6 million as at 31 March 2021 to £290 million as at 31 March 2022 (£14.6 million decrease). The estimated Transport Fund liabilities reduced by £12 million (5%), from £238 million as at 31 March 2021 to £226 million as at 31 March 2022. During the year £12.5 million was returned to First Glasgow Ltd. as a result of First Glasgow Ltd exiting the Transport Fund, leaving First Aberdeen Ltd as the only employer body in the Transport Fund.

Exhibit 7**Transport Fund assets and liabilities**

	Opening (as at 1 April 2021)	Closing (as at 31 March 2022)	Change in Year
Net Assets	£304.6 million	£290 million	-£14.6 million (4.8%)
Estimated Liabilities	£238 million	£226 million	-£12 million (-5%)

Source: 2021/22 North East Scotland Pension Fund audited annual report and accounts

The Fund has appropriate and effective financial management arrangements in place which includes comprehensive reporting of investment performance

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

42. The Aberdeen City Council Pensions Committee receives administration and performance reports at its quarterly meetings. These reports are comprehensive and include fund performance trends, investment manager performance against benchmarks and movements in asset allocations. From attendance at committee meetings we observed and concluded that administration and performance reports presented to members are subject to appropriate review and scrutiny.

43. Overall, we have concluded that the Fund has appropriate and effective financial management arrangements in place, including comprehensive reporting of investment performance.

Financial systems of internal control operated effectively

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

45. The Pension Fund uses some of the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems. We take assurance from audit reporting by KPMG, the external auditor of Aberdeen City Council, that the internal controls over these financial systems were operating effectively during 2021/22. The 2021/22 annual audit report for Aberdeen City Council reported controls testing in the following areas, with satisfactory results: journal entries; budget monitoring; bank reconciliations; procurement (contract awards); and review of pension assumption rate of return. KPMG have given an unmodified opinion on Aberdeen City Council's 2021/22 accounts.

46. Internal audit's annual opinion for Aberdeen City Council confirmed that "the council had adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022".

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

48. We also gain assurance from internal audit's work on the North East Scotland Pension Fund, and from our own audit testing of pension fund key controls. Internal audit's annual report on their work in relation to North East Scotland Pension Fund was reported to the Pensions Committee in June 2022.

The internal auditor's 2021/22 opinion for North East Scotland Pension Fund confirmed that "NESPF had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022".

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

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

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

51. The risk profile of public bodies during 2021/22 has been significantly affected by the Covid-19 pandemic. This is likely to have increased the risk of fraud and error as control environments and internal controls have had to change to allow for services to operate effectively and respond to issues in a timely manner. We have reviewed the arrangements put in place by North East Scotland Pension Fund to address any heightened risks and concluded that there are appropriate arrangements for the prevention and detection of fraud, error, and irregularities.

3. Financial sustainability

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

Main judgements

The most recent triennial valuation, as at 31 March 2020, assessed both funds as fully funded and the funding strategy was updated accordingly.

Medium term financial planning arrangements are appropriate and effective.

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

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

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

54. The Transport Fund was assessed as 114% funded, meaning that the Fund's assets were higher than its projected liabilities. This is an improved funding position from the 2017 funding valuation when the Transport Fund was assessed as 94% funded. The triennial funding valuation takes account of the completed merger with the former Strathclyde No.3 Fund. The former Strathclyde No.3 Fund was assessed as 114% funded in its 2017 funding valuation. The administering authority and the Transport Fund employers, First Aberdeen Limited and First Glasgow Limited, agreed to set the new employer contribution rate at nil for the period 2021-2024. In 2021/22 £12.5 million was returned to First Glasgow Limited and that employer left the pension fund.

Medium term financial planning arrangements are appropriate and effective

55. The funding strategy is a summary of the Fund's approach to funding liabilities. The investment strategy outlines the types of investment to be held and the balances between the different types of investment. The Investment Strategy Review 2021 was reported to the Pensions Committee in June 2022. The strategy is largely unchanged from the March 2021 review: the significant changes relate to employer flexibility, which is outlined at [paragraphs 61-62](#).

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

57. The Transport Fund has a different risk profile and investment strategy as a maturing closed fund. De-risking is a key objective to ensure the Fund can cover its liabilities. In 2020 the Fund completed a buy-in arrangement with an insurance company, Rothesay Life PLC, to cover the combined future liabilities of Transport Fund members. A buy-in is an insurance policy purchased by a pension fund, which is matched against some or all of the liabilities held. The Transport Fund insurance buy-in contract reduces longevity risk for the pension fund (transferring it to the insurer) and provides greater certainty over funding of the estimated liabilities (because pension payments are funded by the insurer). It is the first arrangement of its kind in the Local Government Pension Scheme in Scotland.

58. This policy covers the liabilities of 1,371 members who were pensioners at the agreement date of 19 November 2020. The Fund continues to administer the pensions of these members, but Rothesay Life PLC reimburses the Fund for the pension payments. The value of the buy-in contract is assessed annually by the Fund's actuary and is included as a long-term asset in the Net Assets Statement (£202 million as at 31 March 2022). The actuarial revaluation is reflected in the Fund Account.

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

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

The Fund is considering different investment strategies for managing liabilities at an employer level

61. 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, included changes which provide administering authorities with greater flexibilities for dealing with employers exiting the fund. 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. The Funding Strategy Statement 2022 allows the Fund to adopt these changes where required.

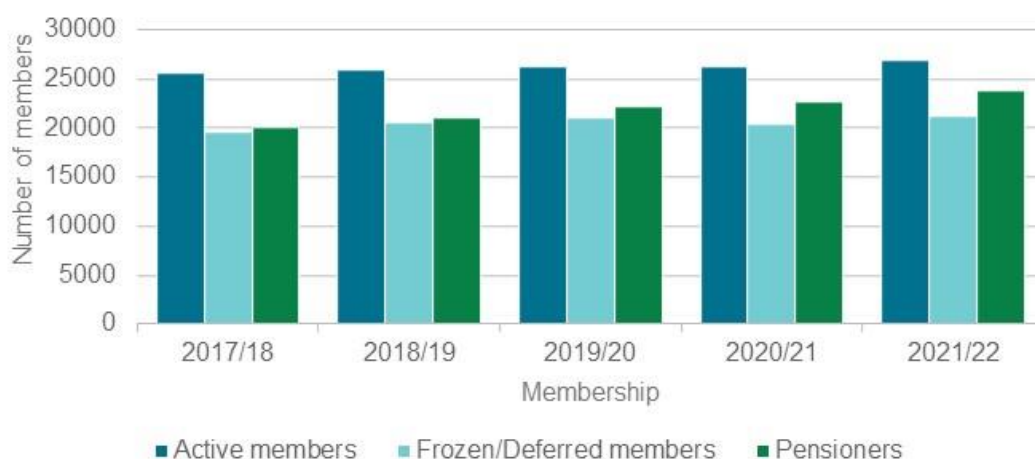
62. The investment strategy buckets would have different risk/return profiles: the current strategy would be the highest risk, and two strategies with lower risks would be introduced. Employers with weaker covenants or those expected to exit the fund in the near future could be moved to the lower risk strategies to help protect against a deterioration in the funding position and protect the Fund as a whole.

Fund membership levels continue to increase but the ratio of active members to pensioners is reducing

63. The Main Fund is a multi-employer fund with 3 local authorities, and 43 other employers. The current Main Fund membership profile is shown at [Exhibit 8](#).

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

Exhibit 8 Main Fund membership



Source: North East Scotland Pension Fund 2021/22 audited financial statements

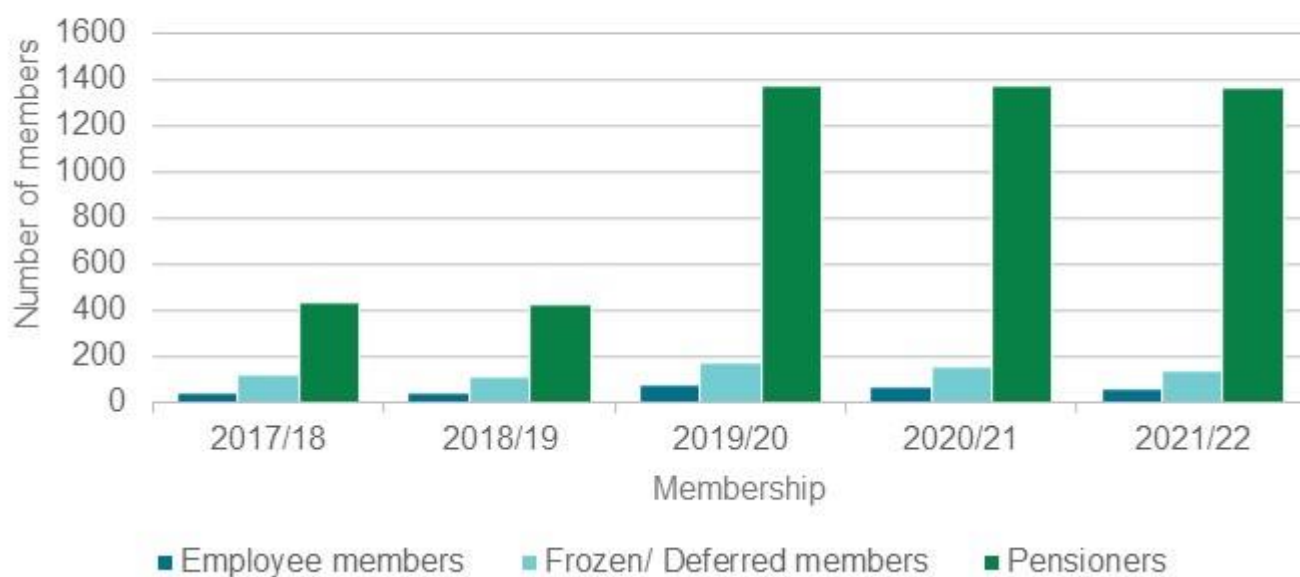
64. Membership of the Main Fund increased by 2,701 members to 72,076 members in total at 31 March 2022. The number of pensioner members continues to increase, with an additional 1,162 at the year end. The number of

active members continues to outweigh the number of pensioners but the ratio of active members to pensioners has reduced in the past 6 years.

65. Cash flows from dealing with members were negative for the fourth year running, with more paid out in benefits than was received from contributions. Over the long term, the cash flow position will impact on the investment strategy as income from investments rather than contributions will be needed to pay pensions.

66. The Transport Fund membership profile is shown at [Exhibit 9](#).

Exhibit 9 Transport Fund membership



Source: North East Scotland Pension Fund 2021/22 audited financial statements

67. The Transport Fund is a closed fund: membership increased significantly in 2019/20 due to the merger of Strathclyde Pension Fund No.3 Fund with the Aberdeen City Council Transport Fund. In the past year membership reduced by 38, with 1,566 members at 31 March 2022.

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

68. Following the triennial valuation in 2020, the actuary agreed employer contribution rates with individual employers from 1 April 2021 to 31 March 2024. As noted above, the employer rate has reduced from 19.3% to 17.9% for one local authority and remained at 19.3% for the other two local authorities. The rates for the other bodies range from 11.9% to 65.8%. These rates previously

ranged from 11% to 33.8%. For the majority of employers, the current funding surplus is being used to subsidise and stabilise contribution rates. For a small number of employers, these rates include an element of deficit recovery contributions to support employers' financial planning. The approximate split of all contributions received in year is set out at [Exhibit 10](#).

Exhibit 10

Main fund contributions in 2021/22

	Administering authority £m	Scheduled bodies £m	Other bodies £m	Total £m
Employer contributions	28.061	69.292	11.576	108.929
Employee contributions	9.045	20.954	3.565	33.563
Strain Contributions	1.044	3.365	0.026	4.434
Deficit Recovery Contributions	0.822	1.633	0.111	2.566
Total	38.971	95.243	15.278	149.492

Source: North East Scotland Pension Fund 2021/22 audited financial statements and supporting working papers

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

4. Governance and transparency

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

Main judgements

Governance arrangements were appropriate and operated effectively during 2021/22. More recently, political disagreement has entered into Pensions Committee discussions and detracted from engagement in the Committee's scrutiny role.

There have been several membership changes in the Pensions Committee during 2022 which reinforce the need for member engagement with robust training and development.

We have obtained audit assurances over the wider audit dimension risk identified in our 2021/22 Annual Audit Plan

70. [Exhibit 11](#) sets out the wider audit dimension risk we identified in our 2021/22 annual audit plan. It summarises the further audit procedures we performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 11

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

Audit risk	Assurance procedure	Results and conclusions
<p>1. Local Government Elections</p> <p>There may be changes to the composition of the Pension Committee and the Pension Board as a result of the local government elections in May 2022. There is a risk that following the elections, a</p>	<p>We will monitor the council's arrangements for developing members and preparations for inducting newly elected members.</p>	<p>Following initial induction training there is ongoing training and development available to Pensions Committee and Pension Board members.</p> <p>Our review of arrangements for induction and ongoing training concluded that those</p>

Audit risk	Assurance procedure	Results and conclusions
number of new members do not have the necessary experience and understanding of their role and responsibilities in such areas as governance, scrutiny and decision making in respect of the Pension Fund.		arrangements were appropriate.

Governance arrangements were appropriate and operated effectively during 2021/22

71. The governance and transparency arrangements we consider in reaching our conclusions include:

- committee structure, conduct and openness
- overall arrangements and standards of conduct including those for the prevention and detection of fraud, error, bribery and corruption.
- reporting of performance and whether this is fair, balanced and understandable.

72. We concluded that governance arrangements were appropriate and operated effectively during 2021/22. Pensions Committee and Pension Board members received appropriate and timely information to support decision making and scrutiny.

Scrutiny of the accounts and audit reports is more limited than scrutiny of investment performance

73. Pensions Committee meetings are the vehicle for member scrutiny of pension fund decision making and use of resources. We have observed effective scrutiny of investment performance at Pensions Committee meetings but limited public scrutiny in other areas, particularly in relation to the accounts and audit reports. We acknowledge this may be because Fund performance has been positive, and reports to the Pensions Committee contain sufficient detail and explanation.

74. The Pension Fund should support members through training and development to feel confident in their monitoring and scrutiny role. Training opportunities are offered throughout the year; 2021/22 training included seminars on investment strategies, and two virtual training sessions for all Scottish local government pension funds.

75. There has been considerable change in committee membership during 2022; this emphasises the need for ongoing training tailored to individuals' needs and we encourage members to work with officers to assess training

needs and develop a training plan. There may also be scope to re-run training on the annual report and accounts for newer committee members.

More recently, political disagreement has entered into Pensions Committee discussions and detracted from member engagement in their scrutiny role.

76. The Pensions Committee, which carries out the functions of an audit committee for the Pension Fund, should be non-political in its discussions, as set out in best practice for audit committees. Recently, political disagreement entered into Pensions Committee discussions and detracted from member engagement in their scrutiny role; committee membership changes also followed this political disagreement. We recognise that local government is a political environment but members should be mindful of the role and remit of the committee.

Recommendation 1

Pensions Committee members should remain as politically neutral as possible when exercising their scrutiny role.

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

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

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

78. The Fund conducts a compliance review against the code on a six-monthly basis and reports annually to the Pensions Committee and Pension Board. The latest report assessing the Fund's compliance with the Pensions Regulator's code was submitted to the Pensions Committee and Pension Board in March 2022. This provided assurance that the Fund is largely in compliance with the regulations. There were no breaches of the code that required to be reported to the Pensions Regulator in 2021/22.

79. The Pensions Regulator places a legal requirement on Pension Board members to maintain an appropriate level of knowledge and understanding of scheme rules, documents recording scheme administration policies and pensions law. Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. Two Pension Board members

and two Pensions Committee members did not attend at least two training sessions during 2021/22; they are no longer Pension Board or Pensions Committee members.

80. Members have varying levels of experience in their roles and their training needs will vary accordingly. Individual training needs are assessed in conjunction with pension fund officers and members can request targeted training. As noted above, it is important that members engage with the development opportunities on an ongoing basis to build and maintain an appropriate level of knowledge.

Performance reporting was of a good standard

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

82. The Fund's 2021/22 management commentary is of good quality and is written with the stakeholder in mind. It presents some complex areas in an understandable style. We noted that some of the language used in the prior year's management commentary was more straightforward than in the 2021/22 commentary on the economic and market background. Using plain language increases transparency in reporting the financial performance and financial position.

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

83. The Fund actively engages with the companies it invests in regarding Environmental, Social and Governance (ESG) matters. The Statement of Investment Principles sets out the Fund's approach to responsible investment. The Fund's membership of the Local Authority Pension Fund Forum (LAPFF) offers an opportunity to engage on a wider scale on key issues: examples include working with companies to secure commitment to achieving a carbon neutral position and reducing the use of plastics. The Fund is also a signatory to Principles for Responsible Investment, a signatory to Climate Action 100+ and a member of the Carbon Disclosure Project.

5. Best Value

Using resources effectively and continually improving services

Main judgements

The pension administration function performed well against targets with most areas recovering to pre-pandemic performance levels.

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

Fund investment performance levels in 2021/22 were below target. The longer-term increase in the value of net assets is the third largest across Scottish local government pension funds.

The pension administration function has performed well against targets

84. The Pensions Committee meets on a quarterly basis and receives regular reports on both fund administration and investment performance. The focus of measuring the performance of pensions administration includes both member experience and statutory compliance. Performance of the fund's administration function is summarised in [Exhibit 8](#) below.

85. Performance has increased against six of the seven administration targets with one (the time taken to issue letters notifying transfer in quotes) remaining stable. [Exhibit 8](#) also shows the performance for 2019/20 which was largely unaffected by the Covid-19 pandemic. The only two areas that are not broadly in line with pre-Covid performance are issuing letters detailing transfers in and issuing letters detailing transfers out. We note that these areas are likely to involve communication with other pension funds, so performance is not wholly under the control of the Fund.

Exhibit 8 Administration Performance

	Target	Percentage processed within standard 2019/20	Percentage processed within standard 2020/21	Percentage processed within standard 2021/22	Relative performance compared to prior year
Letter notifying death in service to dependent	5 days	88%	72%	90%	↑
Letter notifying retirement estimate	10 days	98%	94%	97%	↑
Letter notifying actual retirement benefit	10 days	96%	76%	86%	↑
Letter notifying deferred benefit	10 days	91%	69%	92%	↑
Letter notifying amount of refund	10 days	95%	93%	96%	↑
Letter detailing transfer in quotes	10 days	84%	61%	60%	↔
Letter detailing transfer out quotes	10 days	76%	33%	58%	↑

Source: North East Scotland Pension Fund 2021/22 unaudited financial statements

86. Administrative expenses for the Main Fund increased in 2021/22 to £3 million from £2.9 million in 2020/21, including governance and oversight costs. The unit cost per member has increased by 29% in the past 5 years. Fund membership has increased by 10.4% over the same period. Staffing levels increased from 34.1 Full Time Equivalent (FTE) in 2020/21 to 36.3 FTE in 2021/22.

87. The Fund is expecting its workload to increase further as a result of the McCloud judgement and the proposed remedy, with 16,000 members needing to be recalculated. Work is ongoing with the software supplier which should result in the ability to bulk recalculate benefits based on the draft regulations.

88. The fund has expanded the use of the My Pension self-service portal in the year, with several new features applied including an enhanced upload function allowing members to upload multiple documents. The Fund issues Annual Benefit Statements digitally through My Pension; this reduces the environmental impact, paper usage costs and time savings.

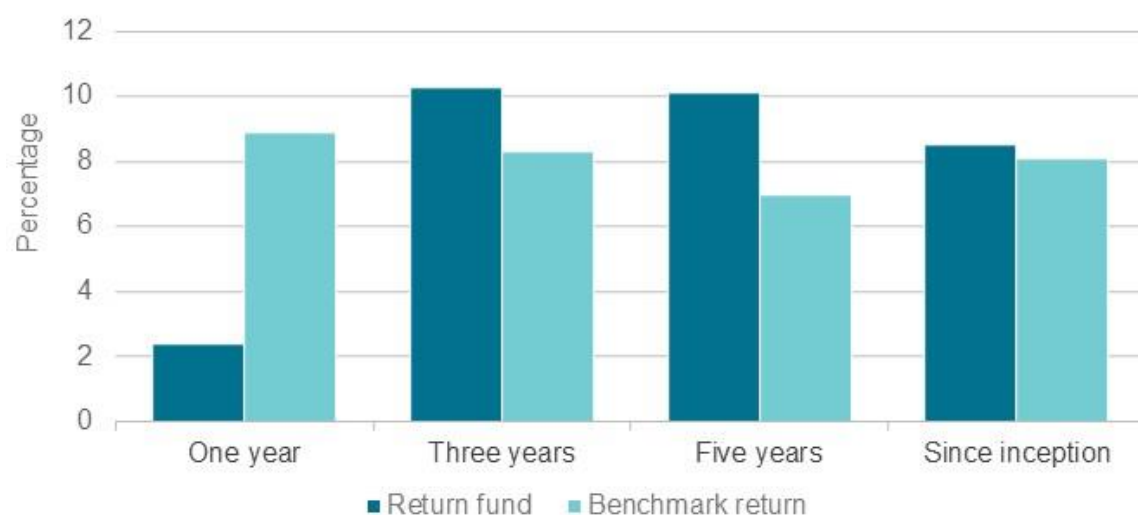
The continuing impact of Covid-19 and the conflict in Ukraine on global markets reduced annual returns significantly but investment performance continues to outperform medium- and longer-term benchmarks

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

90. Financial markets have been exceptionally volatile in recent years due to the ongoing Covid-19 pandemic and more recently as result of the conflict in Ukraine. Returns against most asset classes, especially equities reduced significantly.

91. [Exhibit 9](#) shows that over the year, the Fund generated a return of 2.4% against a benchmark of 8.9%. In the first three quarters of 2021/22, the Fund had generated a return of around 9%. However, in the final quarter of 2021/22 these gains were largely reversed. Over the medium to longer term, the Fund has outperformed its three-year, five-year and since-inception benchmarks.

Exhibit 9 Fund investment performance



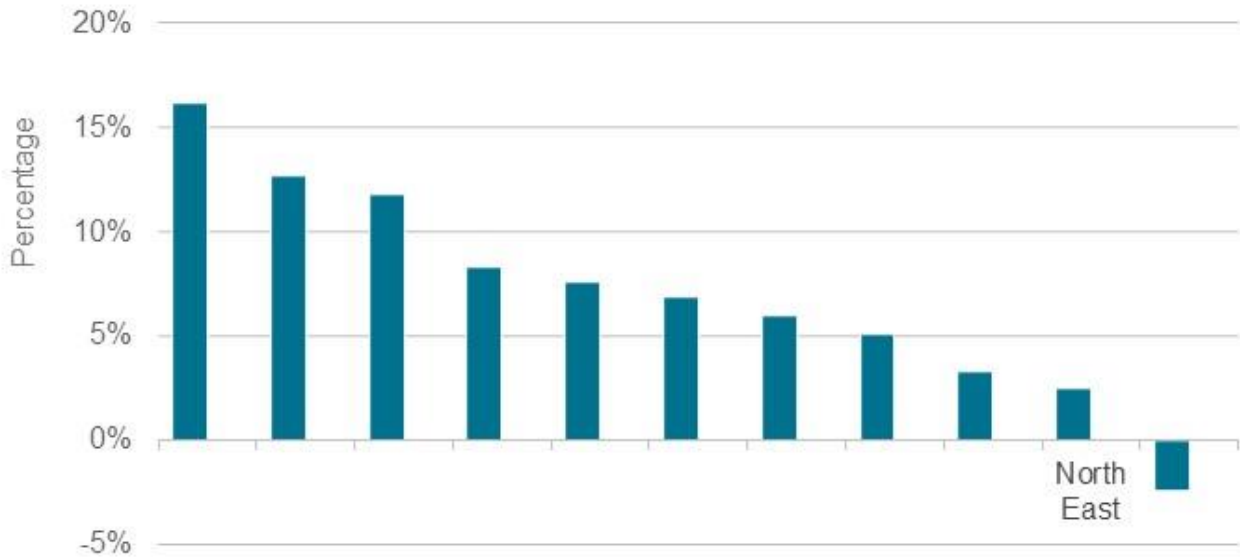
Source: North East Scotland Pension Fund 2021/22 unaudited financial statements

92. The annual return of 2.4% is the second lowest across Scotland, as can be seen in [Exhibit 10](#) below; however, when reviewing the Fund's performance, it is important to consider the longer term.

93. We have considered the longer-term trends in [Exhibit 11](#) which shows the change in the value of funds since April 2016. The change in value includes the

return on investments, the impact of transfers in and out of the Fund and the net contributions from dealings with members.

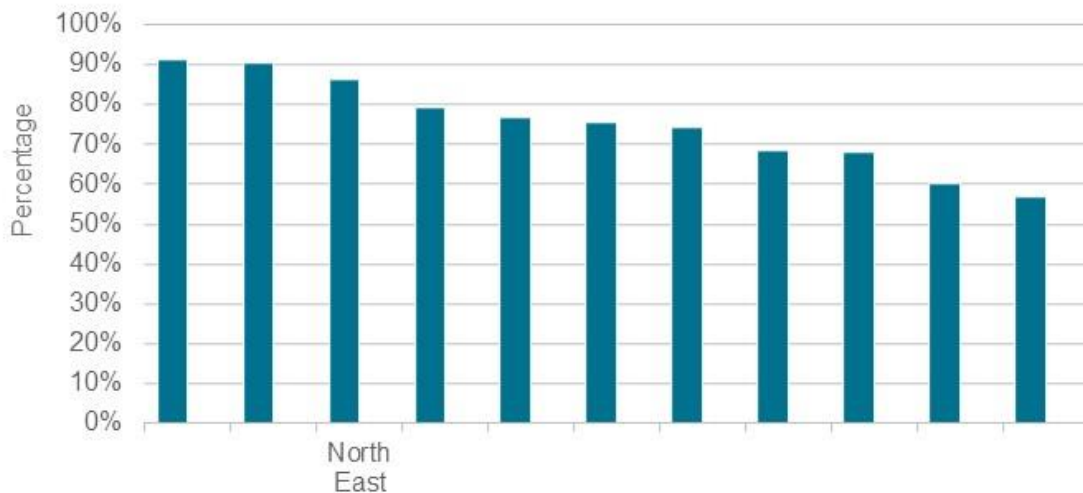
Exhibit 10
Fund investment performance across Scotland 2021/22



Source: Unaudited annual accounts for Scottish local government pension funds 2021/22

94. Over the six year period the value of North East Scotland Pension Fund has had the third highest increase in value across Scotland.

Exhibit 11
Change in value of funds since 1 April 2016



Source: Unaudited annual accounts for Scottish local government pension funds 2021/22

The Fund scrutinises investment management expenses appropriately

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

96. Investment management expenses for the main fund have increased slightly from £23.8 million in 2020/21 to £23.9 million in 2021/22 (excluding administration, governance and oversight expenses: see [paragraph 86](#)). The Transport Fund management expenses fell from £0.447 million in 2020/21 to £0.128 million in 2021/22.

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

National performance audit reports

98. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2021/22, we published reports which may be of interest to the Fund. These are outlined in [Appendix 2](#) of this report. The local audit team will highlight relevant national reports to the Fund for the Pensions Committee's consideration.

Appendix 1

Action plan 2021/22

2021/22 recommendations

Issue/risk	Recommendation	Agreed management action/timing
<p>1. Member engagement and scrutiny</p> <p>Pensions Committee members' engagement in some aspects of their scrutiny role has been limited at meetings.</p> <p>Political disagreement has entered what should be a politically neutral scrutiny committee; this has detracted from engagement at meetings and led to further committee membership changes after the post-election changes in elected members.</p> <p>Risk – There is a continuing risk of ineffective scrutiny, challenge and transparency on the decision making and on the financial and performance reporting.</p>	<p>Pensions Committee members should remain as politically neutral as possible when exercising their scrutiny role.</p> <p>The Pension Fund should work with Pension Board and Pensions Committee members to ensure that individuals' training needs are being met and members are supported in their monitoring and scrutiny role. Members should review their training needs to ensure they keep their pensions knowledge up to date. Specific training should be requested if required.</p> <p>Paragraph 76</p>	<p>The officers of the Pension Fund will continue to support the Committee and Board members in their training and development through the plans that we have in place, including the new online facilities. The Pension Manager will write to the members of the Committee and Board offering to discuss gaps in knowledge and experience that they may have and help them identify opportunities to meet those needs. This will inform the annual training and development plans.</p> <p>Responsible officer – Pensions Manager</p> <p>Agreed date – 31 December 2022</p>

Follow-up of prior year recommendations

Issue/risk	Recommendation	Agreed management action/timing
b/f. Authorisation limits	The Pension Fund should ensure that officers are familiar with their delegated authorisation limits and remain within those limits, escalating authorisation to more senior officers if required.	Complete Our 2021/22 testing identified no breaches of authorisation limits.
b/f. Reconciliations	The Pension Fund should ensure that reconciliations are prepared on a timely basis for all accounts.	Complete 2021/22 reconciliations were prepared on a timely basis.
b/f. Member training and engagement	The Pension Fund should work with Pension Board and Pensions Committee members to ensure that individuals' training needs are being met and members are supported in their monitoring and scrutiny role. Members should review their training needs to ensure they keep their pensions knowledge up to date. Specific training should be requested if required.	Replaced by Recommendation 1

Appendix 2

Summary of national performance reports 2021/22 and briefing papers

May

[Local government in Scotland Overview 2021](#)

June

[Covid 19: Personal protective equipment](#)

July

[Community justice: Sustainable alternatives to custody](#)

September

[Covid 19: Vaccination programme](#)

January

[Planning for skills](#)

[Social care briefing](#)

February

[NHS in Scotland 2021](#)

March

[Local government in Scotland: Financial Overview 20/21](#)

[Drug and alcohol: An update](#)

[Scotland's economy: Supporting businesses through the Covid 19 pandemic](#)

North East Scotland Pension Fund

2021/22 Annual Audit Report

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	16 December 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Consideration and signing of audited annual report and accounts
REPORT NUMBER	PC/DEC22/ARA
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee:-

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

3. CURRENT SITUATION

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

- 5.1 The Local Authority Accounts (Scotland) Regulations 2014 says that local authorities should aim to approve the audited Annual Accounts for signature no later than 30 November 2022 in respect of the accounts for the financial year 2021-2022.
- 5.2 Given external resource challenges, the local authority acknowledges the extended timescale for the 2021-2022 annual report and accounts.
- 5.3 Section 95 of The Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Funds, that officer is the Chief Officer – Finance of Aberdeen City Council.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations 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	Yes
Compliance	There is a risk that a delay or failure to approve the Annual Report and Accounts could impact on the administering authority to fulfil its regulatory requirements.	Consideration and approval of the Annual Report and Accounts at the scheduled Committee meeting.	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 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, North East Scotland Pension Fund and the Aberdeen City Council Transport Fund 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 £5,926m 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 pension 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

* Following the May'22 elections Councillor John Cooke was appointed Convener and Councillor Neil MacGregor was appointed Vice Convener.

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 (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 (Vice 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 Walters	n/a	n/a	n/a	✓	100%

Notes:

- Liam Knox resigned on 15 September 2021
- Gordon Walters 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 were 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
£182m	 Net Return on Investments	£3m
£5,926m	 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 My Pension

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	181,752
Net Increase/ (Decrease) in Fund	310,816	343,603	(102,625)	1,410,647	148,704
Fund Balance as at 31 March (Market Value)	4,125,564	4,469,167	4,366,542	5,777,189	5,925,893

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 merger 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 7% as of March 2022 and is broadly anticipated to 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:

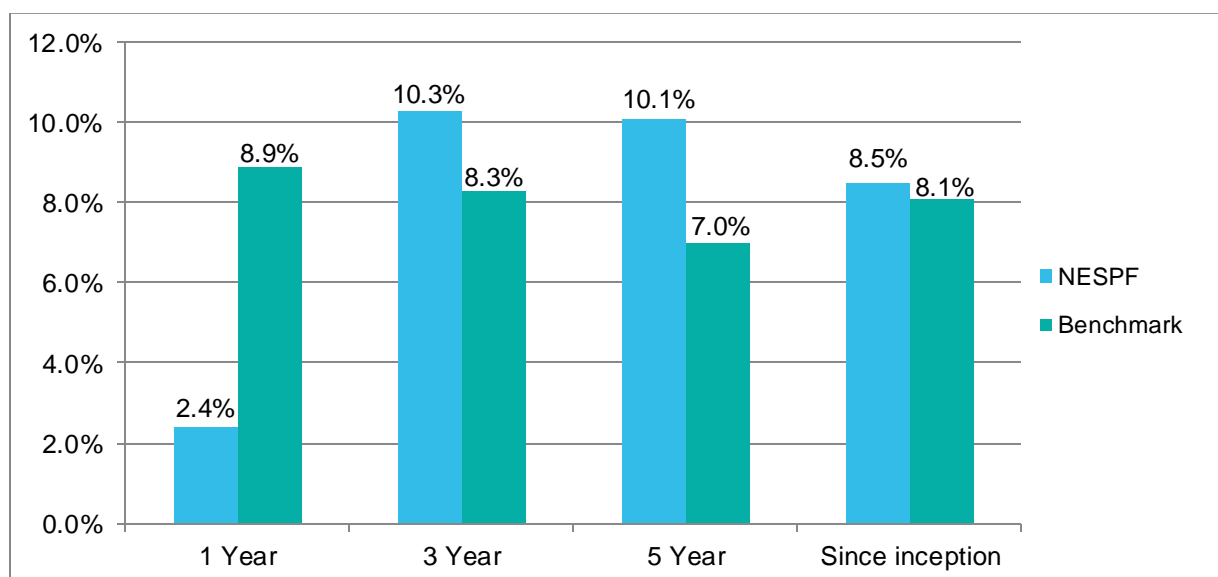
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

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.

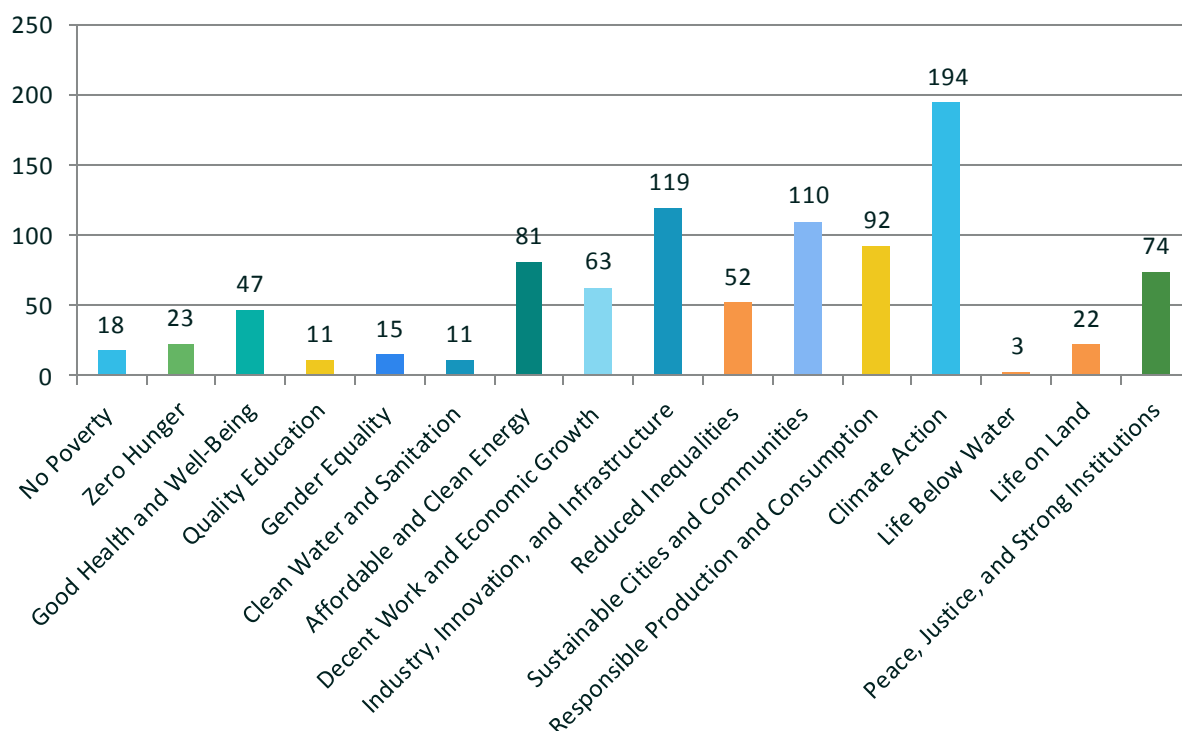
Collaboration

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 by LAPFF



[Source: LAPFF Annual Report 2021 – www.lapfforum.org/publications/category/annual-reports/]

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 microfibrils 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.

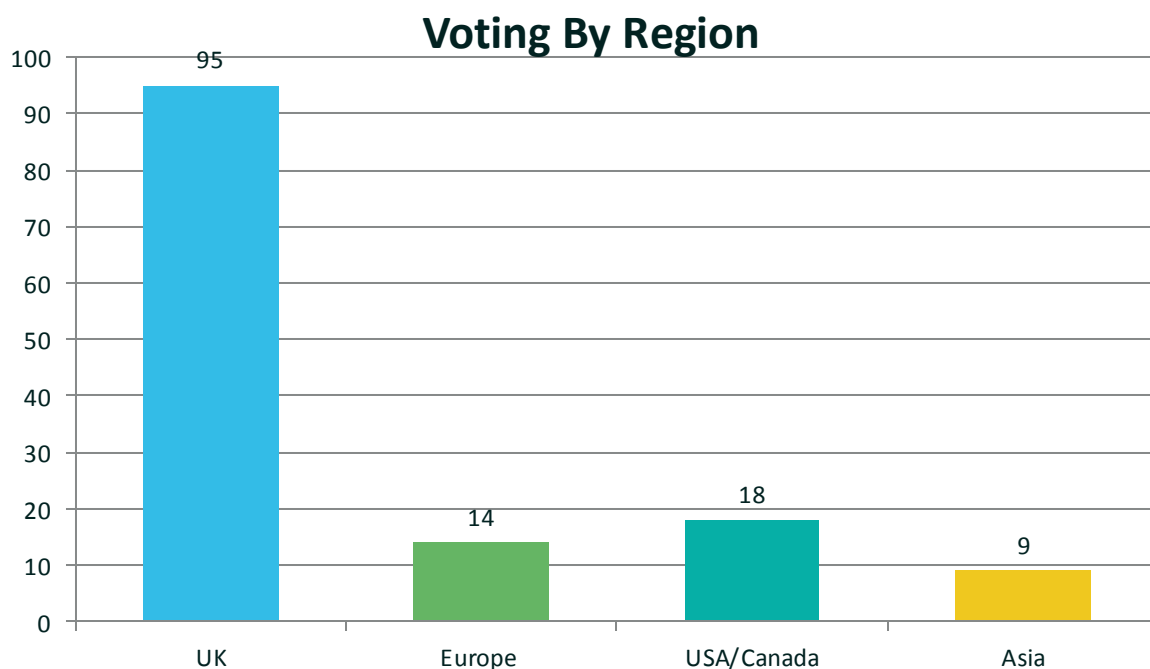
Once finished, the panels will be able to produce 979,200 kWh of electricity per annum, which is enough to boil a kettle 8,901,818 times or is the equivalent annual electricity use of 268 average UK households. The electricity generated will save 248 tonnes of CO2 emissions per annum, which is comparable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

Voting

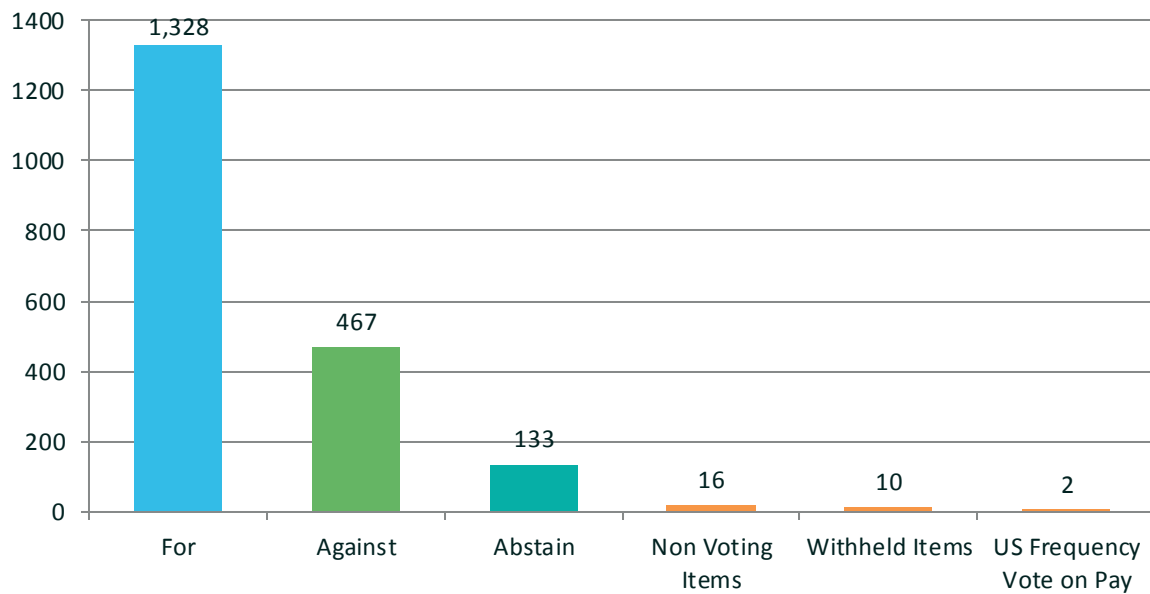
As an institutional shareholder we have a responsibility to make full use of our voting rights which enables the Fund to promote good governance practices in the companies in which we invest.

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 www.nespf.org.uk/about/investment/responsible-investment/voting/



Voting By Resolutions



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 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 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

16 December 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). In addition, ensure the Annual Accounts are prepared in accordance with the Local Authority (Capital Finance & Accounting) (Scotland) (Coronavirus) Amendment Regulations 2021.
- Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 16 December 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 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
16 December 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/about/policies-and-statements/.

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

16 December 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
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
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
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
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

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
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
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
7. Scope	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant
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

Full details on how the Fund remains compliant can be viewed in our Governance Compliance Statement available on our website:
www.nespf.org.uk/about/policies-and-statements/.

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 £779,453,543 (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	110,819
Net Return on Investments		<u>1,462,128</u>	<u>181,752</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		1,410,647	148,704
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>5,925,893</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	2,347,495
Direct Property	13	361,325	427,375
Private Equity – Other		432,023	518,689
Private Debt		136,979	143,106
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>5,962,064</u>
Investment Liabilities			
Investment Purchases Amount Payable		(306)	(14,395)
Net Investment Assets		<u>5,634,292</u>	<u>5,947,669</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>5,925,893</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
16 December 2022

The unaudited accounts were authorised on 24 June 2022 and the audited accounts were authorised for issue by Jonathan Belford on 16 December 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 £'000	2021/22 £'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
16 December 2022

The unaudited accounts were authorised on 24 June 2022 and the audited accounts were authorised for issue by Jonathan Belford on 16 December 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	315,265	(401,605)	125,524	2,347,495
Property	361,325	8,089	(2,129)	60,090	427,375
Private Equity	432,023	489,641	(516,903)	113,928	518,689
Private Debt	136,979	7,015	(2,223)	1,335	143,106
	5,497,465	4,073,212	(3,925,223)	110,819	5,756,273
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				5,947,669

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	117,659
Pooled Funds	2,308,311	2,347,495
Direct Property	361,325	427,375
Private Equity	432,023	518,689
Private Debt	136,979	143,106
Other Investments	930,327	1,089,170
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	5,962,064
Investment Liabilities		
Investment Purchases Amounts Payable	(306)	(14,395)
Investment Liabilities Total	(306)	(14,395)
Net Investment Assets	5,634,292	5,947,669

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	14,649	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	374,637	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	55,512	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	57,276	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	103,118	1.7
Alcentra	70,523	1.2	66,925	1.1
Hayfin Direct Lending	66,455	1.2	76,181	1.2
Insight Credit	311,169	5.4	425,610	7.2
Allianz Home Equity	0	0.0	4,708	0.1
	5,634,292	97.5	5,947,669	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	5,925,893	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	2,347,495		
432,023			Private Equity	518,689		
136,979			Private Debt	143,106		
	124,977		Cash		196,372	
	12,156		Other Investment Balances		9,419	
	180,818		Debtors		12,926	
5,136,140	317,951		Subtotal	5,328,898	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	5,328,898	218,717	(49,097)
			Non-Financial Instruments			
361,325			Property	427,375		
5,497,465	317,951	(38,227)		5,756,273	218,717	(49,097)
		5,777,189	Net Assets of the Fund			5,925,893

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	50,729
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,400,578	Net Gains and Losses on Financial Instruments	50,729
	Non-Financial Instruments	
2,137	Fair Value through Profit and Loss	60,090
1,402,715	Net Gains and Losses of the Fund	110,819

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		779,454	5,328,898
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	779,454	5,756,273

	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 & Derivatives 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	7,059	117,659
Private Equity	432,023	489,641	(516,903)	208,991	(95,063)	518,689
Private Debt	136,979	7,015	(2,223)	2,223	(888)	143,106
Total	670,856	505,402	(520,498)	212,586	(88,892)	779,454

(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%	117,659	148,250	87,068
Private Equity	26%	518,689	653,548	383,830
Private Debt	26%	143,106	180,314	105,898
Total		779,454	982,112	576,796

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	117,659	26.0	148,250	87,068
Private Equity	518,689	26.0	653,548	383,830
Private Debt	143,106	26.0	180,314	105,898
Total	5,328,898		6,279,286	4,378,510

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	643,266
Overseas Unit Trusts	982,482	1,073,993
Total Overseas Assets	2,873,227	2,695,681

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	643,266	703,733	582,799
Overseas Unit Trust	1,073,993	1,174,948	973,038
Total	2,695,681	2,949,075	2,442,287

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 £1,206,828,543 which represented 20.4% 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
Merger – 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. Conflicts of interest are managed in accordance with the Conflicts of Interest Policy or Codes of Conduct for Councillors or Employees.

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. The undrawn commitments are outstanding call payments £409.736m (£201.061m 31 March 2021):

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	538,948	267,572
Partners Group	85,351	19,012
Maven (SLF)	6,308	44
Unigestion	54,929	5,860
AAM Residential Property	30,000	3,923
Hermes Infrastructure	100,000	2,535
Alcentra EDL	84,506	18,940
Hayfin DLF	84,506	11,203
Blackrock Renewable	75,951	60,647
Allianz Home Equity	25,000	20,000
Total	1,085,499	409,736

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.

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 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 by 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 £519 million. Private Debt £143 million. Pooled Infrastructure (Unquoted) £117 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% plus £140k per annum in respect of expenses. 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 merger of the Strathclyde No.3 Fund into the ACCTF, the Fund has entered a buy in arrangement with Rothesay Life to insure the pensions that were in payment for both First Aberdeen and First Glasgow. 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 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
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	239
Benefits Payable	586	673
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.

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 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. Conflicts of interest are managed in accordance with the Conflicts of Interest Policy or Codes of Conduct for Councillors or Employees.

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 14d 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.

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2022 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the accounts, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the 2021/22 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2021/22 Code of the financial transactions of the funds during the year ended 31 March 2022 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2021/22 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

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

Conclusions relating to going concern basis of accounting

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

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

These conclusions are not intended to, nor do they, provide assurance on the funds' current or future financial sustainability. However, I report on the funds' arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

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

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

Auditor's responsibilities for the audit of the financial statements

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

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

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

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

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

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

Reporting on other requirements

Other information

The Chief Officer - Finance is responsible for other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

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

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

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

Use of my report

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

Gillian Woolman MA FCA CPFA
Audit Director

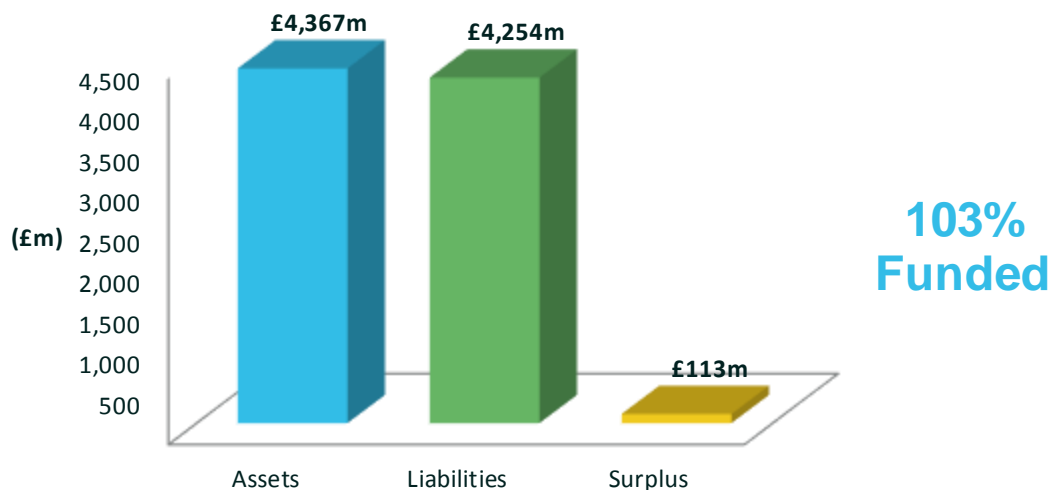
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

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

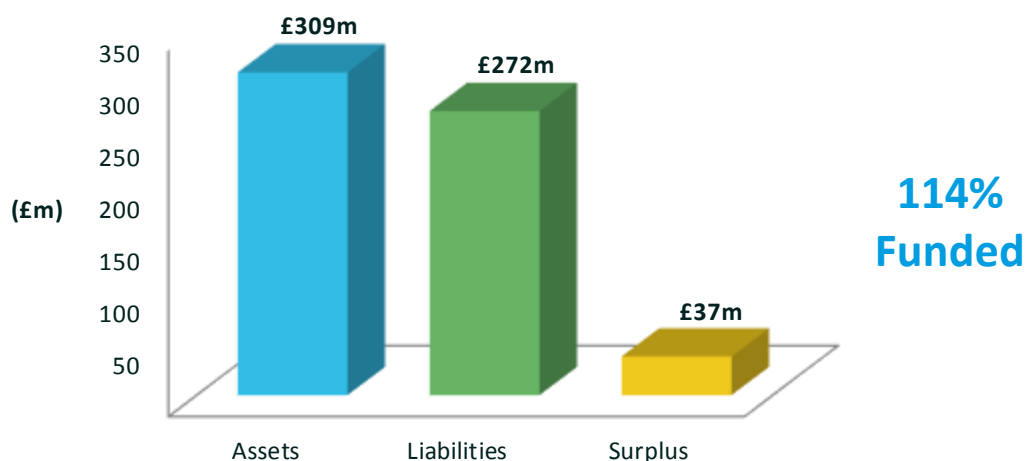
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 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	16 December 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget/Forecast and Projected Spend 2022/23
REPORT NUMBER	PC/DEC22/BUD
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Project Spend 2022/23 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

- 2.1 That the Committee approve the NESPF Management Expenses Budget/Forecast and Projected Spend 2022/23, shown in Appendix I of the main report.

3. CURRENT SITUATION

3.1 BUDGET/FORECAST AND PROJECTED SPEND 2022/23

- 3.1.1 Appendix I shows the Council's Budget 2022/23 for the NESPF. The realignment of cost headings follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.
- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments

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

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

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

3.2 GOVERNANCE

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

6.1 There are no direct environmental implications arising from the recommendations 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.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <i>*taking into account controls/control actions</i>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified	N/A	N/A	N/A
Compliance	No significant risks identified	N/A	N/A	N/A
Operational	No significant risks identified	N/A	N/A	N/A
Financial	Complacency and not ensuring value for money by making savings within the Scheme.	Ongoing scrutiny and understanding of the costs of administering the Pension Fund with the exploration of opportunities for any savings.	L	Yes
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

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2021/22) and Fund Governance Policy Statement

11. APPENDICES (if applicable)

None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Budget/Forecast & Projected Spend 2022/23

Reporting Period to September 2022

1. Budget/Forecast and Projected Spend 22/23

Sections 3 – 6 below show the NESPF Budget 2022/23. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.

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

Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointment. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with a few of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.

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

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

2. Governance

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

3. Budget and Projected Spend for NESPF Administration Expenses

	Notes	Full Year Budget 2022/23 £'000	Budget to 30/09/22 £'000	Actual Spend to 30/09/22 £'000	Accrual to 30/09/22 £'000	Amended Spend to 30/09/22 £'000	Over or (Under) to 30/09/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Administrative Staff Costs		1,626	813	399	382	781	(32)	1,562	(64)
Information Technology		488	244	308	134	442	198	483	(5)
Supplies & Services	1	140	70	32	67	99	29	190	50
Accommodation		543	271	321	11	332	61	557	14
Printing & Publications		13	7	8	0	8	1	13	0
Administration Expenses Total		2,810	1,405	1,068	594	1,662	257	2,805	(5)

Note (Spend Variance \pm 5%):

1. Overspend – Increase in postage and stationery costs.

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

	Notes	Full Year Budget 2022/23 £'000	Budget to 30/09/22 £'000	Actual Spend to 30/09/22 £'000	Accrual to 30/09/22 £'000	Amended Spend to 30/09/22 £'000	Over or (Under) to 30/09/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Staff Costs		265	132	53	55	108	(24)	252	(13)
Pension Fund Committee		18	9	0	2	2	(7)	18	0
Pension Board		13	7	0	2	2	(5)	13	0
External Audit Fee		47	24	0	24	24	0	47	0
Internal Audit Fee		12	6	0	6	6	0	12	0
Actuarial Fees	1	180	90	109	10	119	29	237	57
General Expenses		297	148	86	35	121	(27)	302	5
Oversight & Governance Expenses Total		832	416	248	134	382	(34)	881	49

Note (Spend Variance \pm 5%):

1. Overspend – Increase in Actuarial advice on several matters, e.g. Projects, Market Volatility, Deferred Debt, etc.

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2022/23 £'000	Forecast to 30/09/22 £'000	Actual Spend to 30/09/22 £'000	Accrual to 30/09/22 £'000	Amended Spend to 30/09/22 £'000	Over or (Under) to 30/09/22 £'000	Proj Annual Spend 2022/23 £'000	Proj Over or (Under) Spend 2022/23 £'000
Investment Management		14,304	7,152	827	6,325	7,152	0	14,304	0
Performance Fees		8,817	4,408	0	4,408	4,408	0	8,817	0
Direct Property Expenses	1	1,184	592	412	0	412	(180)	824	(360)
Transaction Costs	2	2,226	1,113	530	0	530	(583)	1,060	(1,166)
Custody Fees		177	89	49	18	67	(22)	175	(2)
Investment Management Expenses Total		26,708	13,354	1,818	10,751	12,569	(785)	25,180	(1,528)

Note (Spend \pm 5%):

1. Underspend – Decrease in Bad Debt Write Off.
2. Transaction Costs are reported by the Custodian (HSBC) as at the reporting date (see further analysis) then projected for the remaining part of the year. Albeit a useful guide, using past transaction activity as a basis for projecting costs carries the risk of over/under stating the spend for the year. If current transaction activity continues then it is anticipated that there will be an underspend.

Important to Note:

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

6. Analysis of Transaction Costs for the Period 1 April 2022 to 30 September 2022

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	131,866.67	14,355.60	343,007.25	489,229.52
Pooled – Unit Trust	0.00	40,650.99	0.00	40,650.99
Grand Total (£)	131,866.67	55,006.59	343,007.25	529,880.51

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	16 December 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/DEC22/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1.2-1.4, 4-5

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 final outcome of the annual benefit statement project, which was completed successfully, for assurance (6.2 of the main report);
- 2.2 note the updates to the Fund Policy documents as set out in 6.4;
- 2.2 approve the travel for one Advisory Committee Officer (Pension Fund Manager or suitable Officer substitute) to attend the following Advisory Committee (as per item 6.5):
- RCP, June 2023, Chicago
 - Unigestion, June 2023, Milan Italy
 - HarbourVest, December 2023, Boston; and
- 2.4 delegate authority to the Chief Officer – Finance, following consultation with the Convener of the Pensions Committee, to approve travel for one Advisory Committee Officer (Pension Fund Manager or Suitable Officer Substitute) to attend the following Advisory Committee meetings once locations and times have been confirmed:
- Partners Group, March 2023, location to be confirmed
 - Blackrock, April 2023, location to be confirmed
 - IFM, date and location to be confirmed
 - Blackrock, date and location to be confirmed

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 (November 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 (November 2022)

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Strategy Report

Quarterly Reporting December 2022

1. Background

1.1 Quarterly Report to December 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 Investment Strategy Update 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

Budget/Forecast and Projected Spend 22/23 Report

Separate reports, provided

4. Benefit Administration

N/A

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to September 2022 is attached to this report.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

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

6.2 Pension Fund Annual Benefit Statements Final Update

Following on from the update to Committee in September (PC/SEPT22/STRAT), the annual benefit statement project has now been successfully completed.

Active benefit statements were issued electronically to members through My Pension (MSS) by the statutory deadline of 31 August. Letters and emails were issued in advance to active members advising them that their statements were available to be viewed online and activation keys were issued to those members not already registered for MSS.

The Fund recorded 98.31% compliance for all benefit statements in 21/22 (active, deferred and councillors). This is a decrease from the reported figure of 99.64% in 20/21. In terms of calculating the final percentage for reporting:

- 99.9% of all deferred ABS were issued (1 error, this was a member for whom we do not hold an address);
- 100% of ABS were issued for Councillors (both active and deferred); and
- 97.08% of active ABS were issued;

by the 31 August deadline.

For the active members 108 errors were reported for members who joined the scheme before 1 April 2022 but had not paid any pension contributions i.e. joined mid March but didn't receive their first salary payment until the April payroll, therefore no CARE pay was held on the Altair system.

A further 631 members had previously requested to receive a paper copy of their ABS. Although the statements for these members had been generated in advance against their online records and could be viewed through My Pension online before the 31 August deadline, their paper statements were only printed on 30 August and did not go in the post until 1 September in part due to a postal strike. This accounts for the decrease in our reported percentage figure for 21/22 as we are considering this as a breach.

In line with our Breaches Policy, the ABS result will be recorded on the Breaches Register but not reported to the Pensions Regulator as we do not deem the breach to be of material significance. Officers have already investigated the member records which did not generate an annual benefit statement and all paper statements have since been issued.

At present 770 (+119 from 20/21) active and 626 (+128 from 20/21) deferred members have opted in to receive traditional paper statements and letters will still be sent to members not registered for MSS. The cost of each ABS letter is approximately 60p compared to an email notification which costs only 5p. Overall the move to online benefit statements has delivered a cost saving for the Fund, we anticipate costs to continue to reduce as the process is streamlined and more members register for MSS. However this year we have seen an increase in requests for paper statements.

In terms of online usage following the mailing, we saw respectively an increase of 5.9% in deferred members registering for MSS and a 6.1% increase for active members. In addition to viewing benefit statements, MSS is a useful tool for members to view up to date pensions data, keep the Fund informed of changes to personal data and help plan for their retirement using the online calculator. Officers continue to participate in the MSS working group to help future developments.

A full review of the ABS project will be carried out in the coming months.

6.3 Hymans Learning Academy Update

As per the Training Report and Training Policy approved by the Pensions Committee in June 2022 (PC/JUNE22/TRA), it was recommended that 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.

Monthly progress reports are provided to the Pension Fund. To date, only one Committee member has fully completed all modules. All members should have been emailed individual logins from Hymans and have access to the learning portal.

6.4 Document Update

The below documents have been updated as part of the annual governance review process:

- Conflicts of Interest Policy (very minor changes to improve readability)
- Breaches of Law Policy (very minor changes to improve readability)

Copies of these documents are available on the secure area of the trustee website.

6.5 Overseas Travel

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

The vast majority of private investment funds have limited partner advisory committees, these committees are composed of representatives of the limited partners, usually significant institutional limited parnters/clients, dealing with a number of issues regarding conflicts, investment restrictions, general oversight and using the committee as a sounding board for other matters.

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

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

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

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

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

- 1. Partners Group, March 2023, location to be confirmed**
- 2. Blackrock, April 2023, location to be confirmed**
- 3. RCP, June 2023, Chicago**
- 4. Unigestion, June 2023, Milan Italy**
- 5. IFM, date and location to be confirmed**
- 6. Harbourvest, December 2023, Boston**
- 7. Blackrock, date and location to be confirmed**

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

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

7. Employer Relationship

7.1 Pensions Administration Strategy

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.

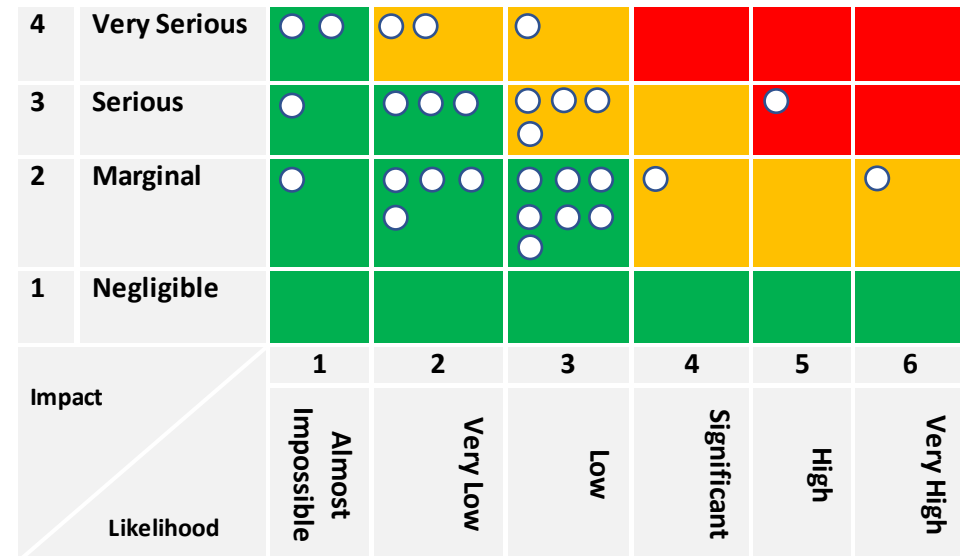
The Pensions Committee is responsible for receiving assurance on the effectiveness of NESPF risk management arrangements as per their Terms of Reference.

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: 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								
NESPFO02	Risk: Poor Governance	<ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council's Scheme of Governance Committee Effectiveness Report to support good governance 	2	2	4	↔	TREAT	Committee Effectiveness Report will be taken to December 2022 meeting. Normal governance arrangements are operating. ACC Scheme of Governance annual review completed in April 2022.	Ongoing
	Causes: Lack of robust and effective governance framework and supporting policies and procedures								
	Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk								
NESPFO03	Risk: Lack of performance measures	<ul style="list-style-type: none"> Statutory and local KPI's Pension Administration Strategy published quarterly 	2	3	6	↔	TREAT	Revised PAS to Dec' 22 Committee meeting.	Ongoing
	Causes: Failure to develop performance reporting framework								

	Potential Impact: Lack of transparency, poor performance could go unaddressed	<ul style="list-style-type: none"> Investment performance (against benchmark) reported to Committee quarterly 							
NESPFO04	Risk: Failure of Pensions Committee and Pension Board to operate effectively	<ul style="list-style-type: none"> Publication of Pension Board Annual Report Training Policy reviewed annually and training register in place Nomination & Appointment procedure Annual Committee Effectiveness Report 	3	2	6	↔	TREAT	Normal Governance arrangements are operating. Pension Board Annual Report taken to June 2022 meeting.	Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk								
NESPFO05	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								
NESPFO06	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 	3	3	9	↑	TREAT	Some posts currently being recruited but increased concerns regarding retaining and attracting right applicants. Jobs now advertised on LinkedIn and NESPF website for more targeted	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								

		<ul style="list-style-type: none"> Future-focused staffing structure, subject to ongoing review 						advertising and investigating Modern Apprenticeships.	
NESPF007	<p>Risk: Pay and price inflation valuation assumptions either higher or lower</p> <p>Causes: Economic factors</p> <p>Potential Impact: Potential increase in employer contribution rates and liabilities</p>	<ul style="list-style-type: none"> Quarterly funding updates to Committee (using FSM) Tri-ennial valuation Individual employer contribution rates 	3	5	15	↔	TOLERATE	<p>Discussions to commence for 2023 valuation.</p> <p>Inflation risk and pay inflation continue to be a serious concern, risk level raised as a result.</p>	Ongoing
Governance									
NESPF008	<p>Risk: Failure to adhere to relevant pensions legislation and guidance</p> <p>Causes: Political and legislative changes, increased administrative complexity, staff training issue</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action</p>	<ul style="list-style-type: none"> Six monthly compliance review, with annual reporting to Pensions Committee and Board Active participation at LGPS events, Testing Working Party for administration software updates Established processes for staff training Oversight by Pensions Board Regular benefit admin team meetings to share knowledge 	3	3	9	↔	TREAT	<p>Six monthly compliance review to be completed Dec'2022.</p> <p>Next Annual Compliance report to Committee in March 2023.</p>	Ongoing
NESPF09	<p>Risk: Failure to comply with FOI or SAR requests</p>		3	1	3	↔	TREAT		Ongoing

	<p>Causes: Missed statutory deadlines due to training or resource issues</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<ul style="list-style-type: none"> • Internal written procedures in place • FOI/SAR log to record & monitor • Online process through GovServices 							
NESPF010	<p>Risk: Conflicts of Interest</p> <p>Causes: Competing professional and personal interests of staff, Committee and Board members</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk</p>	<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
Benefit Administration									
NESPF011	<p>Risk: Fraud/Negligence</p> <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 	2	3	6	↔	TREAT	Enhanced Admin to Pay module to provide secondary calculation checks as system requirement implemented into Live system in October 2020 with ongoing developments.	Ongoing
Investments									

NESPFO12	Risk: Insufficient assets to meet the Funds long term liabilities	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates Tri-ennial valuation and investment strategy review Diversification of assets Due diligence of fund managers External advisor for specialist guidance on strategy 	4	3	12	↔	TREAT	Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021. Investment Management Consultancy Services appointed in August 2021.	Ongoing
	Causes: Failure of investment strategy or fund managers to produce expected returns								
	Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss								
NESPFO13	Risk: Failure to monitor investment managers and assets	<ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers 	3	3	9	↔	TREAT		Ongoing
	Causes: Lack of internal procedures								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO14	Risk: Failure of world stock markets	<ul style="list-style-type: none"> Diversification of Scheme assets Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE	Tri-ennial valuation and investment strategy review completed and approved by Committee in March 2021.	Ongoing
	Causes: Systemic								
	Potential Impact: Increase in employer contribution rates, financial loss								
NESPFO15	Risk: Negligence/Fraud/Default	<ul style="list-style-type: none"> Due diligence on appointment and appropriate clause in legal agreements 	2	1	2	↔	TOLERATE		Ongoing
	Causes: Dishonesty by fund managers, lack of care or human error								

	Potential Impact: Financial loss, reputational damage	<ul style="list-style-type: none"> Fund management monitoring SAS 70 reports 							
NESPFO16	Risk: Failure of Global Custodian	<ul style="list-style-type: none"> Regular meeting with custodian Service Level Agreement in place Receipt of SAS 70 reports and monitoring 	4	1	4	↔	TOLERATE		Ongoing
	Causes: Financial market crisis, regulatory/political								
	Potential Impact: Loss of assets or control of assets								
NESPFO17	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> Member training on roles and fiduciary duties Policy incorporated within SIP PRI membership, annual signatory assessment Monitor impact of climate change Adoption of TCFD Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. 	2	3	6	↔	TREAT		Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy								
	Potential Impact: Reputational damage								
Accounting									
NESPFO18	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 	3	2	6	↔	TREAT	Audited Annual Report and Accounts to Dec'22 meeting for approval and signing.	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	<ul style="list-style-type: none"> Regular reconciliations e.g. fund managers, custodian Internal/External Audits 							
Systems									
NESPF019	Risk: Failure to secure and manage personal data in line with data protection requirements Causes: Cyber-attack, human processing error Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 	4	2	8	↔	TREAT	3 new personal data breaches this quarter. Staff undertake annual information governance refresher training. Reminders and further action to be taken in response to recent breaches. Breaches procedure updated and re-issued to staff Oct'22.	Ongoing
NESPF020	Risk: Failure of the Fund's administration system Causes: Outages, hardware and software failures and cyber attacks Potential Impact: Staff downtime, loss of service delivery	<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. Work underway on new NESPF Cyber Security Policy.	Ongoing
NESPF021	Risk: Failure to track member status and trace information		2	3	6	↔	TREAT	Tracing exercise underway with	Ongoing

	<p>Causes: Poor record keeping</p> <p>Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action</p>	<ul style="list-style-type: none"> • Tracing service in place (ATMOS) • Use of 'Tell Us Once' service • Data quality improvement plan including measures to trace • Existence checking 						Target following committee approval in December 2021.	
Employer Relationship									
NESPFO22	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								
NESPFO23	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								
NESPFO24	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, however it should be noted that the volume of	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

					4			discussions with employers is increasing.	
NESPF025	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								
NESPF026	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> • Internal escalation procedures • Breaches policy and register • Monthly data submission reconciled by ERT • Quarterly PAS reporting to Committee & Board • Ongoing training provided by dedicated ERT to scheme employers • Employer Briefings 	2	3	6	↔	TREAT	New flexibilities to LGPS (Scotland) Regulations Summer 2022 which will help manage risk. Move to investment buckets will provide greater control to manage exits over longer term.	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPF027	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> • Monthly data from employers which is reconciled by ERT 	2	2	4	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								

	<p>Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action</p>	<ul style="list-style-type: none"> • Quarterly PAS reporting to Committee & Board • Data quality improvement plan implemented 			6				
NESPF028	<p>Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement</p>	<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 software sign off.	Ongoing
	<p>Causes: Not having the required historic data, adequate resources, sufficient guidance</p>								
	<p>Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation</p>								

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North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting 30th September 2022

1. NESPF performance from 1st April to 30th September

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	22	19	86.4%	90.9%	90.9%	90.9%	2		86.4%
Notification of retirement estimate	10 days	245	243	99.2%	99.2%	99.2%	100.0%		4	97.6%
Notification of retirement benefits	10 days	1101	1047	95.1%	97.1%	98.5%	99.5%	5	59	90.3%
Notification of deferred benefits	10 days	946	938	99.2%	99.5%	99.6%	99.6%	4	13	97.8%
Notification of refund	10 days	733	721	98.4%	99.2%	99.5%	99.7%	2	6	97.6%
Notification of transfer in value	10 days	88	73	83.0%	86.4%	88.6%	92.0%	7	8	76.0%
Notification of transfer out value	10 days	268	160	59.7%	69.0%	76.5%	81.7%	49		59.7%
		3403	3201	94.1%				69	90	91.6%

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:

- Overall revised percentage remains above 90%.

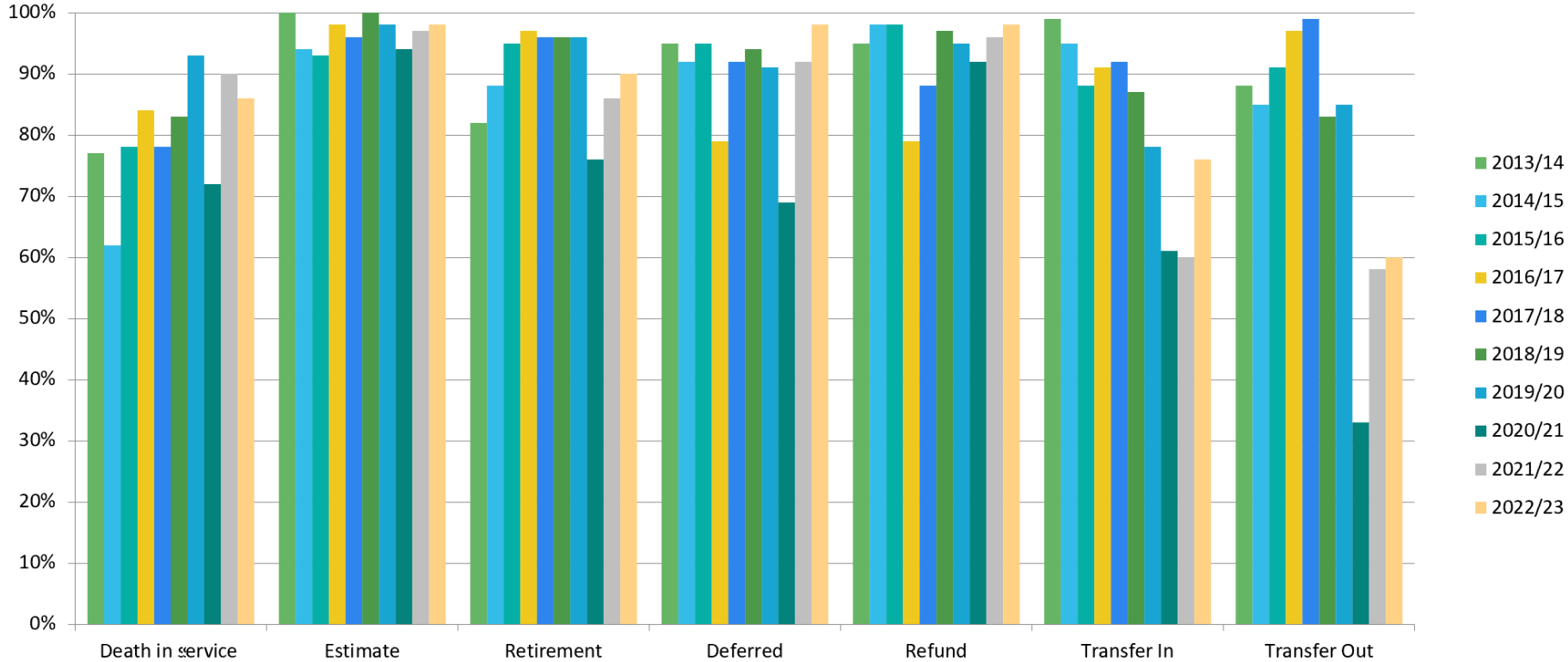
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- Cases more than 20 days over target continue to reduce, 69 this period compared to 128 in Q2 2021/22.

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 continue to reduce, 90 this period compared to 144 in Q2 2021/22.*

1.2 Previous years comparison



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 - recalculations will commence when the final regulations are published.

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.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	16 December 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Pension Administration Strategy 2022
REPORT NUMBER	PC/DEC22/PAS
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Claire Mullen
TERMS OF REFERENCE	4.1-4.2 and 5.1

1. PURPOSE OF REPORT

- 1.1 To bring the Draft NESPF Pension Administration Strategy 2022 to Committee for consultation and approval.

2. RECOMMENDATION

- 2.1 That the Committee approve the draft NESPF Pension Administration Strategy 2022 as attached at Appendix 1.

3. CURRENT SITUATION

- 3.1 See attached main report

4. FINANCIAL IMPLICATIONS

- 4.1 It is not only important for service delivery to hold good quality member data, but it can also impact on the accuracy of the actuarial calculations and therefore the overall funding level of the Pension Fund. Therefore it is important for the Fund to hold accurate and up to date information.

5. LEGAL IMPLICATIONS

- 5.1 The Pension Administration Strategy and the imbedded service standard requirements allows the Fund to meet several of the regulatory requirements of the Local Government Pension Scheme (LGPS) and associated legislation.

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.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) <i>*taking into account controls/control actions</i>	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Risk of not meeting service standards or set regulatory requirements.	Working together with participating employers to deliver the PAS objectives reduces the compliance risk	L	Yes
Operational	Inability to meet service standard requirements	Working together with participating employers to deliver the PAS objectives reduces the operational risk	L	Yes
Financial	Risk that holding incorrect or out of date member data may impact on actuarial valuation and funding levels	Working together with participating employers to deliver the PAS objectives reduces the financial risk	L	Yes
Reputational	Risk of not meeting service standard requirements may impact on the reputation of the Fund and the Council as a whole	Working together with participating employers to deliver the PAS objectives reduces the financial risk	L	Yes
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 1 Draft NESPF Pensions Administration Strategy 2022

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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NESPF Pension Administration Strategy 2022

December 2022

1. Background

Regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018 allows the Fund to develop a Pension Administration Strategy (PAS) which outlines the responsibilities of both the Fund and its participating employers. In addition it details the service standards expected for Fund administration and provision of information from all employers with active members within the scheme. These service standards are in line with meeting the needs of the Fund, the regulatory requirements and minimum customer service standards.

The PAS was last approved in 2017 and therefore the document has been reviewed in line with current processes and requirements.

2. Aims and Objectives

The aim of the PAS is to aid the delivery of high quality pension administration for the members of the Fund on behalf of its participating employers.

The underlying objectives are as follows:

- To provide high quality pension service delivery
- Paying pensions and calculating benefits due accurately and on time
- Good working relationships between the North East Scotland Pension Fund (NESPF) and its participating employers
- Delivery of the Local Government Pension Scheme (LGPS) requirements in line with the scheme regulations and compliance around the Codes of Practice put in place around service delivery and service standards.

The draft PAS in Appendix 1 outlines how these objectives are to be achieved with the Fund and the employers working together.

3. Consultation

The 2022 PAS has been issued to all participating employers in November for a two week consultation period. At the time of writing this report the consultation remains open for comment. Any comments or suggested changes will be advised verbally to the Pensions Committee by the report author.

4. Finalising the FSS and Next Steps

The NESPF has a good working relationship with its participating employers and this is maintained by the support provided by the Employer Relationship Team. The PAS provides

direction and transparency around the approach for delivering the scheme on an ongoing basis. The draft document has been brought to this Committee for approval. If approved, the new PAS will become effective from 1 January 2023 with a copy being sent to all participating employers and to the Scottish Ministers.

The PAS report that goes to Committee quarterly will be revised with the new report being used for the new reporting period. Quarter 1 (April to June 2023) will be reported on using the new version and will be brought to Committee in September 2023.

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North East Scotland Pension Fund

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Pensions Administration Strategy

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1. Introduction

1.1 The North East Scotland Pension Fund (NESPF)

Aberdeen City Council is the administering authority for the Local Government Pension Scheme (LGPS) in the North East of Scotland. The NESPF are responsible for carrying out all aspects of the management of the Fund including administration and payment of benefits for members on behalf of the 48 participating employers, accounting and funding through investments. The NESPF sits within the Resources directorate of Aberdeen City Council.

1.2 Pensions Committee & Pensions Board

Regulations require that Aberdeen City Council (ACC) delegate the responsibility of decision making around the Pension Fund to the Pensions Committee. The Committee is made up of thirteen elected members of ACC and consider all matters under the regulations of the scheme at the quarterly meetings. The Pensions Committee are responsible for making the key decisions and have fiduciary duties and responsibilities towards the pension scheme members, participating employers and local taxpayers.

The Pensions Board was established in line with the change of regulations in 2015. The Board are responsible for assisting the scheme manager in relation to compliance with the regulations. The Board is made up of eight representatives with four being employer representatives and four representing the members (trade unions.) The Board sits at the same time as the Pensions Committee, with access to the same reports.

1.3 Local Government Pension Scheme (LGPS)

The LGPS is a statutory pension scheme established in law. The rules of the scheme are laid as Scottish Statutory Instruments with the current administration regulations having been set out in the Local Government Pension Scheme (Scotland) Regulations 2018.

The regulations can be viewed here:

<http://www.scotlgpsregs.org/schemeregs/igpsregs2018/timeline.php>

2. Pension Administration Strategy (PAS)

2.1 LGPS (Scotland) Regulations 2018 - Regulation 57

Regulation 57 of the LGPS (Scotland) Regulations 2018 allows the Fund to produce a Pensions Administration Strategy that outlines the statutory responsibilities of both the Fund and the

participating employers. This document has been developed in relation to this regulation and in consultation with the participating employers.

2.2 Aim of the PAS

This strategy has been developed by the NESPF with the aim of delivering high quality pensions administration for all members of the Fund on behalf of its participating employers.

2.3 Objectives of the PAS

The PAS has been developed in order to ensure:

- High quality pension service delivery
- Paying pensions and calculating benefits due accurately and on time
- Good working relationships between the NESPF and its participating employers
- Delivery of the LGPS in line with the scheme regulations and compliance around the codes of practice put in place around service delivery and service standards (The Pensions Regulator)

3. Meeting the Objectives of the PAS

The NESPF have identified the following key areas which need to be considered in order to have a successful outcome in relation to meeting the aims and objectives of the PAS.

- Understanding the roles and responsibilities of the Fund and those of the participating employers
- Setting Key Performance Indicators and service standards in order to comply with the statutory requirement as laid out in the scheme regulations
- Clear communication and engagement between the Fund and the participating employers
- Good quality, reliable data that is provided in a timely manner
- Having suitable resources in place to deliver on the above requirements

3.1 Roles and Responsibilities

The LGPS (Scotland) regulations and other Codes of Practice and legislation determines the responsibilities of both the NESPF as the administering authority and the participating employers.

Both parties are required to meet the requirements outlined in Appendix 1 and Appendix 2 in order to ensure that the objectives of the PAS are met.

3.2 Service Standards

The performance standards for both the Fund and the employers are set out in Appendix 3 and Appendix 4. These are based on both regulatory requirements and the requirements of meeting minimum customer service standards for the Fund members.

3.3 Communication and Employer Engagement

The Employer Relationship Team (ERT) are a dedicated resource for participating employers. The ERT team deals with the Fund valuation in conjunction with the scheme actuary and in consultation with the participating employers, all aspects of employer responsibilities, employer queries, employer training as well as the monthly collection, checking and reconciliation of data provided by employers in respect of the active members.

Contact Details: Employer Relationship Team
 NESPF
 Level 1
 2MSq, Marischal Square
 Broad Street
 Aberdeen
 AB10 1LP

 Telephone 01224 264157
 Email: employer@nespf.org.uk

The communications that relate directly to the PAS are outlined in Appendix 6 below.

3.4 Good Quality Member Data

The data held by the Fund underpins all aspects of the administration of the scheme. The accuracy of the information held in respect of each member can affect all parts of the Fund including:

- calculation of member benefits due and the ability to provide annual benefit statements
- accuracy of triennial valuations and funding outcomes
- employer accounting disclosures (FRS102/IAS19)
- Investment decisions based on future cashflows or liabilities held.

Given the reliance that the Fund has on the quality of the data provided by its employers it is essential that the monthly data provided through i-Connect is accurate, complete and up to date.

The Pension regulator (tPR), over the last few years, have put tremendous emphasis on the quality of data held by LGPS Funds and the requirement to comply with Code of Practice 14: Governance and administration of public service pension schemes, which sets out the legal requirements for public service pension scheme.

Having had i-Connect in place for several years the quality of the data received from NESPF employers and held by the Fund is already of a very high standard. However, there is always

room for improvement and therefore the Fund have developed a Data Quality Improvement Plan which is implemented and reviewed each year. See Appendix 6 for a summary of the current plan.

3.5 NESPF Resources

To allow the Pension Fund to meet its responsibilities to employers, the Pensions Regulator, stakeholders and especially members, it is essential that we have in place an appropriate organisational structure. Ensuring that there is sufficient trained staff with the knowledge required to administer the scheme and calculate and process the benefits due is a priority of senior management and is therefore constantly under review.

Appendix 5 outlines the staff structure within the Fund. The basic structure was put in place in 2016 with the number of posts growing over time, with the Fund currently sitting with 45 full time equivalent posts (not including the Chief Officer Finance, Pensions Committee or Pensions Board).

4. PAS Report

Performance and service standards for both the Fund and all participating employers are monitored on an ongoing basis.

The Pensions Committee and the Pensions Board take a keen interest in administrative matters and receive updates on performance as part of the Funds quarterly reporting. Performance figures and information on compliance is included in the PAS report which is imbedded within the quarterly Strategy Report.

In addition a report on performance will be included in the NESPF annual report and accounts.

5. Compliance

Adherence to the service standards and carrying out the requirements of the outlined roles and responsibilities is essential if the objectives of the PAS are to be achieved.

In addition the Fund is required to record all breaches of the scheme regulations and report any significant failures to the Pensions Regulator. This includes any failures in relation to the Funds own responsibilities.

All employers who have active members within the Fund are therefore required to comply with the PAS. Where instances of underperformance or non-compliance are identified the Fund will take action to rectify this through engagement with the employer in the first instance.

The NESPF Breaches of Law Policy can be viewed on the NESPF website: www.nespf.org.uk/about/policies-and-statements/

6. Discretions

Under current and previous regulations the participating employers and the Fund are required to make choices or decisions around how, or, if some aspects of the regulations are applied. It is therefore a requirement that all bodies hold a Discretions Policy in relation to these regulations.

Each employer's Discretions Policy needs to be reviewed within 3 months of a change of regulations and the Policy must be published and made available to the scheme members.

The NESPF Discretions Policy can be seen in Appendix 8 - please note: that the discretions policy is currently under review with the updated version to be brought to the Pensions Committee in March 2023 for approval. The new document will be inserted into the PAS following completion of the approval process.

7. NESPF – Statutory Responsibilities

- To maintain the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.
- To invest pension contributions received and account for and manage the Fund's assets.
- To create and maintain a record for each member that contains all the necessary information for accurate calculation of member benefits.
- To calculate and pay the appropriate benefits, based on the member's record and the termination and pay details provided by the Employer when an employee ceases employment.
- To calculate and process transferred in benefits and transfer value payments.
- To provide a statutory notice on commencement of membership or following a transfer in.
- To provide survivor beneficiaries with notification of entitlement.
- To provide annual pension forecasts for members.
- To provide pension saving statements for members.
- To ensure that every effort is made to pay benefits to appropriate beneficiaries and reduce the possibility of fraud.
- To apply revaluation to pension accounts in accordance with Revaluation Orders.
- To apply pensions increases in accordance with Pension Increase Orders.
- To publish Annual Report and Accounts in accordance with regulations.
- To continually review the PAS and consult with Scheme employers on changes.
- To publish and review policy statements in accordance with regulations.
- To appoint an actuary to carry out triennial valuations and provide actuarial advice.
- To provide accurate data to the Fund actuary in respect of valuation and employer accounting standards.
- To appoint a suitable person for the purposes of the Internal Dispute Resolution Procedure.

- To appoint an Additional Voluntary Contributions provider.
- To ensure that sufficient information is available to satisfy disclosure requirements.
- Newsletters, guides and other materials.
- To admit new participating employers and provide information for tender including notification of admission to the Scottish Public Pensions Agency.
- To request termination assessment from Fund actuary on cessation of admission agreements or when a scheme employer ceases participation in the Fund.
- To recover termination cost from the exiting employer.
- To arrange events, meetings and training sessions for scheme employers.
- To ensure compliance with Data Protection legislation.

8. Employer – Statutory Responsibilities

- To decide scheme eligibility of employees and admit members in accordance with contractual enrolment or admission policy.
- To determine a member's pay for the purpose of pensions contributions.
- To arrange for the correct deduction of employee contributions from a member's pensionable pay in accordance with statutory guidance.
- To implement changes to employer contribution rates as instructed from date specified in actuarial advice.
- To pay over and account for employee, employer and additional contributions to the Fund.
- To arrange for the deduction of Additional Voluntary Contributions and payment of contributions to AVC provider(s).
- To provide timely and accurate information including starters, amendments, leavers, contributions, salaries and CARE pay to the Fund using I-Connect to ensure member records are accurate and up to date.
- To distribute any information provided by the Fund to scheme members and potential scheme members.
- To pay "Strain on fund" costs to the Fund in full for early payment of benefits from flexible, redundancy or business efficiency retirement or where a member retires early with employer's consent.
- To pay additional costs arising from level of performance.
- To pay interest on late payments arising from overdue payment.
- To formulate and publish discretions as required under regulations.
- To issue a certificate of protection automatically where a member has suffered a compulsory and permanent reduction in, or restriction to, their rate of contractual pensionable pay and keep a record of that members pay for a period of 10 years from the effective date of the certificate.
- To make decisions known as "First instance decisions" and inform employees of those decisions.

- To nominate an Appointed Person to uphold or dismiss any appeal against a “First instance decision”.

9. NESPF – Performance and Service Standards

Description	Requirement/Target
To acknowledge or answer enquiries	Within 5 working days
To answer telephone calls within office hours	95%
To provide scheme information to members	Within 2 months of membership beginning*
To acknowledge deferred benefit entitlement	Within 2 months of receiving leaver notification*
To provide transfer credit notification	Within 2 months of request
To provide transfer value payment	Within 3 months of request
To provide divorce notification	Within 3 months of request
To provide death acknowledgement letter	Within 5 working days of notification of death
To provide retirement estimates	Within 10 working days of receipt of all information
To provide retirement benefit notification	Within 10 working days of receipt of all information
To provide deferred benefit notification	Within 10 working days of receipt of all information
To process refund of contributions	Within 10 working days of receipt of all information
To provide transfer in notification	Within 10 working days of receipt of all information
To provide transfer out notification	Within 10 working days of receipt of all information
To provide benefit statements to active and deferred members	By 31 August*
To provide pension saving statements	By 6 October*
To carry out a record keeping exercise to comply with tPR requirements	At least annually
To publish forms required for completion by scheme members, potential members or scheme employers	Within 30 days from any revision
To issue formal valuation results including individual employer details	By 31 January following the 31 March valuation period end date

To connect to Pensions Dashboards by staging date	Staging date expected to be September 2024
To prepare new admission agreements	Within 3 months of receipt of all appropriate employer information
To provide employer briefings	Monthly
To provide technical bulletins	As and when required
To provide notice to scheme employer of any additional costs (including any interest that may be due) arising from performance	1 month
To notify scheme members and employers of changes to the scheme rules	When possible in advance of change but no later than 1 month of change date
To host meetings for all scheme employers	Annually
To arrange training/bespoke meetings for employers	Upon request or as deemed necessary by the Fund

*Regulatory requirement

10. Employer – Performance and Service Standards

Description	Requirement/Target
To respond to enquiries by the Fund	Within 5 working days
To notify the Fund of new starters	No later than month following date of entry to scheme – via i-Connect monthly submission
To notify the Fund of any change in employees circumstances (name, address, marital status and hours)	No later than month following date of change – via i-Connect monthly submission
To notify the Fund of leavers and provide form PEN 2A if appropriate	No later than month following date left scheme - via i-Connect monthly submission
To provide cumulative employee, employer and additional contributions	Monthly prior to 19th of following month - via i-Connect monthly submission
To provide FTE Final Pay calculated under 2009 Regulations for underpin protection	Monthly OR annually in March data submission
To provide cumulative CARE pay (or assumed pensionable pay)	Monthly - via i-Connect monthly submission
To notify breaks in service for underpin calculation using the method stipulated by the Fund	No later than month following start of break
To notify the Fund of retirements and provide form PEN 6	2 months in advance
To notify the Fund in advance when requesting retirement estimates for more than 20 members	3 months in advance
To notify the Fund of the death of a scheme member	As soon as is practicably possible
To provide information requested by the Fund in relation to the Employer Covenant	Within 10 days of request
To refer new or prospective scheme members to the Fund’s website	Within 10 days of commencement of employment
To arrange for the correct deduction of employee contributions from a member’s pensionable pay	Immediately on joining scheme and following statutory guidance

To ensure correct employee contribution rate is applied	Immediately on joining the scheme, as a result of a material change to pay and annually as at 1 April
To remit employee, employer and additional contributions to the Fund	By 19th of month
To ensure correct deduction of pension contributions during any period of absence	Immediately following election of scheme member
To arrange for the deduction of AVCs and payment over of contributions to AVC provider(s)	Commence payment of AVC's following month of election
To notify the Fund if contracting out services which will involve a TUPE transfer of staff to another organisation	As soon as decision made and to allow the Fund to provide information for tender documentation
To work with the Fund to arrange for an admission agreement to be in place when contracting out a service and assist with ensuring compliance	Agreement to be in place no later than start date of contract
To notify the Fund if an employer changes their admission policy or there is a possibility of terminating participation in the Fund	As soon as possible following change of circumstance or in advance of any policy change
To appoint appropriate person to review "first instance decisions"	Within 1 month of becoming scheme employer or making new appointment if required
To pay Fund invoices	Within 28 days

11. Communication and Engagement (PAS requirements)

(The full NESPF communications policy can be found at www.nespf.org.uk)

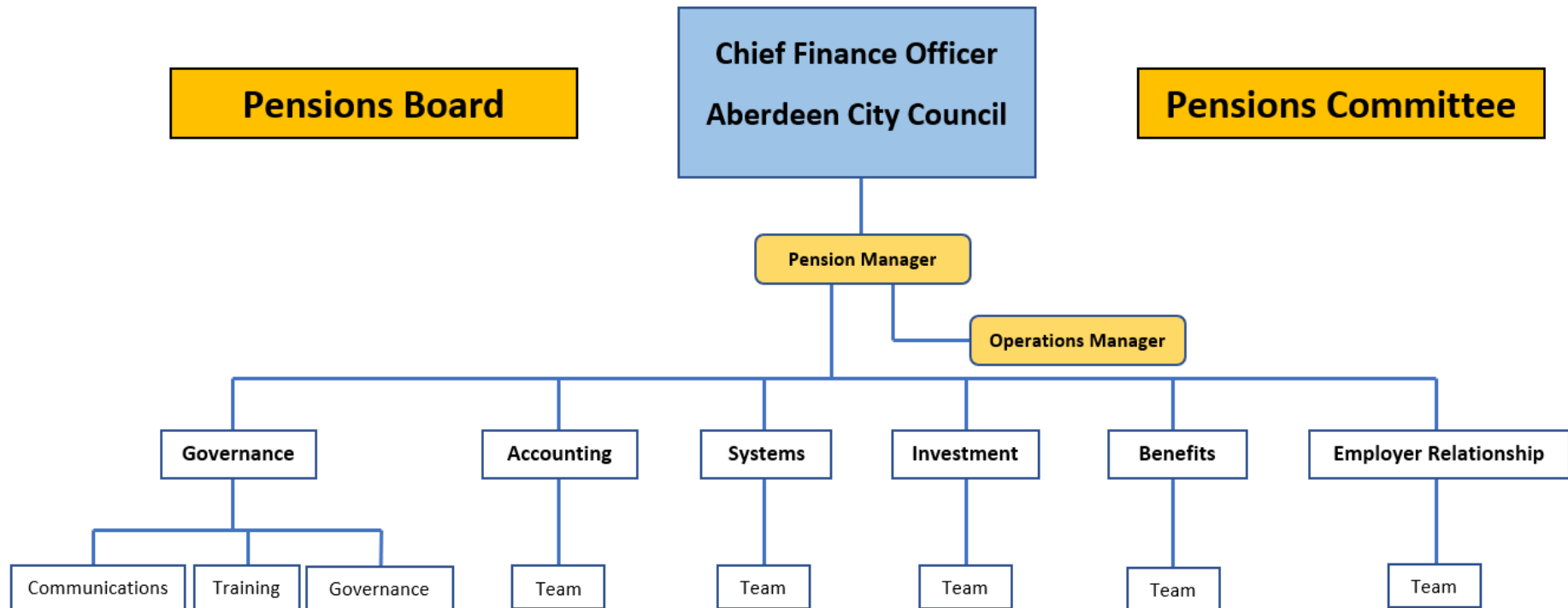
Activity	Details
Employer Engagement	
Employer Relationship Team	A dedicated resource within the Fund for participating employers within the Fund. Remit includes employer queries, training, admission and termination from the scheme, funding and contribution requirements and member data requirements.
Employer Briefings	A monthly employer newsletter that updates employers on the requirements of the fund, changes to regulations and reminders for upcoming events.
Website – Employer Pages	www.nespf.org.uk includes a secure employer area providing access to forms, documents, calculators and training videos, etc for payroll, HR and finance staff of participating employers. This is currently under construction and will be available in full in mid-2023
Employer Training/Meetings	Ad hoc training will be provided for employers upon request or if a need is identified by the Fund. This can be delivered in house or at the employer's offices.
Administration Forum	An annual event for payroll and HR staff of all employers. Hosted by the NESPF this is a training and information event including presentations, round tables and workgroups.
Financial Forum	An annual event hosted by the NESPF to provide the financial decision makers for employers with updates around funding, investments and regulation updates.
Member Engagement	
Annual Benefit Statements	To be issued to all active and deferred members by 31 August following the end of the most recent scheme year. This communication includes the annual member newsletter.
Pension Saving Statements	To be issued by 6 th October to those members who may have exceeded their annual allowance.

Website	The NESPF website can be accessed by all members at www.nespf.org.uk . It contains comprehensive information regarding the Local Government Pension Scheme and NESPF.
Online “My Pension” Portal	My Pension is a secure online portal that provides member with real-time, 24-hour access to their pension data.
Data Requirements	
Active member data including: <ul style="list-style-type: none"> • personal details • service dates • contributions • salary/earnings • service breaks 	All employers are required to provide information in relation to active members on a monthly basis through our secure online portal, i-Connect. I-Connect uploads are to be provided to the Fund by the 19 th of each month following the deduction of pension contributions. The upload fulfils the data requirements for the Fund and acts as the contributions remittance too.

Objective	Data Type	Action	Timetable	Financial & Resource Implications
Address Tracing for gone away deferred, pensioner and frozen leaver members	Common	Around 2500 members are held on the system as 'gone away.' These members consist of deferred, pensioner and frozen refund members (no active members should be held as 'gone away'.) The Fund will look to directly award a contract to a tracing organisation through the National Framework.	First Trace April 2022 (3 year contract)	Financial - Estimated cost of tracing exercise £4,000 (for first year) Resource – Administration staff to be utilised
Monthly Information from Employers	Common & Scheme Specific	Continue to use i-Connect as the method of employers providing data. Work with employers to improve their understanding of the data required and improve reconciliation processes to ensure data is of the highest quality	Ongoing	Financial – None (part of existing contract) Resource – ERT
General Data Cleanse and Quality Measurement	Common and Scheme Specific	Altair Insights reporting tool will be used to provide scores for the Annual Scheme Return from 2022. It provides detailed reports on the errors found. A monthly data cleanse can be carried out using the reports generated and will be particularly effective for historical data errors.	November 2021 ongoing monthly	Financial – Insights is used for many purposes of Fund administration. Resource – Benefits, ERT and admin staff to be utilised. Aspects of the cleanse being prioritised ahead of the valuation or the effect on members

<p>NI Database Exercise – This project is to identify where members within the Fund may hold other benefits within LGPS (Scotland.)</p>	<p>Scheme specific</p>	<p>Using the NI database the Fund need to identify where members benefits need to be transferred or received as a result of having pension records with other administering authorities within Scotland.</p> <p>This will be a considerable project in the first instance with an ongoing requirement to monitor this going forward.</p> <p>The introduction of the NI database allows all Scottish Funds to undertake an exercise of this nature</p>	<p>November 2021 – ongoing</p>	<p>Financial – None</p> <p>Resource – administration and benefits team</p>
<p>Undecided Leavers – review of how status 2 members are managed and processed to reduce numbers on the system below 1000</p>	<p>Scheme Specific</p>	<p>Exercise to identify, monitor and prioritise undecided leavers who have not been processed in a reasonable time frame. Concerted effort to reduce the number of members prior to valuation (as at 31 March 2020.) Controls to be put in place for future i.e. deadlines, etc</p> <p>Undecided leaver exercise was undertaken in 2019/20 but was halted by the pandemic. Further work to be undertaken in conjunction with the tracing exercise and the NI database exercise.</p>	<p>April 2022- March 2023</p>	<p>Financial – Unknown – project currently under consideration by senior management</p> <p>Resource – Benefits staff to be utilised</p>
<p>GMP Reconciliation - following the cessation of 'contracting out' there is a requirement for all Funds to carry out a GMP reconciliation for Active, Deferred and Pensioner members</p>	<p>Scheme Specific</p>	<p>Exercise undertaken in-house by NESPF</p>	<p>Full reconciliation nearing completion</p>	<p>Financial - None</p> <p>Resource – Benefits & Systems Staff</p>

<p>McCloud Project – change of regulations require that all members who were active in 2015 are now protected by an ‘underpin’ which compares the benefits that would have been due under the old ‘final salary’ scheme. Assessment of the information required to undertake this large scale project will be required.</p>	<p>Scheme Specific</p>	<p>Missing data in respect of hours worked will be identified and requested from employers to allow the benefits team to recalculate and rectify members benefits where the underpin applies.</p> <p>The timescales of this exercise are currently unknown and we await final regulation changes.</p>	<p>Ongoing – project and dates to be determined</p>	<p>Financial – currently unknown</p> <p>Resource – currently unknown (may be outsourced)</p>
<p>AVC Reconciliation</p>	<p>Scheme Specific</p>	<p>Reconcile AVC contracts held on the administration system Altair with information held by Prudential and Standard Life</p>	<p>Annual Reconciliation in line with year end</p>	<p>Financial – none</p> <p>Resources – ERT</p>



Policy on Administering Authority's Discretions

North East Scotland Pension Fund June 2015

The following table details the policy of North East Scotland Pension Fund in the exercise of its discretions under the Local Government Pension Scheme. Those discretions highlighted in **bold** must be published in a written policy by the administering authority and as such an extract of this policy will be posted on the Pension Fund website and distributed to scheme employers.

In the table below, regulations prefixed by "R" refer to The Local Government Pension Scheme (Scotland) Regulations 2014 and prefixed by "TP) refer to The Local Government Pension Scheme (Transitional Provisions and Protections) (Scotland) Regulations 2014. The table identifies those additional discretions from 01/04/2015 in relation to post 31/3/2015 active members and post 31/5/2015 leavers.

Regulation	Discretion	Policy
R4(5)(b)	Whether to agree to an admission agreement with a NHS Scheme employing authority	The Fund will generally allow admitted body status to bodies with the former Grampian Area, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and other related material factors
R3(5) & RSch2, Part 2, para 1	Whether to agree to an admission agreement with a body applying to be an admission body	The Fund will generally allow admitted body status to bodies with the former Grampian Area, provided that such a body meets certain scheme criteria and provides evidence of legal status, good financial covenant, a financial guarantor where required and other related material factors
RSch2, Part 2, para 9(d)	Whether to terminate a transferee admission agreement in the event of <ul style="list-style-type: none"> - Insolvency, winding up or liquidation of body - Breach by that body of its obligations under the admission agreement - Failure by that body to pay over sums 	The Fund will consider each case on its merits

	due to the fund within a reasonable period of being requested to do so	
RSch2, Part 2, para 12(a)	Define what is meant by 'employed in connection with'	The Fund determines that only employees of the body who are employed directly with the provision of the service to a scheme employer may be members of the Scheme;
R16(1)	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (eg where the sum being paid is very small and could be paid as a single payment)	The Fund has determined that each case will be determined on its merits
R16(10)	(i) whether to require a satisfactory medical before agreeing to an application to pay an APC/SCAPC (ii) Whether to turn down an application to pay an APC/SCAPC if not satisfied that the member is in reasonably good health	The Fund has determined that it will consider whether or not a medical is required before agreeing to an application to pay an APC/SCAPC on a case by case basis,
R17(12)	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	The decision as to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member has been delegated from the Head of Finance to the Pensions Manager
R22(3)(c)	Pension account may be kept in such form as is considered appropriate	The decision as to how Pension account may be kept in such form as is considered appropriate, has been delegated from the Head of Finance to the Pensions Manager
TP10(9)	Decide, in the absence of an election within 12 months of ceasing a concurrent employment, which ongoing employment benefits those of the concurrent employment should be aggregated to (where there is more than 1 ongoing employment)	The Fund has determined that concurrent posts will be aggregated to best previous employment

R66(2)	Whether to require any strain on fund costs to be paid 'up front' by the employing authority following payment of benefits under R29(6) (flexible retirement), 29(7) (redundancy/business efficiency), or waiver (in whole or in part) under R29(8) of any actuarial reduction that would otherwise have been applied to benefits which a member draws voluntarily before normal pension age or to benefits under flexible retirement.	The Fund has determined that strain on the Fund costs are required to be paid up front
TPSch2, para 2(3)	- Whether to require any strain on fund costs to be paid 'up front' by the employing authority if the employing authority applies the 85 year rule for a member voluntarily retiring before normal pension age (other than flexible retirement) prior to age 60 or waives an actuarial reduction under TPSch2, Para 2(1) or releases benefits before age 60 under Benefit reg 30 of the 2009 regulations.	The Fund has determined that strain on the Fund costs are to be paid up front in the event of rule of 85 retirements.
R31(7)	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.	The Fund will extend the time limit within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement.
R33(1)	Decide whether to commute small pension	The Fund will commute small pensions on application from the scheme members
R35(3)	Approve medical advisors used by employers (for ill-health benefits)	The Fund will require employers to seek Fund approval for medical advisors used for ill-health benefits. The Fund will maintain a list of those medical advisors it has approved
R36(3)	Decide whether a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is	The Head of Finance has delegated to the Pensions Managers the decision as to whether or not a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health

	unlikely to be capable of undertaking gainful employment before age 65	and is unlikely to be capable of undertaking gainful employment before age 65
TP17(5) to (8), R38(2), R41(2) & R44(2)	Decide to whom death grant is paid.	The Head of Finance has delegated the decision to whom death grant is paid to the Pensions Manager
R47(1)	Decide, in the absence of an election from the member, which benefit is to be paid when the member would be entitled to a benefit under 2 or more regulations in respect of the same period of scheme membership	The of Head of Finance has delegated the decision, in the absence of an election from the member, which benefit is to be paid when the member would be entitled to a benefit under 2 or more regulations in respect of the same period of scheme membership to the Pensions Manager
R52(1)	Whether to set up a separate admission agreement fund	The Pensions Committee on advice from the Head of Finance will determine whether or not to set up a separate admission agreement fund
R57(1) & (2)	Whether to have a written pensions administration strategy and , if so, the matters it should include	The Fund has determined to have a written pension's administration strategy (PAS).
R62(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a scheme employer will become an existing employer	The Fund has determined to obtain revision of employer's contribution rate if there are circumstances which make it likely a scheme employer will become an exiting employer
R63	Decide whether to obtain a new rates and adjustments certificate if the Scottish Ministers amend the Regulations as part of the 'cost sharing' under R61 (Aggregate Scheme Costs)	The Fund has determined to obtain a new rates and adjustments certificate if the Scottish Ministers amend the Regulations as part of the 'cost sharing' under R61 (Aggregate Scheme Costs)
R67(1)	Decide frequency of payments to be made over to the fund by employers and whether to make an admin charge	The Fund has determined the frequency of payments to be made over to the fund by employers and whether to make an admin charge as detailed in the Funding Strategy Statement (FSS) schedule of employer rates

R67(4)	Decide form and frequency of information to accompany payments to the fund	The Fund has determined the form and frequency of information to accompany payments to the fund as detailed in the PAS
R68 & TP22(2)	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	The Fund has determined to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance as detailed in the PAS
R69(1)	Whether to charge interest on payments by employers which are overdue	The Fund has determined to charge interest on payments by employers which are overdue as detailed in the PAS
R77(2)	Whether admin authority should appeal against employer decision (or lack of decision) under R70 (first instance decisions)	The Fund has determined to appeal to Scottish Ministers where an employer fails to reach a decision as required under the regulations. Where the Fund disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred to the Scottish Ministers
R78(1)(b) & TP22(1)	Specify information to be supplied by employers to enable admin authority to discharge its functions	The Fund has/will determined the specify information to be supplied by employers to enable admin authority to discharge its functions
R80(2)	Whether to pay a death grant due to personal representatives or anyone appearing to be beneficially entitle to the estate without need for grant of probate/letters of administration where payment is less that amount specified in S6 of the Administration of Estates (Small Payments) Act 1965	The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Council Head of Finance. Day to day administration is delegated to Pensions Manager.

R81	Whether, where a person is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to a person having the care of the person entitled, or other such person as the authority may determine, to be applied for the benefit of the person entitled.	The Fund has determined that it will require a trustee arrangement to be put in place in the event that a person is incapable of managing their affairs. The Fund retains the right to vary this decision in respect of special circumstance.
R87(5)	Date to which benefits shown on annual benefit statements are calculated	The Fund has determined the date to which benefits shown on annual benefit statements are calculated
R96(1)(b)	Agree to bulk transfer	The Fund has determined to agree to bulk transfers
R98(6)	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining LGPS	The Fund has determined not to extend normal time limit for acceptance of a transfer value beyond 12 months from joining LGPS
R98(7)	Allow transfer of pension rights into the fund	The Fund has determined to only allow 'CLUB TRANSFERS' into the Fund
TP3(6), TP4(6)(c), TP8(4), TP10(2)(a), TP17(2)(b) & A43(10)	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e determine best pay figure to be used in the benefit calculations (pay cuts/restrictions occurring pre 01/04/15)	The Fund has determined to make election on behalf of deceased member with a certificate of protection of pension benefits i.e determine best pay figure to be used in the benefit calculations (pay cuts/restrictions occurring pre 01/04/15)
RSch 1 & TP17(9)(a)	Decide to treat child as being in continuous full time education or vocational training despite a break	The Fund has determined to treat child as being in continuous full time education or vocational training despite a break
RSch 1 & TP17(9)(b)	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	The Fund has determined the evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member The Fund will publish a list of evidence required to determine financial dependence. The list will be reviewed on an

		annual basis
TP3(11)	Decide policy on abatement of pre 01/04/15 elements of pensions in payment following re-employment	The Fund has determined that it will not abate pensions of pensioner members on re-employment. Pension benefits resulting from the award of additional service to a member by an employer under the Local Government (Discretionary Payments and Injury Benefits)(Scotland) Regulations where that member has been retired on efficiency or redundancy grounds are still subject to abatement on re-employment as abatement under these provisions is not discretionary.
TP15(1)(c)	Extend time period for capitalisation of added years contract	The Fund has determined not to extend the time period for capitalisation of added years contracts

In the table below, regulations prefixed by “A” refer to The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008, prefixed by “B” refer to the Local Government Pension Scheme (Benefits, Membership and Contributions) (Scotland) regulations 2008 and prefixed by “T” refer to the Local Government (Transitional Provisions) (Scotland) Regulations 2008. In relation to scheme members who ceased active membership on or after 01/04/2009 and before 01/14/2015

Regulation	Discretion	Policy
A25(2)	Whether to charge the member for provision of an estimate of additional pension that would be provided by the scheme in return for a transfer in of in house AVC / SCAVC funds.	The Fund will not charge members for estimates of additional pension that would be provided by transferring in AVC funds to the LGPS
<i>T Schedule 1</i>	Extend time period for capitalisation of added years contracts	The Fund will not extend the time period for capitalisation of added years contracts
A40(3)	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	Outstanding employee and employer contributions due to the fund will be invoiced to the employer as an outstanding debt to the fund.

A43(10)	Make an election on behalf of a deceased member with a certificate of protection(i.e. determine best pay figure to use in benefit calculations)	The Fund will make an election on behalf of a deceased member with a certificate of protection to determine the best pay figure to use in benefit calculations.
A46(7) & (8)	Allow extension of period within which a scheme member must submit election for benefits or alter the date from which he / she elects to have the pension paid.	Members may make an election for payment of benefits from a specific date up to twelve months prior to their intended date of retirement in accordance with Regulation 7
A48(2)	Can pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration	The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of Regulation 48 of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.
A52(2)	Approve medical advisors used by employers to certify ill health retirement	The Fund shall approve medical advisors and maintain a list of those medical advisors it has approved for use by employers to certify ill health retirement.
A59(2)	Whether admin authority should appeal against employer decision or lack of decision.	The Fund will appeal to the Scottish Ministers where an employer fails to reach a decision as required under the regulations. Where the NESPF disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred to the Scottish Ministers.

A60(1)(b)	Specify information to be supplied by employers to enable the admin authority to discharge its functions.	<p>Details of information required on an ongoing basis from Employers is contained in the PAS. The PAS is reviewed on an annual basis or following change statutory regulation.</p> <p>Information in respect of year end or actuarial provision is supplied to employers on an annual and triennial basis.</p> <p>Ad hoc requests to employers may be made by the administering authority will a full explanation of the request if required to enable the administering authority to discharge its function</p>
B31	Decide whether deferred beneficiary meets permanent ill health criteria	<p>The Head of Finance has delegated to the Pensions Managers the decision as to whether or not a deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before age 65</p>
B23(2) & B32(2) & B35(2)& A95(4)	Decide to whom a death grant is paid	<p>The decision on the exercise of this discretion rests with the Head of Finance. Day to day administration of the discretion will be delegated Pensions Manager subject to agreed guidelines</p>
B25	Decide evidence required to determine financial dependence of nominated co-habitee on scheme member or financial interdependence of nominated co-habitee and scheme member	<p><i>The Fund has determined the evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member The Fund will publish a list of evidence required to determine financial dependence. The list will be reviewed on an annual basis</i></p>

B39 & A98	Decide whether to commute small pensions	<i>The Fund will commute small pensions on application from the scheme members</i>
B40 & A99	Decide whether to commute pension on grounds of serious ill health	Each case will be considered individually in consultation with the scheme employer and must be supported by a certificate from a fully registered person within the meaning of the Medical act 1983 to the effect that the member's life expectancy is less than one year.
B43(1)(c)	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of scheme membership.	In the absence of an election from the member in these circumstances a decision will be made to award the benefit that maximises the member's financial return from the scheme.
A86(5)	Decide valuation day for pension sharing order	The valuation day for pension sharing orders shall be date of separation
A89(1) & (2)	Decide how to discharge Pension Credit liability	The Fund will discharge pension credit liabilities by either conferring appropriate rights under the scheme on the ex-spouse or ex-civil partner. Alternatively , the ex-spouse or ex-civil partner may request a transfer of those rights to a suitable qualifying arrangement (occupational pension scheme, personal pension scheme, appropriate annuity contract or suitable overseas arrangement)
A101	Decide charges to be levied in Pension Sharing cases.	Charges to be levied in Pension Sharing cases will be set according to guidance issued by the national Association of Pension Funds and will be uprated in line with Pensions Increases awarded each April.

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Scotland Regulations 1998 (as amended) in relation to pre 1.4.09 scheme leavers.

Regulation	Discretion	Policy
37(1) & 150(4)	Decide to whom death grant is paid in respect of post 31/03/98 / pre 01/04/09 leavers	The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.
46(1)	Apportionment of children's pension amongst eligible children (children of post 31/03/98 / pre 01/04/09 leavers)	Divide pension equally amongst the children
48 & 153	Agree to commutation of small pensions (pre 01/04/09 leavers or pre 01/04/09 pension credit members)	The Fund will commute small pensions on application from the scheme members
49 & 154	Commute benefits due to exceptional ill-health (pre 01/04/09 leavers or pre 01/04/09 pension credit members)	The Fund will commute benefits only where employees are aware of short life expectancy and in the best interests of member and or dependant.
79(5)	Whether to require any strain on fund costs to be paid 'up front' by employing authority following early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 01/04/09 leavers)	The Fund requires that 'strain on the fund' costs are either paid 'up front' or spread over a five year period.

79(7)(b)	Agree dates on which instalments under Reg 79(5) are due	Payments should be made on a monthly basis
88(3)	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (pre 1/04/09 leavers)	Outstanding employee and employer contributions due to the fund will be invoiced to the employer as an outstanding debt to the fund.
90(4)	Timing of pension increase payments by employers to fund (pre 1/04/09 leavers)	The Fund will charge the employer on a monthly basis
94	Pay death grant due to personal representatives without need for grant of probate/letters of administration (death of pre 01/04/09 leaver)	Small payment allows payments of less than £5000 to be paid without confirmation of estate.
96(10)	Approve medical advisors used by employers (re ill health benefits for pre 01/04/09 preserved benefits payable on health grounds)	The Fund shall approve medical advisors and maintain a list of those medical advisors it has approved for use by employers to certify ill health retirement.
98	Decide procedure to follow by admin authority when exercising its IDRPs functions and decide the manner in which those functions are to be exercised (pre 01/04/09 leavers)	First reference is to the Pensions Manager, followed by the Appointed Person who must respond within two months. Then the Scottish ministers who again must respond within two months. The final recourse is the Pensions Ombudsman who will have expected the member to first approach the Occupational Advisory Service.
104(1)	Appeal against employer decision, or lack of a decision (pre 01/04/09 leavers)	The Fund will appeal to the Scottish Ministers where an employer fails to reach a decision as required under the regulations. Where the Fund disagrees with a decision made by an employer, on grounds that it either conflicts with the regulations, or is against the best interests of the member or

		the fund, attempts will be made to reach an acceptable compromise. Failure to reach a compromise will result in the matter being referred
105A(5)	Date to which benefits shown on annual deferred benefit statement are calculated	Benefit statements will show benefits calculated as at 31st March.
115(4)	Recovery of half payment in lieu from refund of contribution (Under Part 111 of NI act 1965)	The Fund has determined not to pay half payment in lieu from refund of contribution (Under Part 111 of NI act 1965)
118	Retention of CEP where member transfers out (pre 01/04/09 leavers)	The Fund will retain CEP in the event member transfers benefits to a contracted in scheme
144	Discharge pension credit liability (pre 01/04/09 pension sharing orders)	The Fund will discharge pension credit liabilities by either conferring appropriate rights under the scheme on the ex-spouse or ex-civil partner. Alternatively, the ex-spouse or ex-civil partner may request a transfer of those rights to a suitable qualifying arrangement (occupational pension scheme, personal pension scheme, appropriate annuity contract or suitable overseas arrangement)

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 1998 (as amended)

Regulation	Discretion	Policy
17(3)	Extending time limit for repayment of a previous refund (16.5.74 to 5.4.78)	The Fund set a normal limit of six months. Information is issued to all new starts in a booklet along with statutory notification. Period will only be extended when booklet is not issued with 6 month time scale

Note: the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 1998 have been revoked by regulation 2 and Schedule 1 of the Local Government Pension Scheme (Transitional Provisions) (Scotland) Regulations 2008 [SSI 2008/229] but notwithstanding their revocation, they continue to apply to:

- a.) pre 1 April 2009 deferred or pensioner members
- b.) any person who may become entitled to a benefit in respect of such a person, and
- c.) any other person whose entitlement to the payment of any pension or other benefit has arisen before 1 April 2009

It is not clear whether the right to repay a refund would fall within (c) above. The Secretariat is seeking clarification from SPPA.

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government Superannuation (Scotland) Regulations 1987 (as amended) in relation to pr 1.4.98 scheme leavers

Regulation	Discretion	Policy
E11ZA	Decide to whom death grant is paid in respect of pre 1.4.98. leavers	The Fund will use it's discretion in accordance with the regulations and will in the first instance consider the member's expression of wish form where a valid nomination exists. In the absence of a nomination form a will may be considered as a nomination form provided it does not conflict with the provisions of the administration regulations. The ultimate decision in the exercise of this discretion rests with the City Head of Finance. Day to day administration is delegated to Pensions Manager.
Definition of child in Schedule 1	Treat child as being in continuous education or training despite a break (children of pre 1.4.98. leavers)	To disregard break in continuous education and training only when a child is returning to complete a course, not where change of course is undertaken
E9(7)	Apportionment of children's pension amongst eligible children (children of pre 1.4.98. leavers)	Divide pension equally amongst the children
E9(7)	Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. leavers)	Payment will be made direct t the child, unless in receipt of legal documentation

The following table details the policy of Aberdeen the City Council Pension Fund in the exercise of it's discretions under the Local Government (Discretionary Payments and Injury Benefits) (Scotland) Regulations 1998 (as amended)

Regulation	Discretion	Policy
31(2)	Agree to pay annual compensation on behalf of employer an recharge payments to employer	The Fund will pay compensation on behalf of an employer and recharge payments to the employer/ Payments must be made within 30 days

Exempt information as described in paragraph(s) 6, 12 of Schedule 7A of the Local Government (Scotland) Act 1973.

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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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