

Public Document Pack



To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Ali, Alphonse, Clark, Crockett, Cross, Davidson, Henrickson, Massey, McRae, Stewart and Tissera (Pensions Committee); and 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, 26 September 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 **WEDNESDAY, 5 OCTOBER 2022 at 1.00pm**. 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 the agenda is unchanged from the postponed meeting of 16 September, only the meeting time and date is altered.

VIKKI CUTHBERT
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

MINUTES OF PREVIOUS MEETINGS

- 4.1. Minute of Previous Meeting of 24 June 2022 - for approval (Pages 3 - 10)

COMMITTEE BUSINESS PLANNER

- 5.1. Business Planner (Pages 11 - 12)

NOTICES OF MOTION

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

RISK MANAGEMENT / FINANCE

- 7.1. Budget/Forecast 2022/23 - PC/SEP22/BUD (Pages 13 - 20)

INTERNAL AND EXTERNAL AUDIT

- 8.1. Internal Audit Update Report - IA/22/002 (Pages 21 - 32)
- 8.2. Internal Audit Report AC2213 - Pensions System - IA/AC2213 (Pages 33 - 48)

SCRUTINY

- 9.1. Strategy - PC/SEPT22/STRAT (Pages 49 - 114)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 10.1. Asset and Investment Manager Performance Report - PC/AIMPR/SEP22
(Pages 115 - 166)

Website Address: aberdeencity.gov.uk

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

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 24 June 2022. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Clark, Crockett (for articles 1 to 9), Cross, Davidson, Henrickson, Malik, Massey, McRae, Stewart and Tissera (Pensions Committee); and Mr N Stirling, Chairperson; Councillors Copland (as substitute for Councillor Mennie) and Smith; and Mr I Hodgson, Mrs M Lawrence, Mr A Walker and Mr G Walters.

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.

DETERMINATION OF EXEMPT BUSINESS

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

The Committee resolved:-

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

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

2. There were no declarations of interest nor transparency statements.

MINUTE OF PREVIOUS MEETING OF 25 MARCH 2022

3. The Committee had before it the minute of its previous meeting of 25 March 2022 for approval.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

PENSIONS COMMITTEE AND PENSION BOARD
24 June 2022

BUSINESS PLANNER

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

The Committee resolved:-
to note the planner.

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

INTERNAL AUDIT ANNUAL REPORT 2021/2022 - IA/22/001

5. The Committee had before it a report by the Chief Internal Auditor which set out Internal Audit's Annual Report for the North East Scotland Pension Fund (NESPF) for 2021-22. The report advised that in the opinion of the Chief Internal Auditor, the NESPF had an adequate and effective framework for Governance, Risk Management and Control, covering the period 1 April 2021 to 31 March 2022.

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

The report recommended:-
that the Committee –

- (a) note the Annual Report for 2021-22;
- (b) note that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) note that there had been no limitation to the scope of Internal Audit work during 2021-22; and
- (d) note the progress that management had made with implementing recommendations agreed in Internal Audit reports.

The Committee resolved:-
to approve the recommendations.

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

UNAUDITED ANNUAL REPORT AND ACCOUNTS - PC/JUN22/ARA

6. The Committee had before it a report by the Director of Resources which presented the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The report advised that

PENSIONS COMMITTEE AND PENSION BOARD

24 June 2022

the audited version of the accounts would be presented to the Committee at a later date for consideration and signing.

The Committee heard from Mr Jonathan Belford, Chief Officer – Finance, in relation to the report.

The report recommended:-

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

The Committee resolved:-

- (i) to thank officers for the work which had gone in to preparing the unaudited annual report and accounts; and
- (ii) to otherwise note the report.

The Board resolved:-

to note the decision of the Committee.

FUNDING STRATEGY STATEMENT 2022 - PC/JUN22/FSS

7. The Committee had before it a report by the Director of Resources which sought approval of the draft Funding Strategy Statement 2022 which incorporated changes to reflect the new regulations on employer flexibilities which came into force with effect from 1 June 2022, and which also provided the ability for the Fund to adopt different investment strategies as a risk management solution.

The report recommended:-

that the Committee approve the draft Funding Strategy Statement.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/JUN22/STRAT

8. 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.

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The report provided an update on the Local Government Pension Scheme (Scotland) (Miscellaneous Amendments) Regulations 2022; the “McCloud Remedy” Regulations; the 23 breaches of law recorded in the NESPF breaches register during 21/22, the majority of which related to employers’ failure to meet statutory obligations in relation to late payment of pensions contributions, but were not deemed to be of material significance and did not require to be reported to the Pensions Regulator; the online training portal; and the usual risk register and Pensions Administration Strategy updates.

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:-

- Appointment Process for the Local Pensions Board (update to include reference to Hymans Online Learning Academy)
- Governance Policy (amended from 9 to 13 Committee members)
- Compliance with the Myners Principles (minor corrections/design changes)
- Overpayments Policy (minor corrections/design changes)
- Fire Safety (Local) Policy *NEW* (covers fire safety procedures for MSq2)
- Training Policy (update to include reference to Hymans Online Learning Portal, clarification to wording on minimum training requirements)

Finally, the report also requested approval of an amended Authorised Signatory List and that the Committee agree to delegate authority to the Chief Officer – Governance, in consultation with the Chief Officer – Finance, to make any further updates and minor amendments to the list.

The report recommended:-

that the Committee –

- (a) note the revisions to the NESPF Policy documents set out in the main report;
- (b) approve the updated Authorised Signatory List in respect of the Aberdeen City Council Pension Fund, to take effect from 1 September 2022; and
- (c) authorise the Chief Officer – Governance (following consultation with the Chief Officer – Finance) to (i) make further updates to the Authorised Signatory List to reflect any changes to personnel holding the posts listed therein and any changes to the post titles listed therein, and (ii) make any minor amendments to the List which may be necessary.

The Convener advised that since the report had been finalised, Ross Campbell had been appointed permanently to the role of Team Leader – Property, and therefore congratulated Mr Campbell and asked Members to agree that this be reflected in the Committee decision.

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The Committee resolved:-

- (i) to request that officers provide a response to Councillor Stewart outwith the meeting in relation to her query as to how many people would be affected by the change in respect of survivor benefits; and
- (ii) to approve the recommendations, subject to subject to Ross Campbell being identified as Team Leader – Property in the Authorised Signatory List.

The Board resolved:-

to note the decision of the Committee.

TRAINING - PC/JUNE22/TRA

9. The Committee had before it a report by the Director of Resources which provided details of the training plan for 2022-2023 for the Pensions Committee and Pension Board.

The report recommended:-

that the Committee –

- (a) agree the annual and one-off proposed training set out in the attached report:
 - approve the travel of members to the training session in London
 - approve the travel of members to attend external training opportunities
 - approve the travel of members to attend LAPFF meetings; and
- (b) note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

The Convener, seconded by Councillor Henrickson, moved:-

That the Committee –

- (a) agree the annual and one off proposed training set out in the attached report, with the exception that the proposed training session in London is held in Aberdeen instead, with fund managers either attending in person, or providing training virtually and:
 - approve the travel of members to attend external training opportunities
 - approve the travel of members to attend LAPFF meetings; and
- (b) note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

Councillor Crockett, seconded by Councillor Stewart, moved as an amendment:-

That the Committee approve the recommendations as set out in the report.

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On a division, there voted:- for the motion (7) - the Convener; the Vice Convener; and Councillors Alphonse, Clark, Davidson, Henrickson and Mcrae; for the amendment (6) – Councillors Crockett, Cross, Malik, Massey, Stewart and Tissera.

The Committee resolved:-
to adopt the motion.

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

In accordance with the decision taken under article 1, the following items were considered with the press and public excluded.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/JUNE22/AIMPR

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

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

INVESTMENT STRATEGY UPDATE - PC/JUNE22/INVSTRAT

11. The Committee had before it a report by the Director of Resources which presented a review of the investment re-balancing activity and updated Baillie Gifford fee proposal for the North East Scotland Pension Fund for the three month period ending 31 March 2022.

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

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24 June 2022

The Committee resolved:-
to note the report.

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

- **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 September 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	Internal Audit Update Report	To provide 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		Jamie Dale	Internal Audit	Internal Audit	2.2		
6	Internal Audit Report AC2213 - Pensions System	To present the planned Internal Audit report on the Pensions System		Jamie Dale	Internal Audit	Internal Audit	2.2		
7	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		
8	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
9	NESPF Annual Report & Accounts	To present the audited annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1	D	As reported to the Committee in March 2022, the Audit Plan highlighted that due to resourcing arrangements Audit Scotland would be completing the audit during September and October, with the intent of concluding the Annual Audit Report in November. It is expected that the work will be completed to present the Audited Accounts and Auditor's Report to the next meeting, in December 2022.
10	External Audit Annual Audit Report 2020/21	To present the External Audit Annual Audit Report 2021/22		Rachel Browne	External Audit	External Audit	2.1	D	As above
11	16 December 2022								
12	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.4		
13	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Stephanie Dunsmuir	Governance	Commissioning	GD 8.5		

	A	B	C	D	E	F	G	H	I
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
14	Investment Strategy Update	To provide an update on the investment strategy of the NESPF if required		Graham Buntain / Laura Colliss	Finance	Resources	5.2		
15	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
16	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
17	March 2023								
18	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		
19	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		
20	External Audit Annual Plan 2023/24	To present the annual plan		Rachel Browne	External Audit	External Audit	2.1		
21	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		
22	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
23	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
24	June 2023								
25	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	16 SEPTEMBER 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	BUDGET/FORECAST 2022/23
REPORT NUMBER	PC/SEP22/BUD
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MICHAEL SCROGGIE
TERMS OF REFERENCE	PENSIONS COMMITTEE 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 2022/23 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION(S)

That the Committee: -

- 2.1 Approve the NESPF Management Expenses Budget/Forecast 2022/23, shown in Appendix I of the main report.

3. CURRENT SITUATION

3.1 BUDGET/FORECAST 2022/23

- 3.1.1 Appendix I shows the Council's Budget 2022/23 for the NESPF. The re-alignment of cost headings follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

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

- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated

management costs are apportioned to this activity and charged annually as expenses to the Fund.

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

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

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

3.2 GOVERNANCE

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

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. 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) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified	N/A	N/A	N/A
Compliance	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)

Appendix I, Budget/Forecast 2022/23

12. REPORT AUTHOR CONTACT DETAILS

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Title	Accounting Manager
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North East Scotland Pension Fund

nespf

Budget/Forecast 2022/23

1. Budget/Forecast 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, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.

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

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

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

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

2. Governance

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

Appendix I Budget/Forecast 2022/23

	ACC Full Year Budget 2022/23 £'000	Additional Budget 2022/23 £'000	NESPF Full Year Budget 2022/23 £'000
Administrative Staff Costs	1,615	11	1,626
Information Technology	41	447	488
Supplies & Services	91	49	140
Accommodation	0	543	543
Printing & Publications	0	13	13
Administrative Expenses Total	1,747	1,063	2,810
Investment Staff Costs	233	32	265
Pension Fund Committee	4	14	18
Pension Board	4	9	13
External Audit Fee	0	47	47
Internal Audit Fee	12	0	12
Actuarial Fess	0	180	180
General Expenses	0	297	297
Oversight & Governance Expenses Total	253	579	832
Investment Management Fees	0	14,304	14,304
Performance Fees	0	8,817	8,817
Direct Operating Property Expenses	0	1,184	1,184
Transaction Costs	0	2,226	2,226
Custody Fees	0	177	177
Investment Management Expenses Total	0	26,708	26,708
Management Expenses Grand Total	2,000	28,350	30,350

Important to Note

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

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	16 September 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Update Report
REPORT NUMBER	IA/22/002
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with an update on Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 note the progress of the Internal Audit plan;
- 2.2 note the progress that management has made with implementing recommendations agreed in Internal Audit reports;
- 2.3 note the approach to be taken for the 2023-2026 audit planning process; and
- 2.4 note the current staffing level within Internal Audit.

3. CURRENT SITUATION

- 3.1 Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall. This requires a continuous rolling review and appraisal of the internal controls of the Fund and the Council, involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and copies of these are provided to the Pensions Committee and the Audit, Risk and

Scrutiny (ARS) Committee.

3.2 This report is designed to provide an update to the Pensions Committee on the work of Internal Audit since our last update to the Committee.

4. **FINANCIAL IMPLICATIONS**

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

5. **LEGAL IMPLICATIONS**

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

6. **ENVIRONMENTAL IMPLICATIONS**

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

7. **MANAGEMENT OF RISK**

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

8. **OUTCOMES**

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

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

9. **IMPACT ASSESSMENTS**

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

10. APPENDICES

10.1 Appendix A - Aberdeen City Council NESPF - Internal Audit - Update Report.

11. REPORT AUTHOR DETAILS

Jamie Dale, Chief Internal Auditor
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Internal Audit

North East Scotland Pension Fund Pensions Committee Internal Audit Update Report September 2022

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1 Executive Summary

1.1 Introduction and background

Internal Audit's (IA) primary role is to provide independent and objective assurance on the North East Scotland Pension Fund's (NESPF), and Aberdeen City Council's (whose systems the NESPF relies on) risk management, control, and governance processes. Where this report focuses on the NESPF specifically, consideration has been given and reference will be made to the work we have carried out with the Council overall. This requires a continuous rolling review and appraisal of the internal controls of the Fund and the Council, involving the examination and evaluation of the adequacy of systems of risk management, control, and governance, making recommendations for improvement where appropriate. Reports are produced relating to each audit assignment and these are provided to the Pensions Committee and the Audit, Risk and Scrutiny (ARS) Committee.

This report advises the Pensions Committee of Internal Audit's work since the last update. Details are provided of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters for the Committee to be aware of.

1.2 Highlights

Full details are provided in the body of this report however Internal Audit would like to bring to the Committee's attention that since the last update:

- One audit report has been completed – Pensions System.
- Pension Fund Governance Arrangements audit is scheduled for Quarter 4.
- The closure of ten audit recommendations.
- The process to be followed for the formation of the 2023-26 Internal Audit Plan.
- The staffing position within Internal Audit.

1.3 Action requested of the Pensions Committee

The Pensions Committee is requested to note the contents of this report and the work of Internal Audit since the last audit.

2 Internal Audit Progress

2.1 2021-22 Audits

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

2.2 2022-23 Audits

Service	Audit Area	Position
Pensions	Pension Fund Governance Arrangements Including Risk Management	Not started – Review scheduled for Q4

2.3 Audit reports presented to this Committee

Report Title	Assurance Year	Conclusion
AC2213 – Pensions System	2021-22	<p>In general, the pensions system is adequately controlled. The system was appropriately procured and meets cyber security accreditation requirements; data back-up, business continuity and disaster recovery arrangements are sufficient; and data input controls are present.</p> <p>However, interface reconciliations would benefit from a system of review to reduce the risk of interface failures being missed and pension accounts being misstated as a result.</p> <p>In addition, many workflow actions affecting pension recalculations related to the McCloud judgment (1,037 actions) where it was determined age discrimination affected younger scheme members as a result of the transition of local government pension schemes from final salary to Career Average Earnings pension schemes, and workflow actions related to the next actuarial revaluation (2,961 actions), need to be cleared ahead of the respective deadlines (October 2022 and May 2023), to avoid reputational damage should pensioners not receive the correct payments, or the actuarial revaluation process is disrupted.</p>

2.4 Follow up of audit recommendations

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

Recognising the implementation of audit recommendations as something that Internal Audit could support the Council with, over the past months Internal Audit has led an exercise aimed at supporting management on the closure of agreed actions. This did not move the tolerances but through engagement beyond the routine follow up exercise, we worked with management to close out as many actions as possible and leave only those actions that were rightly ongoing for management to focus on.

As at 30 June 2022 (the baseline for our exercise), 10 audit recommendations were due and outstanding¹:

- Seven rated as Significant within audited area
- Three rated as Important within audited area

As part of the audit recommendations follow up exercise, all ten audit recommendations were closed.

Appendix 1 – Grading of Recommendations provides the definitions of each of the ratings used.

2.5 2023-26 Audit Planning Process

Over the coming months Internal Audit will begin the process of developing the 2023-26 Assurance Plan. Appendix 2 – 2023-2026 Internal Audit Planning Process details the process that will be followed.

2.6 Staffing

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

At present Internal Audit is operating with a 11.6 FTE, 1.4 FTE under budget:

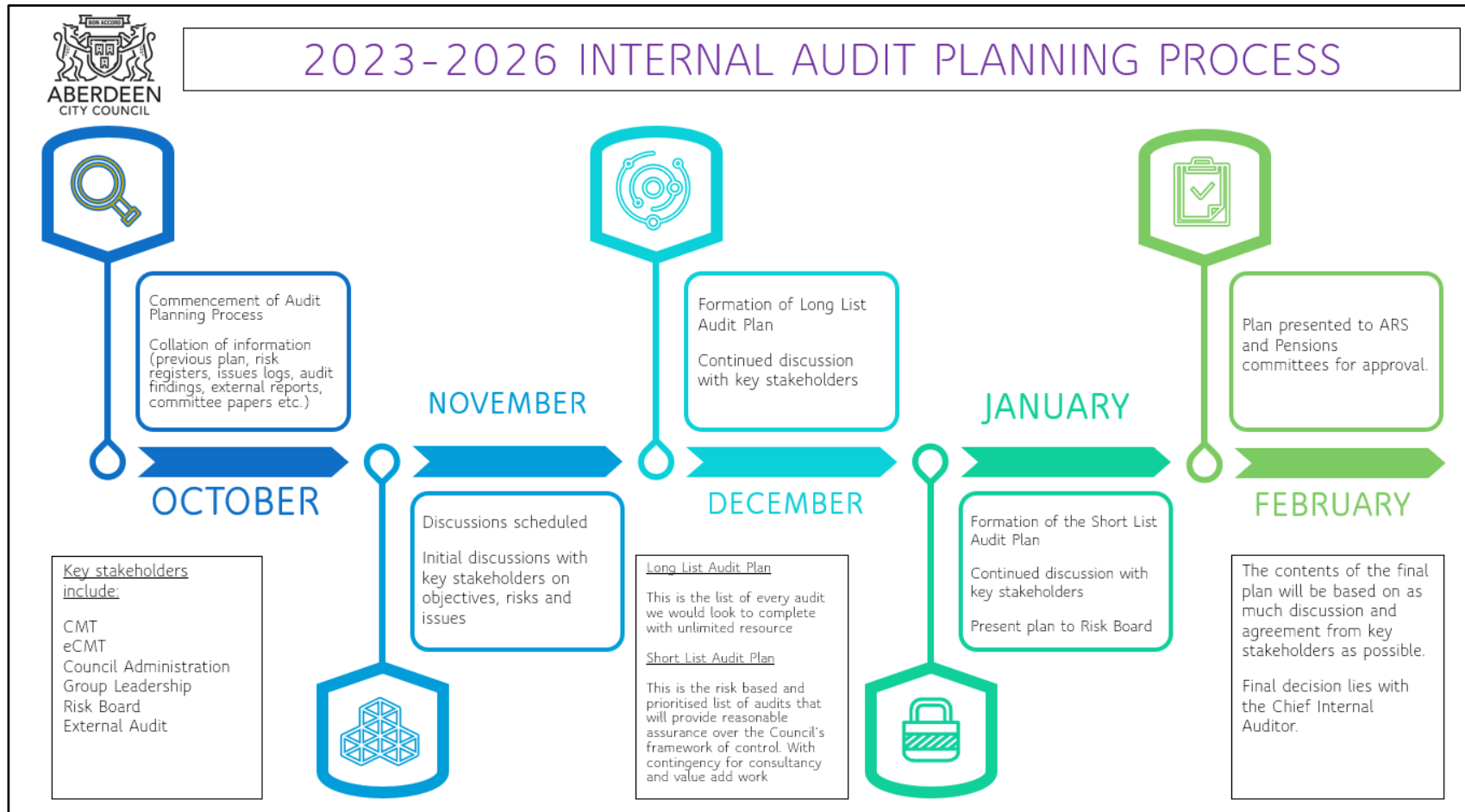
- 1 FTE because of recent staff attrition; recruitment is underway to fill this post.
- 0.4 FTE because of flexible working arrangements adopted by staff.

¹ This is the position with regards to recommendations that were due as at 30 June 2022. Recommendations falling due past this date and those made as part of subsequent Internal Audit Reports will be followed up as part of the standard follow up cycle and reported to Committee session on session.

3 Appendix 1 – Grading of Recommendations

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

4 Appendix 2 – 2023-2026 Internal Audit Planning Process





ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	16 September 2022
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2213 - Pensions System
REPORT NUMBER	IA/AC2213
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

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

3. BACKGROUND / MAIN ISSUES

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

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

7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and

control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

8. IMPACT ASSESSMENTS

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

9. APPENDICES

9.1 Internal Audit report AC2213 – Pensions System.

10. REPORT AUTHOR DETAILS

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Internal Audit Report

Pension Fund

Pensions System

Issued to:

Steven Whyte, Director of Resources
Jonathan Belford, Chief Officer - Finance
Fraser Bell, Chief Officer - Governance
Laura Colliss, Pension Fund Manager
Gary Gray, Operations Manager
Marie Mclean, Benefit Administration Manager
Neil Middleton, Systems Manager
Claire Mullen, Employee Relationship manager
External Audit

EXECUTIVE SUMMARY

Background

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

As at 31 March 2021, the NESPF is the third largest LGPS Fund in Scotland in asset size at £5,777.2m, with 69,375 members and 48 participating employers, including two the Transport Fund. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the First Group; as at 31 March 2021 it had 1,604 members, net assets of £304.6m and two participating employers (First Aberdeen and First Glasgow).

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

The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, with regulation provided by the Pensions Regulator.

The NESPF Pension Fund Manager reports to Aberdeen City Council's Chief Officer – Finance and is currently responsible for approximately 45 Pensions staff operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Systems.

Objective

The objective of this audit was to consider whether appropriate control is being exercised over the system used to administer the Fund, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems are accurate and properly controlled.

Assurance

In general, the pensions system is adequately controlled. The system was appropriately procured and meets cyber security accreditation requirements; data back-up, business continuity and disaster recovery arrangements are sufficient; and data input controls are present.

However, interface reconciliations would benefit from a system of review to reduce the risk of interface failures being missed and pension accounts being misstated as a result. In addition, many workflow actions affecting pension recalculations related to the McCloud judgment (1,037 actions) where it was determined age discrimination affected younger scheme members as a result of the transition of local government pension schemes from final salary to Career Average Earnings pension schemes, and workflow actions related to the next actuarial revaluation (2,961 actions), need to be cleared ahead of the respective deadlines (October 2022 and May 2023), to avoid reputational damage should pensioners not receive the correct payments, or the actuarial revaluation process is disrupted.

Findings and Recommendations

I-Connect is a cloud-based data exchange portal that allows participating employers (currently 46) (transport employers do not use I-Connect as others do) to transfer scheme member level data to NESPF. These submissions occur monthly and include employee and employer pension contributions and employee pensionable pay for the calculation of Career Average Earning (CARE) benefits. Data submitted is uploaded to the respective members' accounts via an interface with the pension system. Every month the Employer Relationship Team (ERT) reconciles an i-Connect Submission Contributions Summary Report for each participating employer, detailing uploaded and rejected employee and employer pension contributions, to the remittance advice statements for the respective employer, detailing the payments received into NESPF's bank account. The February 2022 reconciliations were completed in a timely manner and on reviewing four reconciliations in detail, the reconciliations were adequately supported. However, it was noted that the reconciliations were not subject to review. In the absence of review there is an increased risk upload failures will not be detected, and member accounts will be misstated. A recommendation graded 'Significant within audited area' was raised with the Service to ensure interface reconciliations are subject to review.

System tasks are managed via workflow. At the time of review there were 7,103 workflow actions. The service advised most of these cases related to business-as-usual tasks relating to leavers, new retirements, transfers and deaths where information was outstanding from external sources, such as employers and pensioners. The Service also advised the high number of actions was initially built up due to home working and resourcing issues because of COVID-19, however the team are now back working in the office and have recruited new staff who will assist with clearing workflow actions. However, 1,037 (15%) of the workflow actions related to 'arrears' requiring back dated pay awards to be processed – this must be done before the outcome of the McCloud judgement consultation in October 2022, relating to age discrimination, due to the transition of local government pension schemes from final salary to Career Average Earnings pension schemes, for the service to be able to complete required benefit recalculations in a timely manner. In addition, 2,961 (42%) relate to 'concurrent' and 'join' cases where deferred pension and active pension records require to be aggregated; the service advised this aggregation work must be concluded by May 2023 ahead of the next actuarial revaluation exercise. Failure to process arrears and aggregation workflow actions will therefore likely lead to reputational damage should pensioners not receive the correct payments, or the actuarial revaluation process is disrupted. A recommendation graded 'Significant within audited area' was raised with the Service to ensure workflow actions affecting the ability to address McCloud judgement outcomes and the actuarial revaluation process.

Management Response

The Service agreed to update procedures and system controls as recommended, introduce a system of review for interface reconciliations and address the high volume of arrears and aggregation workflow cases affecting pension recalculations for members impacted by the outcome of the McCloud judgement and the next actuarial revaluation, respectively. Based on the draft Pension regulations resulting from the McCloud judgement, all eligible members with outstanding arrears cases have been identified and are being processed as a priority, this will continue until the backlog is cleared. For the outstanding aggregation (concurrent and join) cases additional resource recently appointed will provide opportunity for more experienced officers to clear the backlog prior to providing valuation data to the scheme actuary. Aggregation backlogs are not uncommon however it is larger than we would normally expect because of the pandemic.

INTRODUCTION

- 10.1 The Local Government Pension Scheme is governed by the Public Service Pension Act 2013 and by the Local Government Pension Scheme (Scotland) Regulations 2018 (and associated amendments). The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within the Local Government Pension Scheme (LGPS) Regulations.
- 10.2 As at 31 March 2021, the NESPF is the third largest LGPS Fund in Scotland in asset size at £5,777.2m, with over 69,375 members and 48 participating employers. The ACCTF was created in October 1986 for employees of the former Passenger Transport Undertaking who transferred to the First Group; as at 31 March 2021 it had 1,604 members, net assets of £304.6m and two participating employers (First Aberdeen and First Glasgow).
- 10.3 The Funds are used to pay pensions, lump sum benefits and other entitlements to Scheme members and their dependents. The funds to pay these benefits are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments.
- 10.4 The administering authority has delegated powers from the Council to the Pensions Committee and to senior Council officers, with regulation provided by the Pensions Regulator.
- 10.5 The NESPF Pension Fund Manager reports to Aberdeen City Council's Chief Officer – Finance and is currently responsible for approximately 45 Pensions staff operating in six distinct sections: Benefits, Accounting, Investment, Governance, Employer Relations and Systems.
- 10.6 The objective of this audit was to consider whether appropriate control is being exercised over the system used to administer the Fund, including access, contingency planning and disaster recovery, data input, and that interfaces to and from other systems are accurate and properly controlled.
- 10.7 This involved an examination of current and potential future running costs of the pensions system, written procedures for administration and management of the system including training, access to the system, users' data input, interfaces and reconciliations of data transfer, and contingency planning.
- 10.8 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Jonathan Belford, Chief Officer – Finance, Laura Colliss, Pension Fund Manager, Gary Gray, Operations Manager and Neil Middleton, Systems Manager.

11. FINDINGS AND RECOMMENDATIONS

11.1 Written Procedures

- 11.1.1 Comprehensive written procedures that are easily accessible by all members of staff can reduce the risk of errors and inconsistency. They are beneficial for the training of current and new employees and provide management with assurance that correct and consistent instructions are available to staff, important in the event of an experienced employee being absent or leaving.
- 11.1.2 An online guide is available within the pensions system to all system users and provides comprehensive and clear guidance on system functionality e.g. log in instructions, conducting membership searches, password changes, new start creation, deleting leavers, processing payroll, benefit calculations etc. The system also has a directive 'screen help' functionality, describing the purpose of each system screen, and 'field help', describing what to enter in specific fields.
- 11.1.3 System administration procedures are also available within the Systems team network drive. Procedures were generally comprehensive and clear, however was also noted the 'Add and delete a new user' procedure did not explain what 'Seniority Level (0-9)' applied to what role for setting up a new user, increasing the risk of a new user being granted inappropriate system responsibilities.
- 11.1.4 The Employer Relations Team (ERT), who are responsible for ensuring that i-Connect interfaces are complete and accurate, currently use an i-Connect Monthly Checklist, listing all the tasks, checks and reconciliations that should be completed for each employer, however they do not have written guidance on how to process all the tasks listed on the checklist. The service advised that they were in the process of developing in house guidance. A recommendation has been made for tracking purposes.

Recommendation

a) The service should review the New User written procedures and update as appropriate.

b) Interface procedures describing how to undertake the various interface checklist tasks should be formalised.

Service Response / Action

a) Agreed. The New User Guide will be updated to show that seniority level is a historical feature that was superseded by roles.

b) Agreed. As part of the ERT 2022 work plan the i-Connect checklist and procedures are being review and updated.

Implementation Date

a) July 2022

Responsible Officer

Systems Manager

Grading

Important within audited area

b) December 2022

Employee Relationship Manager

- 11.1.5 The service advised training is desk based with a member of the Systems team training new employees in the basic functionality of the system and colleagues providing further support and explanations for specific role functions thereafter.

11.2 Supply and Maintenance

- 11.2.1 The procurement of the system was covered in Internal Audit AC1827 Pensions System, reported to the Audit, Risk and Scrutiny Committee in June 2018. The same system supplier has been in place since April 2011. The contract extension for system support, maintenance and hosting until 31 December 2027 was approved by Pensions Committee on 1 December 2017. The related contract variation was signed by the Council in March 2018 and the supplier in April 2018; this covered data protection requiring the supplier and its employees to comply with the requirements of the General Data Protection Regulation and the Data Protection Act 2018.
- 11.2.2 The award of recognised cyber security certification can give some assurance that sufficient measures are in place to provide a secure environment. Cyber Essentials is a certification scheme backed by the Government and run by the National Cyber Security Centre; where added, the PLUS indicates that verification has been carried out by an independent body rather than through self-assessment. To receive the award organisations must show their systems have sufficient firewalls, malware control, network security, user access control, and patch management, meaning that fixes for known vulnerabilities are effectively and timeously applied. The system supplier was certified as having Cyber Essentials PLUS status in September 2021.
- 11.2.3 Following a request for access, the Systems team sends an email to the system supplier through their secure web portal to set up a new user on the system. Therefore, license use is controlled by the supplier. There were 38 named users in March 2022.
- 11.2.4 It is a contractual requirement for the system supplier to schedule the installation of appropriate hot fixes, service packs and security patches to servers as needed and to schedule the installation of appropriate core application patches. A timetable for four system releases in 2022 was published in December 2021 by the system supplier. The first system upgrade of 2022 was completed in February 2022 (version 22.1). Comprehensive system administrator guidance was made available for testing purposes. NESPF was one of a group of six pension fund volunteers that formed a Testing Working Party (TWP) to test system functionality following the upgrade on behalf of all system users. It was noted that nine out of 95 tests on the TWP 22.1 testing matrix were not attempted by any of the volunteers – these included tests relating to non-i-Connect users who require manual intervention to ensure accuracy of pension contributions and member account changes, despite one of the Fund’s participating employers falling into this category (First Aberdeen).
- 11.2.5 The service advised the tests are based on suggestions by the supplier and other pension funds and that it is possible the tests were completed and not documented on the testing spreadsheet due to access being unavailable to the testing spreadsheet for all TWP participants. Furthermore, the service advised that the supplier undertakes its own comprehensive testing. However, where it is not clear if tests of system functionality have been completed as required there is an increased risk of system functionality issues leading to inaccurate pension records and payments.

Recommendation

All new system release tests should be completed, and outcomes documented to ensure adequacy of system functionality. The service should implement a continuous review procedure to ensure that these have been carried out and any not can be actioned quickly.

Service Response / Action

Agreed. The Systems Manager will review the TWP process during the Altair 22.3 release scheduled for July/August 2022 working with all teams to create a testing

matrix. The matrix will then be used to document testing for all future releases starting with Altair 22.4 scheduled for October 2022.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
September 2022	Systems Manager	Important within audited area

11.3 System Access and Passwords

- 11.3.1 To protect confidential information and prevent any fraudulent activity it is important that system access is suitably controlled and protected. Access to the system is granted by the Systems team with access roles aligned to an employee's job role. A recommendation has already been made at 2.1.4 above to formalise 'Seniority Level (0-9)' for new users to avoid inappropriate access such as in relation to system task review responsibilities. Following a request for access the Systems team sends an email to the system supplier through their secure web portal to set up a new user on the system. Where an employee no longer requires access to the system, the Systems team remove the user's login access meaning they can no longer use the system.
- 11.3.2 New system users are allocated a unique user ID and access to the system is password protected. In line with the NESPF system password policy, reviewed by the Systems team in January 2022, passwords are required to be at least six characters long, have an upper- and a lower-case alphabetic character, number and special character. However, it was noted that this does not comply with the Council's Password Standard, which has longer password requirements for system and application user (8 characters) and longer still for administrator accounts (15 characters). Whilst the National Cyber Security Centre (NCSC) does not define what is a suitable length for a password it recommends passwords are not set too short and the current NESPF password policy indicates an intention to extend the password minimum length requirements.
- 11.3.3 Accounts are locked after three incorrect password attempts, in line with the NESPF password policy, at which point the Systems team must be contacted to reset the password – this was verified by Internal Audit. Passwords must also be changed every 12 months under the NESPF password policy; this last requirement is contrary to NCSC advice for various reasons including users choosing similar replacement passwords when forced to change their existing password and the fact stolen passwords are usually exploited immediately.

Recommendation

Password requirements should comply with best practice and Council guidance.

Service Response / Action

Agreed. Passwords have been set with a requirement for a minimum length of 8 characters in line with the Council's password requirements for applications user accounts and the requirement to amend password after a set period has been removed.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
Implemented	Systems Manager	Important within audited area

- 11.3.4 The service advised that due to the fact they manage a relatively small number of licenses (maximum of 40), the associated cost of additional licenses, license use is easily monitored and minimised where possible. This was evident during Internal Audit AC2107 Pensions Payroll when Internal Audit were contacted to clarify if system access was still needed.

- 11.3.5 While it is recognised that there may be a need for a third party to access the system to carry out upgrades or resolve issues for instance, this should be limited and restricted. The system supplier is the only third party that is meant to have access to the system and this must be requested by the supplier and authorised by the service, or the service will contact the supplier when an issue arises. When an issue has been resolved the service is notified by the supplier through a secure portal. The service monitors third party access by reviewing all users' log in, log off and unsuccessful log in attempts; the report the service advised was used for this purpose for April 2022 was provided detailing user access as expected.
- 11.3.6 However, the report used to monitor third party access does not detail user actions, including those of users with privileged access to the system, such as system administrators. Audit logs detailing user actions are instead only reviewed in the event of an investigation into user activity. In the absence of independent review of relevant exceptional system access, such as unusual system access to perform high-risk tasks (e.g. change of bank details) by officers not normally responsible for those tasks, there is a risk of error and fraud.

Recommendation

Exception reporting should be introduced to detect any inappropriate system activity by users including system administrators.

Service Response / Action

Agreed. The Systems team will expand their monthly checks of user access to implement additional checks in relation to high-risk tasks that have been completed on the system.

Implementation Date

December 2022

Responsible Officer

Systems Manager

Grading

Important within audited area

- 11.3.7 The Council's ICT Access Control Policy requires Council systems to operate using the principle of least privilege, which includes a requirement for access to be restricted to only what is needed to fulfil the users' duties. Two (5%) out of 38 officers had both Payroll Officer and Payroll Senior system access, enabling them to both generate and authorise payments. However, the Benefit Administration Manager demonstrated that any user who creates a payment is prevented by the system from authorising that payment, and that this is applicable to all roles and access levels.

11.4 Data Input

- 11.4.1 Almost all member data can be amended manually in the system provided the team member has the appropriate system access. To help prevent errors, data entry fields within the system are set to the relevant format parameter and if data is entered with an incorrect format a warning message will be displayed.
- 11.4.2 Procedures generally require a system of review where data entered or amended affects member benefits and payments. However, segregation of duties is not enforced via workflow in the system, as was identified in Internal Audit report AC2107 Pensions Payroll, when bank changes were identified as being processed without evidence of review. The February 2022 system release (page 6 Altair 22.1 Release Guide) introduced member task definition updates that enable segregation of duties to be enforced in system workflow tasks, by defining tasks, which must be completed by a different user to the user who undertook the previous system task – this could help mitigate this risk and introduce segregation of duties for system tasks where required.

Recommendation

Workflow tasks should be reviewed, and segregation of duties between relevant stages of high-risk tasks should be enforced within the system, such as tasks relating to changes of bank details and benefit calculations.

Service Response / Action

Agreed. Task definition update development in Altair 22.1 will be implemented to deliver segregation of duties for appropriate system tasks.

Implementation Date

December 2022

Responsible Officer

Benefit Administration
Manager

Grading

Important within audited
area

11.5 Interfaces and Reconciliations

11.5.1 I-Connect is a cloud-based data exchange portal that allows participating employers (currently 46) to transfer scheme member level data to NESPF. These submissions occur monthly and include employee and employer pension contributions and employee pensionable pay for the calculation of Career Average Earning (CARE) benefits. Data submitted is uploaded to the respective members' accounts via an interface with the pension system.

11.5.2 Every month the Employer Relationship Team (ERT) reconciles an i-Connect Submission Contributions Summary Report for each participating employer, detailing uploaded and rejected employee and employer pension contributions, to the remittance advice statements for the respective employer, detailing the payments received into NESPF's bank account. The February 2022 reconciliations were completed in a timely manner and on reviewing four reconciliations in detail, the reconciliations were adequately supported. However, it was noted that the reconciliations were not subject to review. In the absence of review there is an increased risk upload failures will not be detected, and member accounts will be misstated.

Recommendation

Interface reconciliations should be subject to review.

Service Response / Action

Agreed. As part of the review of the i-Connect process and checklists (recommendation 2.1.4) the ERT will incorporate additional checks to ensure that the work has been carried out and reconciled. These additional checks will reduce the risk of undetected upload failure or mistakes in manual processing.

Implementation Date

December 2022

Responsible Officer

Employee Relationship
Manager

Grading

Significant within audited
area

11.5.3 Internal Audit reviewed 39 failed February 2022 interface transactions for the same four employers referred to in 2.5.2 above and checked if the respective members' accounts were manually updated with the failed transactions as required by the ERT – in one case (3%) the account had not been updated with the related monthly employer superannuation contribution. The service was notified and has since made the necessary amendment. However, the affected member's pension was unaffected by the failure to amend the month pension contribution adjustment since the member retired in December 2021 and cumulative pension contributions and CARE pay had been amended as required for the calculation of pension benefits.

11.5.4 One employer (First Aberdeen) does not use i-Connect. Instead, data affecting members' pensions is uploaded annually. A sample of 10 members employee and employer contributions from the 2020/21 submission was reviewed and the respective pension system accounts had been updated as expected.

11.6 Business Continuity and Disaster Recovery

11.6.1 The system is backed up by the system supplier in line with the contract with backup tapes held offsite. An incremental backup of scheme member data is performed each day and retained for 4 weeks, full backups of software and scheme member data are performed weekly and retained for 12 weeks, and complete backups of all relevant supplier systems are carried out monthly and retained for 12 months. It is a contractual requirement for the supplier to use all reasonable endeavours to provide a resumption of service from their Altrincham data centre within 48 hours of a disaster affecting the supplier's Redhill data centre. This would involve a recovery from the latest off-site backup media.

11.6.2 Disaster Recovery tests are done annually. The supplier's Altrincham data centre is the designated disaster recovery (DR) site. A successful disaster recovery test was completed by the supplier and the NESPF Systems team in February 2022.

11.6.3 NESPF has a Local Contingency Plan (LCP) which was last reviewed in February 2022. High level explanations of what would be required in the event of a disaster are described, primarily relating to contractual disaster recovery processes and use of archive data in the event of prolonged system disruption.

11.7 Performance monitoring and Reporting

11.7.1 Support and problem resolution is handled through the supplier's Support Desk. The system contract clearly prescribes response and resolution times for system failures by priority level. There were 15 calls outstanding at the time of the audit all at the lowest priority level (P3). The System Manager was aware of the position with these calls and had no concerns.

11.7.2 System tasks are managed via workflow. At the time of review in April 2022, there were 7,103 workflow actions. The service advised that the high number of actions was due to home working and resourcing issues because of COVID-19, however the team are now back working in the office and have recruited new staff who will assist with clearing workflow actions.

11.7.3 1,037 (15%) of the workflow actions related to 'arrears' requiring back dated pay awards to be processed – this must be done before the outcome of the McCloud judgement consultation is formalised in the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations, in October 2022. This relates to age discrimination, due to the transition of local government pension schemes from final salary to Career Average Earnings pension schemes, in order for the service to be able to complete required benefit recalculations in a timely manner. In addition, 2,961 (42%) relate to 'concurrent' and 'join' cases where deferred pension and active pension records require to be aggregated; the service advised this aggregation work must be concluded by May 2023 ahead of the next actuarial revaluation exercise. Failure to process arrears will therefore likely lead to reputational damage should pensioners not receive the correct payments, whilst failure to process aggregation workflow actions would also likely lead to reputational damage should the actuarial revaluation process be disrupted due to pension liabilities being misstated.

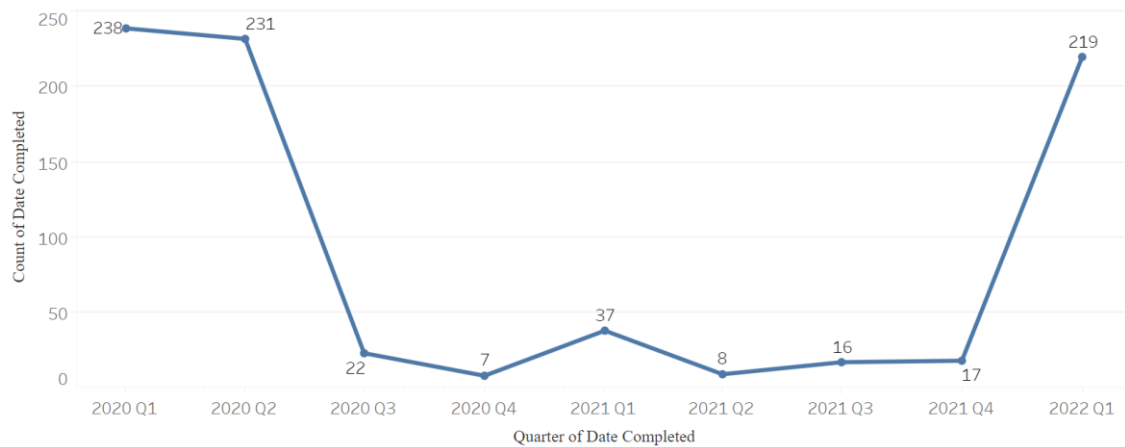
Recommendation

The service should clear workflow actions affecting the ability to address McCloud judgement outcomes and the actuarial revaluation process.

Service Response / Action

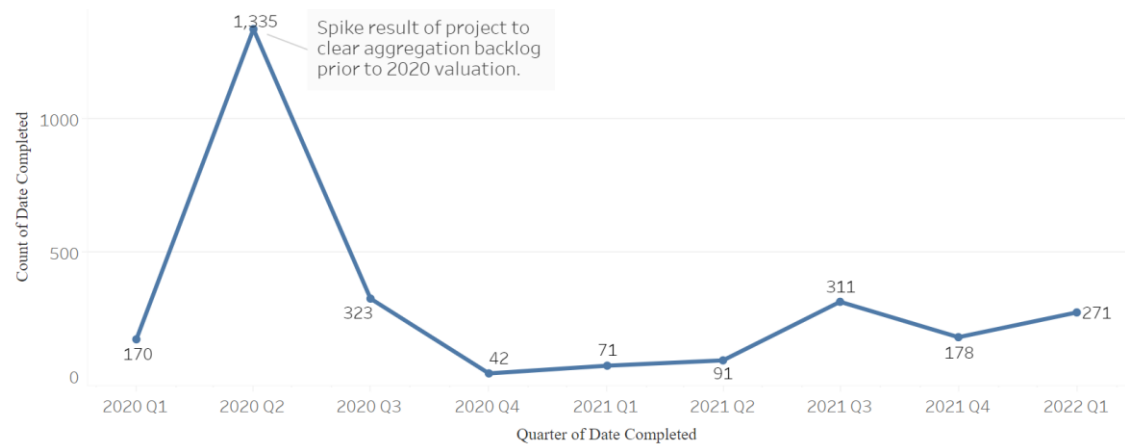
a) Agreed. Based on the draft regulations all eligible members for McCloud with outstanding arrears cases have been identified and are being processed as a priority, this will continue until the backlog is cleared. As at 10 June 2022, 691 outstanding arrears cases exist for members who qualify for McCloud protection. Recalculations cannot commence until final regulations are published in October 2022 and new calculation routines are approved for use in live system environment. Expectation is the final regulations might not come into force until October 2023 to allow funds more time to deliver the remedy however we are looking to recalculate all eligible member benefits prior to April 2023. The graph below shows the impact of the pandemic and recent progress made to clear the arrears backlog.

Arrears cases completed



b) Agreed. For the outstanding aggregation (concurrent and join) cases additional resource recently appointed will provide opportunity for more experienced officers to clear the backlog prior to providing valuation data to the scheme actuary. Aggregation backlogs are not uncommon however it is larger than we would normally expect because of the pandemic. Prior to the 2020 valuation a backlog was successfully cleared by a project team and if at the start of 2023 we have not seen significant improvement then we will adopt the same approach. The graph below shows the impact of the pandemic and recent progress made to clear the aggregation backlog.

Aggregation cases completed



<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
a) 31 October 2022	Benefit Administration Manager	Significant within audited area
b) 31 May 2023		

11.7.4 The remaining cases largely related to leavers (1,067 – 15%), new retirements (1,076 – 15%), transfers (329 – 5%), and deaths (275 – 4%). The service advised these were business as usual workflow actions, with information outstanding in the majority of cases from external sources (employers, members, next of kin) in order to conclude these.

AUDITORS: J Dale
A Johnston
A McDonald

Appendix 1 – Grading of Recommendations

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

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	16 SEPTEMBER 2022
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/SEPT22/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS & MAIRI SUTTIE
TERMS OF REFERENCE	PENSIONS COMMITTEE 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. RECOMMENDATION

That the Committee:-

- 2.1 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.

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 (August 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 (August 2022)

12. REPORT AUTHOR CONTACT DETAILS

Name	Laura Colliss Mairi Suttie
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North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting September 2022

1. Background

1.1 Quarterly Report to September 2022

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

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

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

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

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

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

2. Investment

2.1 Asset & Investment Manager Performance Report

Separate report, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

3. Accounting

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

The above report will be presented to the December meeting of the Pensions Committee & Board.

Budget/Forecast 22/23 Report

Separate report, provided

4. Benefit Administration

4.1 Cost Cap Results

On 29th June 2022, the Government Actuary's Department published the results of the first cost cap valuation for the LGPS (Scotland).

The cost cap was introduced by the Public Service Pensions Act 2013 and requires the setting of an employer cost cap rate against which changes in the cost are to be measured. If the cost changes and falls outside a two percent corridor above/below the rate, action must be taken to bring the cost back to the rate.

The results of the first valuation show that the cost has remained within the two percent corridor and therefore no changes to benefits or member contributions are required.

4.2 Pensions Dashboards

The Department of Work and Pensions (DWP) responded to the consultation on the draft Pensions Dashboards Regulations on 14th July 2022. DWP are expected to lay the regulations before Parliament this Autumn.

The staging deadline for the LGPS will be deferred from 30th April 2024 to 30th September 2024. Pension Schemes will be expected to meet the required standards (connection, security and technical) and be able to respond to final requests, complete matching and provide administrative and signpost data on request. Administering authorities will need to be able to provide value data by 1st April 2025, to include:

- Provision of value data from an annual statement
- Provision of value data for new members
- Matching
- Management information and reporting
- Providing AVC data
- Annualised accrued value
- Changing normal pension age to retirement date

Work is already underway to ensure we are able to meet these requirements by the staging deadline.

5. Systems

5.1 Performance Reporting

A new version of the quarterly PAS report will be brought to the December meeting.

Quarterly update covering the period to June 2022.

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

The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31st August each year.

In line with our continual progression towards increased digital communication, both active and deferred statements were issued online in 21/22. Paper statements are no longer posted out to members unless they contact the Fund and “opt in” to continue to receive paper copies. To meet disclosure requirements, letters are sent out to members to provide “activation keys” where the member is not already registered with My Pension (MSS online facility). As at June 2022 10,385 deferred members were registered for MSS. Members registered for MSS receive an email notification advising them that their annual statement is available to view online.

Benefit statement data was generated against 18,521 deferred records on 22nd June, with only one reported error, and letters issued to these members. In addition, paper statements were issued on request to 632 deferred members in the days following.

The Committee approved a Data Quality Improvement Plan in March 2019 (PC/MAR19/STRAT) which included address tracing. In line with the plan, a bulk tracing exercise for all “gone away” members i.e. those whom we do not hold a current address for will be carried out every three years using an external tracing provider. The Fund will utilise the services of Target as approved by Committee in December 2021 for member tracing.

In addition, a mortality check will be carried out against “gone away’s” annually using the National Fraud Initiative and ATMOS Data Services on alternative years to identify any deceased members. For “gone away” deferred members reaching age 55, an individual trace will be carried out through the DWP Tracing Service.

A final update on the active member statements will be provided to the next meeting. However 25,194 active statements were generated on the 8th August, with letters being posted on the same day and email notifications issued on 10th August for those members not registered for MSS or who have requested paper statements.

6.3 Pension Board Annual Report

The Pension Board Annual Report 2021/22 was agreed by Pension Board members at their meeting on 24th June 2022. As part of the process, members were required to nominate and appoint a new Chair and Vice Chair for 2022/23. These posts need to be rotated annually under the regulations. Ian Hodgson (employer) was appointed as Chair with Morag Lawrence (member) acting as Vice Chair.

Appendix III, Pension Board Annual Report 2021/22

6.4 Document Update

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

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

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

7. Employer Relationship

7.1 Forums

The Fund will host its annual financial forum on 15th December. The scheme actuary will attend and discuss the 2023 tri-ennial valuation.

The annual administration forum is also planned for October with a change in format to include multiple smaller sessions which are more tailored to different employers.

7.2 Year End Process

All scheme employers are required to submit an annual year end data return by 30 April. The year end process in 21/22 was completed in 23 days (down from 31 days in 20/21).

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

Risk Register



Pensions Dashboard

In line with best practice and the Pensions Regulator (tPR) Code of Practice, NESPF maintains a risk register to ensure the risks the Fund faces are properly understood, and risk mitigation actions are in place.

This Risk Register is reviewed and updated quarterly, with reporting to the Pensions Committee.

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

Risk Scoring Process

In order to apply an assessment rating (score) to a risk, NESPF implements a 4 x 6 matrix. The 4 scale represents the impact of a risk and the 6 scale represents likelihood of a risk event occurring.

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Current Heat Map (where risks NESPF001 through 029 fall)

4	Very Serious	●●	●	●			
3	Serious	●	●●●	●●●		●	
2	Marginal	●	●●●	●●●●	●		●
1	Negligible						
Impact		1	2	3	4	5	6
	Likelihood	Almost Impossible	Very Low	Low	Significant	High	Very High

Red = High Priority (urgent action required)

Orange = Medium Priority (assess adequacy of current controls, consider further action required to mitigate risk)

Green = Low Priority (no immediate action subject to exceptions, continue to review)

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: 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								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Lack of transparency, poor performance could go unaddressed	<ul style="list-style-type: none"> Investment performance (against benchmark) reported to Committee quarterly 							
NESPF004	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								
NESPF005	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								
NESPF006	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 	3	2	6	↔	TREAT	Operating at almost full staffing capacity. Some posts currently being recruited.	Laura Colliss, ongoing
	Causes: Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Loss of service delivery, risk to succession planning	<ul style="list-style-type: none"> • 2 full time training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review 							
NESPFO07	Risk: Pay and price inflation valuation assumptions either higher or lower	<ul style="list-style-type: none"> • Quarterly funding updates to Committee (using FSM) • Tri-ennial valuation • Individual employer contribution rates 	3	5	15	↔	TOLERATE	Discussions to commence for 2023 valuation. Inflation risk and pay inflation continue to be a serious concern, risk level raised as a result.	Ongoing
	Causes: Economic factors								
	Potential Impact: Potential increase in employer contribution rates and liabilities								
Governance									
NESPFO08	Risk: Failure to adhere to relevant pensions legislation and guidance	<ul style="list-style-type: none"> • Six monthly compliance review, with annual reporting to Pensions Committee and Board • Active participation at LGPS events, Testing Working Party for administration software updates • Established processes for staff training 	3	3	9	↔	TREAT	Six monthly compliance review completed in June 2022, no issues. Next Annual Compliance report to Committee in March 2023.	Ongoing
	Causes: Political and legislative changes, increased administrative complexity, staff training issue								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Regular benefit admin team meetings to share knowledge 							
NESPFO9	Risk: Failure to comply with FOI or SAR requests	<ul style="list-style-type: none"> Internal written procedures in place FOI/SAR log to record & monitor Online process through GovServices 	3	1	3	↔	TREAT		Ongoing
	Causes: Missed statutory deadlines due to training or resource issues								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO10	Risk: Conflicts of Interest	<ul style="list-style-type: none"> Regular discussions between CO-Finance and Pension Fund Manager Standing agenda item at meetings Conflicts policy & register in place, with conflicts declarations issued annually 	2	4	8	↔	TREAT		Ongoing
	Causes: Competing professional and personal interests of staff, Committee and Board members								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
Benefit Administration									
NESPFO11	Risk: Fraud/Negligence	<ul style="list-style-type: none"> Segregation of duties for benefits staff authorising/submitting lump sum payments Pension payments signed off by benefits senior Participation in National Fraud Initiative exercise Overseas pensioner existence checking 	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
	Causes: Dishonesty or human error by staff, scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		<ul style="list-style-type: none"> Breaches Policy & register Internal Audit control reviews 							
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.	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	Ongoing
	Causes: Systemic								
	Potential Impact: Increase in employer contribution rates, financial loss								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
							Committee in March 2021.		
NESPFO15	Risk: Negligence/Fraud/Default	<ul style="list-style-type: none"> • Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports 	2	1	2	↔	TOLERATE	Ongoing	
	Causes: Dishonesty by fund managers, lack of care or human error								
	Potential Impact: Financial loss, reputational damage								
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								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Accounting									
NESPF018	<p>Risk: Poor financial reporting</p> <p>Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues</p> <p>Potential Impact: Qualified accounts</p>	<ul style="list-style-type: none"> Comprehensive policies and procedures in place and review of <i>the Code</i> Attending CIPFA meeting and reviews Regular reconciliations e.g. fund managers, custodian Internal/External Audits 	3	2	6	↔	TREAT	Draft Annual Report and Accounts to June 2022 meeting. Audited report to be presented for approval and signing (date TBC).	Ongoing
Systems									
NESPF019	<p>Risk: Failure to secure and manage personal data in line with data protection requirements</p> <p>Causes: Cyber-attack, human processing error</p> <p>Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties</p>	<ul style="list-style-type: none"> Annual information governance training for staff Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule) Secure physical storage measures Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc 	4	1	4	↔	TREAT	<p>No personal data breaches this quarter, risk rating static. Staff have begun undertaking annual information governance refresher training with mix of hybrid/in office working.</p> <p>Policies reviewed and updated.</p>	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF020	Risk: Failure of the Fund's administration system	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 	3	2	6	↔	TOLERATE	Increased risk of cyber attacks globally from Russia but mitigations in place.	Ongoing
	Causes: Outages, hardware and software failures and cyber attacks								
	Potential Impact: Staff downtime, loss of service delivery								
NESPF021	Risk: Failure to track member status and trace information	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT	Tracing exercise underway with Target following committee approval in December 2021.	Ongoing
	Causes: Poor record keeping								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action								
Employer Relationship									
NESPF022	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								
NESPF023	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								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	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.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								
	Potential Impact: Orphaned liabilities could fall to remaining employers								
NESPFO25	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								
NESPFO26	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> • Internal escalation procedures • Breaches policy and register 	2	3	6	↔	TREAT	New flexibilities to LGPS (Scotland) Regulations due Summer 2022 which will help	Ongoing
	Causes: Lack of staff resources, training issues								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Orphaned liabilities could fall to remaining employers	<ul style="list-style-type: none"> Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board Ongoing training provided by dedicated ERT to scheme employers Employer Briefings 						manage risk. Move to investment buckets will provide greater control to manage exits over longer term.	
NESPFO27	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT Quarterly PAS reporting to Committee & Board Data quality improvement plan implemented 	2	2	4	↔	TREAT		Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPFO28	Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement	<ul style="list-style-type: none"> SAB and other industry guidance Early and ongoing communication with employers McCloud project team created 	2	3	6	↔	TREAT	Work has begun communicating with employers and updating member records ahead of "McCloud Regulations" and Altair database sign off.	Ongoing
	Causes: Not having the required historic data, adequate resources, sufficient guidance								
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	entitlements, damage to Fund reputation								

Notes:

* Former risk NESPF001: Covid-19 pandemic has been removed this quarter as the risk will now be considered more generally within wider risks.

DRAFT



North East Scotland Pension Fund
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Pension Administration Strategy

Quarterly Reporting June 2022

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

1.1 Key administration tasks

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

Administration Task	Target	Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
		Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	8	8	100.0%						100.0%
Notification of retirement estimate	10 days	133	133	100.0%						100.0%
Notification of retirement benefits	10 days	563	525	93.3%	96.1%	98.0%	99.6%	2	25	89.3%
Notification of deferred benefits	10 days	459	456	99.3%	99.8%	99.8%	99.8%	1	9	97.4%
Notification of refund	10 days	263	261	99.2%	100.0%				2	98.5%
Notification of transfer in value	10 days	54	44	81.5%	85.2%	88.9%	94.4%	3		81.5%
Notification of transfer out value	10 days	172	93	54.1%	65.1%	75.0%	78.5%	37		54.1%
		1652	1520	92.0%				43	36	90.0%

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:

- Percentages continue to improve, 92% and 90% this period compared with 88% and 81% in Q1 2021/22.

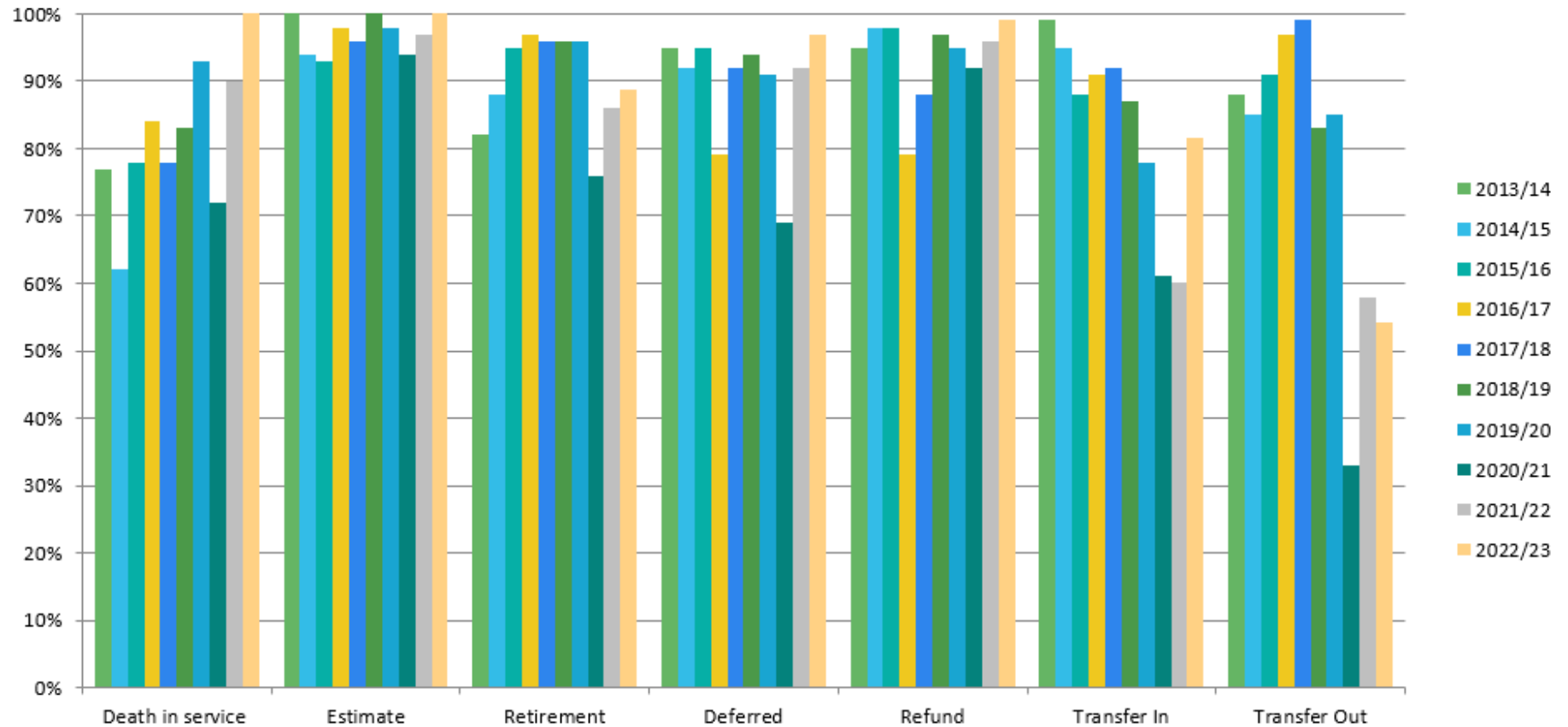
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- Cases taking more than 20 days continue to reduce, 43 this period compared with 49 in Q1 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, 37 this period compared with 94 in Q1 2021/22.*

1.2 Previous years comparison

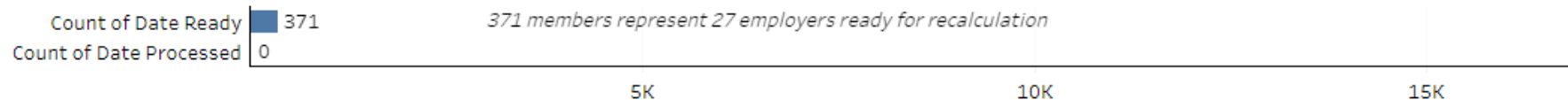


1.3 McCloud remedy

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.



NESPF Pension Board Annual Report

For the period 1 April 2021 to 31 March 2022

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Introduction

This is the 2021/22 annual report of the North East Scotland Pension Fund Pension Board.

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

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2021/22.

Legal Background to the Local Pension Board

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

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

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

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

The Role of the NESPF Pension Board

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

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

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

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

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

Regulatory Oversight by the Pensions Regulator (tPR)

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

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

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

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

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

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

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



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

The North East Scotland Pension Fund Pension Board

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

Membership

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

Unison

Morag Lawrence

(Substitute: Mr Kenny Luke)

GMB

Mr Neil Stirling

Unite

Mr Alan Walker

(Substitute: Mr Graham Gavin)

UCATT

Mr Liam Knox

Left August 2021

Mr Gordon Walters

Joined March 2022

Admitted/Scheduled Bodies

Mr Ian Hodgson (First Bus)

The Moray Council

Councillor John Cowe

Aberdeenshire Council

Councillor Alistair McKelvie

(Substitute: Councillor Alistair Bews)

Aberdeen City Council

Councillor Yvonne Allan

(Substitute: Councillor Freddie John)

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015, the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Mr Neil Stirling as the member (trade union) representative Chair for 2021/22, an employer representative will be required to act as Chair in 2022/23.

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

Meeting Attendance

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

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

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

Board Member	Meeting Attendance			
Employer	24/06/2021	17/09/2021	16/12/2021	25/03/22
Cllr Yvonne Allan	✓	✓	✓	✓
Cllr Alistair McKelvie	✓	✓	✓	X
Cllr John Cowe	✓	✓	✓	✓
Ian Hodgson		✓	✓	✓
Member/Union				
Neil Stirling	✓	✓	✓	✓
Morag Lawrence	✓	✓	✓	✓*
Alan Walker	✓	✓	✓	✓
Gordon Walters**				✓
Overall Attendance Rate	100%	100%	100%	88%

Notes:

* Substitute sent

** Mr Gordon Walters joined in March 2022

Meeting Content

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

The following reports were included as standard in the reporting packs during 2021/22:

- Asset & Investment Manager Performance
- Budget & Projected Spend
- Strategy

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

Training	Statement of Accounts
Corporate Governance/ESG	Project Dallas/Buy-In
Risk Management & Risk Register	External Audit
Compliance Review	Staffing
Annual Report & Accounts	Internal Audit
PAS performance	LGPS Structure Review
Annual Benefit Statements	Procurement
Pensions Committee Annual Effectiveness Report	
NESPF Business Plan	
Deferred Debt and Investment Buckets	

Financial Costs

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

During the period 2021/22 there was a mix of training attended, some in person, some hybrid and some totally online due to the ongoing Covid-19 situation. We would expect costs to increase next year as we fully transition to “living with covid” and more in person meetings and training events resume.

Costs during 2021/22

Travel £181.90

Training Requirements

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

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

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

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



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

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

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



Training Attendance

	No. of Training Sessions Attended	Training Sessions Attended (see below for corresponding training sessions)					
		A	B	C	D	E	F
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*						

Notes:

* 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 Content

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. 69 local authority schemes and pools attended the event.

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 and focussed on the NESPF Annual Report and Accounts.

D. Scottish LGPS Governance & Investments Training – 6 October 2021

First of two virtual training sessions led by for all LGPS Committee and Board members from across 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. Scottish LGPS Pension Administration Training – 29 October 2021

The second Scottish Local Government Pension Scheme training focused on current issues for including, the LGPS Structure Review, pensions administration and an overview of administration reporting.

TPR Tookit

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

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

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

Commitment to Training

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

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

Code of Conduct, Conflicts of Interest & compliance with tPR

Code of Conduct

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

The key principles of the Code of Conduct are:

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

Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. This was updated and noted by the Pensions Committee on 11 September 2020, a further review was carried out in July 2021 but no further changes were made. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

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

During 2021/22 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on the 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

One formal interest was declared during the March 2022 Committee and Board meeting by Mr Hodgson as a result of his employment with First Group. Mr Hodgson withdrew himself from the meeting during discussion of the item concerned.

Compliance with tPR

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

The most recent review carried out in December 2021, and reported to the Pensions Committee in March 2022, concluded that key controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively. A review using the tPR scheme assessment tool confirmed there were no areas of concern.

Breaches of Law

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

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

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

An updated Breaches of Law Policy was taken to the Pensions Committee in September 2021 following annual review.

There were no breaches reported to tPR or the Information Commissioner during the year 2021/22.

Risk Management

In line with CIPFA guidance issued in December 2018, the Pension Fund created its own Risk Management Policy and this was approved by the Pensions Committee in November 2019. Following annual review, the Policy was most recently updated in February 2021.

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

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

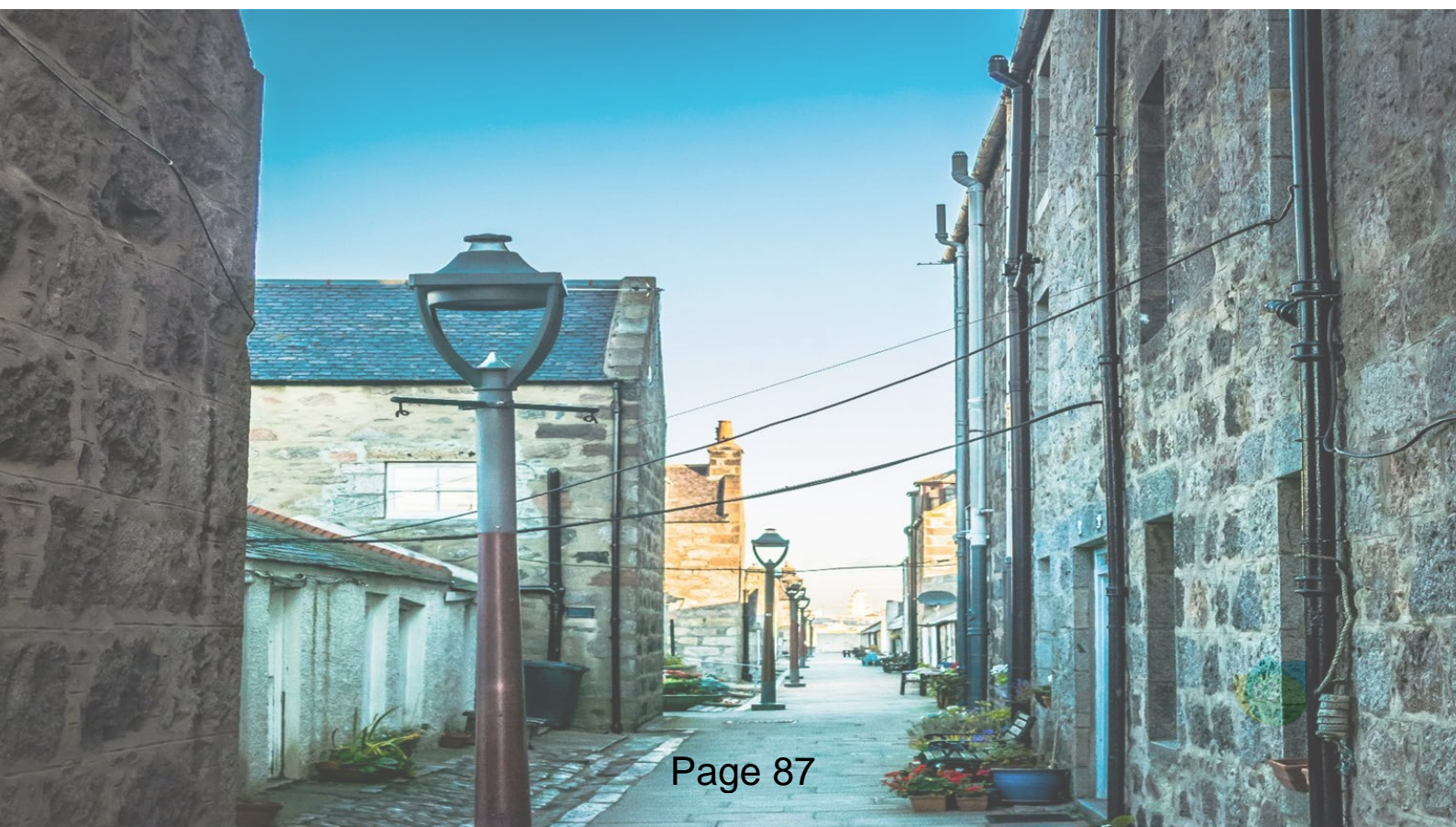
Work for 2022/23 onwards

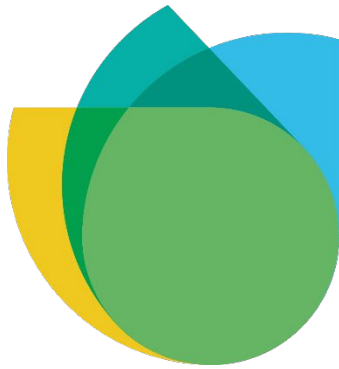
The following areas will be looked at by the Committee & Board in the next 12 months (subject to review):

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

LGPS Scheme Structure Review

The Scottish Scheme Advisory Board (SAB) continue to work to look at the structure of the SLGPS and monitor the impact of pooling in England and Wales. The SAB appointed a Strategic Programme Manager to lead a 12 month programme of work to produce business cases for the four options for Fund structures. The project group researched and extensively analysed existing reports and information. A gap analysis of information was then undertaken to facilitate the development of detailed business cases for the various options. At the time of writing, the SAB is seeking clarification from Scottish Ministers on the nature of advice they expect to receive before committing further time and resources. In the interim, the Pension Board continues to operate as normal.





North East Scotland Pension Fund

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Pension Board Terms of Reference

September 2021

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Document	Pension Board Terms of Reference
Review Date	September 2021
Approval Date	
Author & Team	Mairi Suttie, Governance
Review Date	August 2022

Introduction

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

The North East Scotland Pension Board is established under the provisions of sections 5(1) and (2) of the Public Service Pensions Act 2013 and confirmed under the Local Government Pension Scheme (Governance) Regulations 2014.

Objectives

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

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

(2) Those matters are –

- (a) Securing compliance with the 2014 regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*
- (b) Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*
- (c) Such other matters as the 2014 regulations may specify*

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

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

The Pension Board is not a decision making body.

The Pension Board is not a scrutiny function.

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

Membership

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

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

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

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

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

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

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

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

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

Meetings

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

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

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

The Pension Board may establish sub-committees.

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

Dispute resolution

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

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

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

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

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

Training

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

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

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

Access to Information

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

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

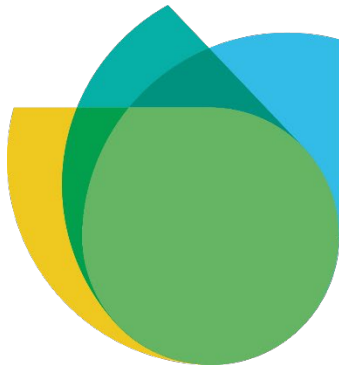
The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

Further Information

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

NESPF
Resources
Business Hub 16
3rd Floor-West
Marischal College
Broad Street
Aberdeen
AB10 1AB

Email: governance@nespf.org.uk
Web: www.nespf.org.uk



North East Scotland Pension Fund
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Training Policy

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Document	Training Policy
Review Date	October 2021
Approval Date	December 2021
Author & Team	M Suttie, Governance
Review Date	October 2022

Purpose Statement

This statement details the training agenda for members of the Pensions Committee and Pension Board of the North East Scotland Pension Fund (NESPF), as administered by Aberdeen City Council.

The training policy is designed to support the Pensions Committee and Pension Board in performing and developing in their individual roles, with the ultimate aim of ensuring NESPF is managed by members with the necessary skills and knowledge to effectively carry out their responsibilities.

Application & Scope

All Pension Fund Committee and Board members to whom this policy applies are expected to continually demonstrate their own personal commitment to training. It's important that members commit to participating in appropriate training events to ensure they have the necessary skills required to support them in their decision making role.

Induction Process

On appointment to the Pensions Committee or Board, a member will receive a formal induction, as well as copies of and/or access to the key documentation relevant to the Fund and other useful information, including;

- [guide to the Local Government Pension Scheme \(LGPS\)](#)
- [the latest Annual Report and Accounts](#)
- [the most recent Actuarial Valuation and Funding Strategy Statement](#)
- [the Governance Policy and Compliance Statement](#)
- [the Statement of Investment Principles and Compliance with Myners Principles](#)
- [copy of the LGPS \(Scotland\) Regulations](#)

Policy documentation is available to Committee and Board members via the Pension Fund website at www.nespf.org.uk.

Training Plan

The Pension Fund recognises that attaining, and then maintaining, relevant knowledge and skills is a continual process for the Pensions Committee and Pension Board members, and that training is a key element of this process.

Each Committee and Board member is expected to undertake a minimum of 2 days of training each year.

Training is ongoing for members and consideration will be given to the various training resources available, these may include (but are not limited to):

- [employer and scheme member events hosted by the Pension Fund](#)
- [internally developed training days and pre/post meeting sessions](#)

- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training
- seminars and training events offered by the Fund’s investment managers and advisors
- use of the secure ‘trustee’ area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

Training is provided to members of the Pensions Committee and Pension Board in respect of the following on a rolling basis;

Scheme Governance	Investment Strategy	Support Services
LGPS Status and Legal Framework	Asset Classes	Custody Services
LGPS Regulations	Risk	Service Organisation
Role of Elected Members	Investment Structure	Role of the Chief Officer – Finance
Advisors and their Role	Investment Management and Performance Monitoring	Role of the Pensions Manager and Pensions Team
Actuarial Valuation and Funding Strategy Statement		
Myners Principles		
Risk Management		

Markets in Financial Instruments Directive (MiFID II) Requirements

Since the introduction of MiFID II from 3rd January 2018, financial institutions including the Local Government Pension Scheme (LGPS) are required to opt up to be classified as an elective professional client, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

In order to maintain this status, the Pension Fund needs to be able to demonstrate its expertise, experience and knowledge, such that the investment managers can gain reasonable assurance that it is capable of making investment decisions and understanding the nature of risks involved.

This training policy helps to ensure the assessed levels of expertise, experience and knowledge are maintained. The Pension Fund is required to keep this information under review and notify the investment managers of any changes to the collective circumstance which could affect its status.

The Pensions Regulator’s E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in its Code of Practice No.14. There are eight short modules covering:

- Conflicts of Interest
- Managing Risk and Internal Controls
- Maintaining Accurate Member Data
- Maintaining Member Contributions
- Providing Information to Members and Others

- Resolving Internal Disputes
- Reporting Breaches of Law
- Pensions Scams (optional)

All members of the Pensions Committee and Pension Board are expected to complete the tPR Toolkit modules following appointment.

CIPFA Knowledge and Skills Framework

An updated Code of Practice and Knowledge and Skills Framework was published by CIPFA in 2021. The Fund has formally adopted the Framework and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

The CIPFA framework sets out the following key areas:

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

Pensions Committee and Board members are expected to have collective understanding of these areas of knowledge and skills.

Pension Board Specific Requirements

In accordance with Section 248A of the Pensions Act 2004, and redrafted by the Public Service Pensions Act 2013, the members of the NESPF Pension Board must be conversant with:

- The rules of the scheme (the Local Government Pension Scheme (Scotland))
- Any document recording policy about the administration of the scheme which is for the time being adopted in relation to the scheme

NESPF Pension Board members should also have knowledge and understanding of:

- The law relating to pensions
- Such other matters as may be prescribed

CIPFA have published a separate [Technical Knowledge and Skills Framework](#) for Local Pension Board members.

Policy Performance

Training attendance records will be maintained by the Pension Fund. These will be reported to the Pensions Committee and Board on an annual basis for consideration.

Where instances are identified of a Pension Board member not meeting the minimum training requirements (i.e. failing to attain and/or maintain the appropriate levels of knowledge and understanding as required under S.248A of the Pensions Act 2004, as amended by the Public Service Pensions Act 2013) an initial discussion will be held to establish whether there are any extenuating circumstances; followed by:

- no further action (if extenuating circumstances are shown)
- agreement of an improvement plan; and
- If no improvement can be demonstrated over a reasonable period of time, necessary steps will be taken to remove the Board member and seek a new appointee.

Supporting Procedures & Documentation

This policy is supported by the policies and procedures that make up the wider governance framework and those prescribed by the Local Government Pension Scheme (Scotland) Regulations. Copies of which are available online at www.nespf.org.uk.

In addition to the training policy, both the Convener and Vice Convener of the Pensions Committee have been provided with a description of their roles and provided further details of training requirements ([Appendix II](#)).

Responsibilities

All training costs are met directly by the Pension Fund.

The Pensions Committee will review this policy annually, or in the event of a policy revision and taking account of the results from any training needs analysis and emerging issues.

Day to day responsibility for the implementation of this policy sits with the Chief Officer-Finance and dedicated staff within the Pension Fund section.

Any questions or feedback on this document should be forwarded to the NESPF Governance Team at:

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

Email: governance@nespf.org.uk

Web: www.nespf.org.uk

CIPFA Knowledge and Skills Framework

This framework identifies the level of knowledge required by Pensions Committee members and senior officers to ensure that they can carry out effective decision making in respect of the Fund.

Level of knowledge required

For committee members:

- An awareness i.e. recognition that the subject matter exists
- A general understanding i.e. understanding the basis in relation to the subject matter
- A strong understanding i.e. a good level of knowledge in relation to the subject matter but not necessary at a detailed level

For senior officers:

- a strong understanding i.e. a good level of knowledge in relation to the subject matter (but not necessary at a detailed level)
- a detailed level of knowledge in relation to the subject matter
- an expert level of knowledge in relation to the subject matter

CIPFA Knowledge and Skills	
Pensions and Guidance	Legislations General Pensions Framework A general understanding of the pensions legislative framework in the UK. A general understanding of other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, General Data Protection Regulation (GDPR) and local authority legislation. Scheme-specific legislation A general understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including: a general understanding of the LGPS Regulations 2018 A general understanding of the LGPS (Scotland) (Management and Investment of Funds) Regulations 2010



	<p>An awareness of LGPS discretions and how the formulation of the discretionary policies impacts on the fund, employers and scheme members.</p> <p>A regularly updated awareness of the latest changes to the scheme rules and current proposals or potential changes to the scheme.</p> <p>Guidance</p> <p>A general understanding of the requirements of statutory guidance from the Responsible Authority, Scottish Government.</p> <p>A general understanding of the requirements of TPR Code of Practice.</p> <p>An awareness of the requirements of guidance from the Scheme Advisory Board.</p> <p>An awareness of requirements of guidance from the Government Actuary's Department.</p> <p>An awareness of other guidance relevant to the LGPS, such as from CIPFA.</p>
Pensions Governance	<p>An awareness of the LGPS regulations main features and requirements relating to the pension scheme governance.</p> <p>An awareness of statutory and other guidance relating to pension scheme governance including statutory governance guidance, TPR Code of Practice, CIPFA/SOLACE, Scheme Advisory Board guidance and the Myners Principles.</p> <p>Pension regulators, Scheme Advisory Board and other bodies</p> <p>A general understanding of how the roles and powers of the Scottish Government, TPR, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. A general understanding of the role of the Scheme Advisory Board and how it interacts with other bodies.</p> <p>General constitutional framework</p>

A general understanding of the role of the administering authority in relation to the LGPS.

A general understanding of the role of the pension committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.

An awareness of the role and statutory responsibilities of the CFO and monitoring officer.

Fund specific governance

A strong understanding of the terms of reference and delegated responsibilities of the pension committee (including any sub-committees), the pension board and any other delegated responsibilities to senior officers.

A general understanding of the stakeholders of the fund and the nature of their interests.

A general understanding of who the key officers responsible for the management of the fund are, how the pension team is structured and how services are delivered.

A general understanding of the fund's strategies, policies and other key documents.

A general understanding of how risk is monitored and managed, and the fund's current key risks.

A general understanding of how conflicts of interest are identified and managed.

A strong understanding of how breaches in law are recorded and managed, and if necessary reported to TPR, including each individual's personal responsibility in relation to breaches.

A general understanding of the fund's knowledge and skills policy and associated training requirements.

An awareness of the fund's process for dealing with complaints, including its Internal Dispute Resolution Procedure.

A general understanding of how the effectiveness of the fund's governance is reviewed.

Service Delivery

	<p>A general understanding of the required budget and resources needed to manage and administer the fund.</p> <p>A general understanding of the annual business planning cycle and budget setting.</p> <p>A general understanding of the fund's key performance indicators and other performance measures.</p> <p>A general understanding of the fund's business continuity policy and cyber security policy.</p>
<p>Funding strategy and actuarial methods</p>	<p>An awareness of the LGPS regulations main features and requirements relating to funding strategy and the setting of employer contributions including associated guidance.</p> <p>A general understanding of the role of the fund actuary.</p> <p>A general understanding of the funding strategy statement and the expected delivery of the funding objectives.</p> <p>A general understanding of the key risks to the fund relating to the funding strategy.</p> <p>Valuations</p> <p>A general understanding of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>An awareness of the costs to the employer including employer contributions and early retirement strain costs.</p> <p>An awareness of the different types of employers that participate in the fund.</p> <p>A general understanding of the importance of employer covenant, the relative strengths of the covenant across the fund's employers, and how this impacts the funding strategy statement adopted.</p> <p>A general understanding of any legislative and/or benefit uncertainty and the impact of this on the funding strategy.</p>

	<p>A general understanding of the Scheme valuation and other work carried out by the Government Actuary's Department and the impact this has on the valuation process (i.e. cost management process/Section 13 report).</p> <p>New employer and exits</p> <p>A general understanding of the implications of including new employers into the fund and of the exist of existing employers.</p> <p>A general understanding of the relevant considerations in relation to the different types of new employer, e.g. outsourcings, alternative delivery models and also the considerations in relation to bulk transfers.</p>
<p>Pensions administration and communications</p>	<p>An awareness of the LGPS regulations main features and requirements relating to:</p> <ul style="list-style-type: none"> • Administration and communications strategies • Entitlement to and calculation of pension benefits • Transfers in and out of the scheme • Employee contributions and • The delivery of administration and communications. <p>Including associated guidance.</p> <p>A general understanding of the fund's pensions administration strategy including how it is delivered (including, where applicable, the use of third party suppliers and systems) performance measures and assurance processes.</p> <p>A general understanding of the fund's communications policy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes.</p> <p>A general understanding of best practice in pensions administration, e.g. performance and cost measures.</p> <p>A general understanding of the fund's processes and procedures relating to:</p> <ul style="list-style-type: none"> • Member data maintenance and record-keeping including data improvement plans and relationships with employers for data transmission • Contributions collection

	<p>An awareness of how the fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances.</p> <p>A general understanding of additional voluntary contribution (AVC) arrangements including:</p> <ul style="list-style-type: none"> • The AVC arrangements that exist • The choice of investments to be offered to members • The provider’s investment and fund performance • The payment of contributions to the provider • The benefits that can be received by scheme members • How and when the AVC arrangements, including the investment choices, are reviewed.
<p>Pensions financial strategy, management, accounting, report and audit standards</p>	<p>A general understanding of the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the fund’s accounts and annual report.</p> <p>A general understanding of the various elements of income and expenditure to the fund, including the operational budget.</p> <p>A general understanding of the cashflows of the fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings.</p> <p>A general understanding of the role of both internal and external audit in the governance and assurance process.</p>
<p>Investment strategy, asset allocation, pooling, performance and risk management</p>	<p>An awareness of the LGPS regulations main features and requirements relating to investment strategy, asset allocation, the pooling of investments and responsible investments including associated guidance.</p> <p>Investment strategy</p> <p>A general understanding of the key risks that the fund is exposed to and how a fund’s investment strategy should be considered in conjunction with these risks.</p>

A general understanding of the risk and return characteristics of the main asset classes (equities, bonds, property), and the need to balance risk versus reward when determining the investment strategy.

A general understanding the role of these asset classes in long-term pension fund investing.

A general understanding of the fund's cashflow requirements and how this impacts on the types of investments considered.

Total Fund

A general understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.

Performance of the committee

An awareness of the Myners principles and the need to set targets for the committee and to report against them.

An awareness of the range of support services, provided to the committee who supplies them and the nature of the performance monitoring regime.

Responsible investment

An awareness of the latest developments and requirements in the area of responsible investment.

An awareness of the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the fund is signatory to these.

A general understanding of the fund's approach to responsible investment including how views on Environmental, Social and Governance issues are incorporated into the fund's investment strategy.

Risk Management

A general understanding about how to manage and reduce risk and lessen impact of risk on assets when it arises.

<p>Financial markets and products knowledge</p>	<p>Financial Markets</p> <p>A general understanding of the primary importance of the investment strategy decision.</p> <p>A general understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of associated risks.</p> <p>An awareness of the restrictions placed by legislation on the investment activities of LGPS funds.</p> <p>MiFID II</p> <p>A general understanding of MiFID II requirements relating to the knowledge of decision makers.</p>
<p>Pensions services procurement, contract management and relationship management</p>	<p>Understanding public procurement</p> <p>An awareness of the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS.</p> <p>Fund suppliers</p> <p>Awareness of the key decision makers in relation to the Fund’s procurements.</p> <p>A general understanding of the fund’s suppliers and providers, and their roles in the management of the fund.</p> <p>An awareness of how the fund’s suppliers are monitored, including:</p> <p>The myners principles, and The need for strategic objectives for investment consultants</p> <p>Supplier risk management</p> <p>A general understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting external suppliers and providers.</p>

	<p>A general understanding of how the pension fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk.</p>
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Role Profile for Convener of the Pensions Committee

The role of the Convener of the Pensions Committee requires post holders who have a wide experience of chairing meetings effectively, are good communicators and have at least some knowledge of pensions, financial or HR matters (through Council, personal and/or career experience).

The above Knowledge Framework is developed further for the chair (and, by implication, the vice chair) in the following paragraphs by introducing key skills elements unique to the chair. This includes an expectation that the chair should individually have the appropriate level of knowledge in relation to all the competencies in Annex I but noting that in some cases it will be necessary for a higher level of knowledge to be attained in some areas. The administering authority should ensure the chair is provided with the appropriate training to meet these requirements, preferably within six months of appointment.

1. Convener of the Pensions Committee to determine, after taking the advice of the Chief Officer – Finance and other advisors:

- The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
- The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
- The appointment of investment and actuarial advisors and other third party services
- The governance framework
- The communication strategy of the Fund or Funds

2. And to monitor:

- The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
- The costs of running the Pension Fund and Scheme
- Comments and feedback from stakeholders

3. And to approve:

- The annual report and accounts of the Fund(s)
- Audit reports on the performance of the Pension Fund Service
- Statements on Investment Principles, Governance, Administration and Communication
- The Risk Register and an annual risk analysis
- The medium term business plan and annual updates
- Training and development plans and updates
- Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS

4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee

5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms

6. Receive regular briefings from the Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR CONVENER

Requirement	Essential	Desirable
1. Educational	A strong understanding of pensions, financial or HR matters (through council, personal and/or career experience). Commitment to individually achieving the required level of knowledge in relation to the CIPFA Framework competencies (or alternatively requirements as set out by the administering authority).	Demonstrable evidence of knowledge kept up to date. Knowledge of pension funds and schemes.
2. Work Experience	Political awareness in numerous political environments. Chairing high level partnership meetings achieving effective outcomes. Has operated for 10 years at a senior level. Experience of risk and performance frameworks.	Previously chaired a pensions committee or similar.

3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p> <p>Communication and engagement skills.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish and maintain good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	Diplomacy and tact.
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Fund.</p>	
6. Equal Opportunities	<p>Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

Compliance with the Job Description

1. Pensions Legislative and Governance context

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

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority Conference held annually in May which covers all aspects of the LGPS and the LGC Investment Seminar held in the autumn giving a focus on investment management. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

The Convener/Vice Convener should as a minimum receive a monthly update from officers covering:

- ***Scheme valuation***
- ***Administration matters which are ongoing***
- ***Investment matters ongoing***
- ***Pensions market issues***
- ***Communication with employers and scheme members***

Where appropriate this report should be accompanied by a meeting with Fund officers.

2. Pensions accounting and auditing standards

- 2.1 The accounting requirements and associated disclosures are complex and involve a large actuarial element. Consequently this demands an understanding of the regime at all levels within the finance structure in order to comply with the requirements and to communicate the requirements and their implications both internally and externally.

Officers report annually to the Pensions Committee on the scheme annual accounts. From 2011 the scheme accounts and audit have been separated out from the administering authority financial statement. The scheme auditor reports directly to the Pensions Committee on the scheme accounts.

3. Investment performance and risk management

- 3.1 In the Local Government Pension Scheme and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals. The skills required for managing and controlling investment activities are relatively specialised and at present there is no formal framework against which Funds can test their current skills and competencies.

All investment performance and risk management is reported by the Fund custodian. Regular training sessions are given to all Committee members on understanding investment performance and risk reporting. Understanding investment performance and risk are key functions of the Convener and Vice Convener of the Pensions Committee.

4. Financial markets and product knowledge

- 4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA or the Local Authority Pension

Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that may impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.

5. Actuarial methods, standards and practices

- 5.1 The scheme actuary holds a key position in the financial management of a pension scheme. A successful pension scheme financial manager will need to be able to do more than simply manage the relationship with their actuary. They will need to understand, at some levels in detail, the work of the actuary and the way in which actuarial information is produced and the impact it has on both the finances of the scheme and the employer.

The triennial valuation and funding strategy statement are two key documents in the governance of the scheme. A copy of both documents can be found on the secure 'trustee' area of the Pension Fund website. Through regular meetings with the scheme actuary (at least twice a year) the Convener/Vice Convener, will build up an understanding of the actuarial process and role and influence that key stakeholders such as the Convener and Vice Convener have in the process. Discussions held with other LGPS 'trustees' on an ongoing basis will enhance this process.

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

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