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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Allard, Alphonse, Cross, Davidson, Henrickson, Massey, McLellan and McRae (and three vacancies) (Pensions Committee); and Mrs M Lawrence, Chairperson; Councillor Smith, Vice-Chairperson; Councillors Leadbitter and Mennie; Mr N Stirling, Mr A Walker and Mr G Walters (and one vacancy) (Pension Board).

Town House,
ABERDEEN, 7 December 2023

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in the **Council Chamber - Town House on FRIDAY, 15 DECEMBER 2023 at 10.00am. 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

JENNI LAWSON
INTERIM CHIEF OFFICER – GOVERNANCE (LEGAL)

BUSINESS

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

4.1. There are no deputations at this time

MINUTES OF PREVIOUS MEETINGS

5.1. Minute of Previous Meeting of 15 September 2023 - for approval (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

6.1. Business Planner (Pages 11 - 12)

NOTICES OF MOTION

7.1. There are currently no motions to the Pensions Committee

FINANCE AND RISK MANAGEMENT

8.1. Budget / Forecast 2023/2024 - PC/DEC23/BUD (Pages 13 - 26)

8.2. 2023 Actuarial Valuation Initial Results and Funding Strategy Statement - PC/DEC23/VAL (Pages 27 - 78)

SCRUTINY

9.1. Pensions Committee Annual Effectiveness Report - COM/23/340 (Pages 79 - 96)

9.2. Strategy - PC/DEC23/STRAT (Pages 97 - 150)

EXEMPT BUSINESS - NOT FOR PUBLICATION

10.1. Termination of Admission Agreement - First Aberdeen - PC/DEC23/TERM (Pages 151 - 172)

10.2. Investment Strategy Update - PC/DEC23/INVSTRAT (Pages 173 - 178)

10.3. Asset and Investment Manager Performance Report - PC/DEC23/AIMPR (Pages 179 - 242)

Integrated Impact Assessments related to reports on this agenda can be viewed [here]

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

Website Address: [aberdeencity.gov.uk]

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 15 September 2023. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor MacGregor, Convener; and Councillors Allard, Cooke, Cross, Davidson, Henrickson, Massey, McLellan, McRae and van Sweeden (Pensions Committee); and Mrs M Lawrence, Chairperson; Councillor Smith, Vice Chairperson; Councillors Leadbitter and Mennie; Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

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

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 (Procurement), 11.2 (LGPS Consolidation of the Scottish Fire And Rescue Service), 11.3 (Asset and Investment Manager Performance Report) and 11.4 (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 paragraphs 6, 8 and 12.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

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

MINUTE OF PREVIOUS MEETING OF 23 JUNE 2023

3. The Committee had before it the minute of its previous meeting of 23 June 2023 for approval.

The Committee resolved:-
to approve the minute as a correct record.

BUSINESS PLANNER

4. The Committee had before it the planner of committee business as prepared by the Interim Chief Officer – Governance (Legal).

The Committee resolved:-
to note the business planner.

EXTERNAL AUDIT - NESPF ANNUAL AUDIT REPORT

5. The Committee had before it a report by the External Auditor on the 2022/2023 Annual Audit of the North East Scotland Pension Fund. The report noted that auditors were required to report on specific matters arising from the audit of the financial statements to those charged with governance of a body, prior to the financial statements being approved and certified. The report advised that the financial statements gave a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2023 and the transactions for 2022/23.

In the opinion of External Audit, the financial statements:-

- gave a true and fair view of the financial transactions of the fund during the year ended 31 March 2023 and of the amount and disposition at that date of [its/their] assets and liabilities;
- had been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2022/23 Code; and
- had been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The audit concluded that governance arrangements were appropriate and operated effectively during 2022/23, however the External Auditor noted that there had been long-term vacancies on the Pensions Committee and encouraged Aberdeen City Council, as the administering authority, to fill the vacancies and for Members to work together for the benefit of the fund. The report noted a need for ongoing training to support Members in building their knowledge in this complex area and provide them with essential skills for effective scrutiny. There were further recommendations in relation to reviewing the accounting treatment of private equity management fees; ensuring checks of key control areas were evidenced; and implementing a periodic review of user access rights to ensure leavers were promptly removed and only authorised users had access to systems.

The Committee heard in detail from Ms MacDonald in respect of the report.

Members asked a number of questions of Ms MacDonald and officers.

<u>The Committee resolved</u>:-
(i) to note that the External Auditor would revise the representation of training attendance in future reports to provide greater clarity; and
(ii) to note the report.

CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS - PC/SEPT23/ARA

6. The Committee had before it a report by the Director of Resources which set out the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) for consideration and signing.

The Committee heard from Mr Belford in respect of the report. Mr Belford stated that he wished to record his thanks to the NESPF team and to External Audit for the work undertaken in the production of the annual report and accounts.

Members asked a number of questions of officers.

The report recommended:-
that the Committee –
(a) consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund; and
(b) instruct the Chief Officer – Finance, as the Local Government (Scotland) Act 1973 – Section 95 Officer, to sign the accounts on behalf of the Fund.

<u>The Committee resolved</u>:-
(i) to note that officers would provide Members with a review of staffing levels and costs over recent years, including what a full complement of staff might mean for cost increases or otherwise in future years;
(ii) to request that officers provide Members with the staffing structure of the NESPF broken down by areas of work; and
(iii) to approve the recommendations.

BUDGET / FORECAST 2023/2024 - PC/SEPT23/BUD

7. The Committee had before it a report by the Director of Resources which set out the Management Expenses Budget/Forecast 2023/24 for the North East Scotland Pension Fund (NESPF).

The report recommended:-
that the Committee approve the NESPF Management Expenses Budget/Forecast 2023/24, shown in the main report.

<u>The Committee resolved</u>:-
to approve the recommendation.

STRATEGY - PC/SEPT23/STRAT

8. The Committee had before it a report by the Director of Resources which provided an update to Committee and made recommendations (if applicable) to changes to the North East Scotland Pension Fund.

The report provided a final update on the project to issue all active and deferred members with annual benefit statement information; a further consultation on the McCloud Remedy in July 2023; a consultation in July 2023 in respect of abolishing the pensions lifetime allowance from pensions legislation from April 2024; early retirement factors; and pensions dashboards.

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

<u>The Committee resolved</u>:-
to note the report.

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

PROCUREMENT - PC/SEPT23/PRO

9. The Committee had before it a report by the Director of Resources which sought approval to use the National Local Government Pension Scheme (LGPS) Framework for Global Custody Services, noting that the existing contract was entered into on 1 April 2018 using the Framework and was due to expire.

The report recommended:-
that the Committee –
(a) approve the use of the Norfolk LGPS Framework for Global Custody Services and the appointment of a service provider following the completion of a successful mini competition by Officers for a period of 7 years (with the option to extend for a further 3 x 1 years);
(b) approve the estimate expenditure associated with granting such approval as set out in the recommendations section of the main report; and
(c) agree to continue with the existing HSBC global custody contract until a new provider was appointed and transition of the assets is complete.

<u>The Committee resolved</u>:-
to approve the recommendations.

LGPS CONSOLIDATION OF THE SCOTTISH FIRE AND RESCUE SERVICE - PC/SEPT23/SFRS

10. The Committee had before it a report by the Director of Resources which provided an update on the Scottish Fire and Rescue Service, a Scheduled Body within the North East Scotland Pension Fund (NESPF), as they sought to consolidate their assets and liabilities within a single Local Government Pension Scheme (LGPS) Fund.

The report recommended:-
that the Committee –
(a) note that NESPF officers, utilising delegated powers, have tendered for the provision of consolidated Administration and Associated Services for the Scottish Fire and Rescue Service;
(b) note that, should the tender prove successful, NESPF officers will have full access to consolidated financial data, which will enable them to assess any potential financial risks and that where these potential financial risks are acceptable to the Chief Officer – Finance, the NESPF wishes to proceed with the provision of the consolidated Administration and Associated Service for the Scottish Fire And Rescue Service; and
(c) delegate authority to the Chief Officer – Finance, following consultation with the Convenor of the Pensions Committee, to approve the provision of the consolidated Administration and Associated Service.

<u>The Committee resolved</u>:-
to approve the recommendations.

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/SEPT23/AIMPR

11. The Committee had before it a report by the Director of Resources which provided a review of the investment activity of both the North East Scotland Pension Fund and the merged former Aberdeen City Council Transport Fund (which was still held separately at an asset level) for the three month period ending 30 June 2023.

Members heard from Mr Buntain in respect of the report and asked a number of questions.

<u>The report recommended</u>:-
that the Committee note the contents of the report for assurance.

The Committee resolved:-
(i) in relation to page 262 of the report, to note that officers would provide detail outwith the meeting in relation to any exposure that might exist to individual equities; and
(ii) to note the report.

INVESTMENT STRATEGY UPDATE - PC/SEPT23/INVSTRAT

12. The Committee had before it a report by the Director of Resources which provided an update in connection with the ongoing Under Armour Class Action relating to the North East Scotland Pension Fund (NESPF).

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

The Committee resolved:-
to note the report.

- **COUNCILLOR NEIL MACGREGOR, CONVENER**

	A	B	C	D	E	F	G	H	I
1	**PENSIONS COMMITTEE BUSINESS PLANNER** The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	**Report Title**	**Minute Reference/Committee Decision or Purpose of Report**	**Update**	**Report Author**	**Chief Officer**	**Directorate**	**Terms of Reference**	**Delayed or Recommended for removal or transfer, enter either D, R, or T**	**Explanation if delayed, removed or transferred**
3	**15 December 2023**								
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	1.2, 1.4, 3-5		
5	Termination of Admission Agreement	To provide an update to the committee on a recent exit from the Fund		Claire Mullen	Finance	Resources	1.3, 5.1		
6	2023 Actuarial Valuation	To report on the Fund valuation		Claire Mullen	Finance	Resources	1.1, 5.1		
7	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5		
8	Investment Strategy	To present an update		Graham Buntain	Finance	Resources	5.2		
9	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		
10	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
11	**22 March 2024**								
12	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		
13	Pensions Investment Strategy audit	To present the outcome of the audit		Jamie Dale	Internal Audit	Internal Audit	2.2		
14	Internal Audit plan for 2024-27	To present the plan		Jamie Dale	Internal Audit	Internal Audit	2.2		
15	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	1.2, 1.4, 3-5		
16	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		
17	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
18	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		

	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**
19	External Audit Annual Plan 2024/25	To present the annual plan		Anne MacDonald	External Audit	External Audit	2.1		
20	**21 June 2024**								
21	Nominations to LAPFF Executive Committee	To determine any nominations		Laura Colliss	Finance	Resources	6.1		
22	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2, 1.4, 3-5		
23	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.2		
24	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
25	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
26	Internal Audit Annual Report 2023/24	To provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2023/24		Jamie Dale	Internal Audit	Internal Audit	2.2		
27	**13 September 2024**								
28	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Resources	3.1		
29	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report		Anne MacDonald	External Audit	External Audit	2.1		
30	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	1.2, 1.4, 3-5		
31	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		
32	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
33	**13 December 2024**								
34	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	1.2, 1.4, 3-5		
35	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Resources	GD 8.5		
36	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		
37	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 December 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget/Forecast 2023/24
REPORT NUMBER	PC/DEC23/BUD
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	1.2 and 1.3

1. PURPOSE OF REPORT

1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast and Projected Spend 2023/24 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

2.1 That the Committee note the update on the NESPF Management Expenses Budget/Forecast and Projected Spend 2023/24, shown in the main report.

3. CURRENT SITUATION

3.1 BUDGET/FORECAST 2023/24

3.1.1 The main report shows the Council's Budget for 2023/24 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 costs 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 of this report.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

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	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is required.
Data Protection Impact Assessment	Not Required
Other	N/A

10. BACKGROUND PAPERS

10.1 North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2022/23) and Fund Governance Policy Statement.

11. APPENDICES

11.1 None

12. REPORT AUTHOR CONTACT DETAILS

Name	Michael Scroggie
Title	Accounting Manager
Email Address	MScroggie@nespf.org.uk
Tel	01224 067615

Budget/Forecast & Projected Spend 2023/24

Reporting Period to September 2023

1. Budget/Forecast and Projected Spend 23/24

Sections 3 – 6 below show the NESPF Budget 2023/24. The budget includes a re-alignment of cost headings that follows guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

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

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

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

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

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

2. Governance

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

3. Budget and Projected Spend for NESPF Administration Expenses

	Notes	Full Year Budget 2023/24 £'000	Budget to 30/09/23 £'000	Actual Spend to 30/09/23 £'000	Accrual to 30/09/23 £'000	Amended Spend to 30/09/23 £'000	Over or (Under) to 30/09/23 £'000	Proj Annual Spend 2023/24 £'000	Proj Over or (Under) Spend 2023/24 £'000
Administrative Staff Costs	1	1,804	902	411	416	827	(75)	1,932	128
Information Technology		527	263	488	28	516	253	552	25
Supplies & Services	2	177	89	66	74	140	51	206	29
Accommodation		507	254	388	9	397	143	524	17
Printing & Publications		17	8	9	3	12	4	17	0
Administration Expenses Total		**3,032**	**1,516**	**1,362**	**530**	**1,892**	**376**	**3,231**	**199**

Note (Spend Variance ± 5%):

1. Overspend – Pay Award and ACC budget structure mismatch with offset from vacant posts (Note: Structure 48 FTE v Actual 41.63 FTE).
2. Overspend – Additional Membership Screening (e.g. those 'Gone away', etc) and extra Brodies spend.

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

	Notes	Full Year Budget 2023/24 £'000	Budget to 30/09/23 £'000	Actual Spend to 30/09/23 £'000	Accrual to 30/09/23 £'000	Amended Spend to 30/09/23 £'000	Over or (Under) to 30/09/23 £'000	Proj Annual Spend 2023/24 £'000	Proj Over or (Under) Spend 2023/24 £'000
Investment Staff Costs		268	134	59	74	133	(1)	274	6
Pension Fund Committee		10	5	0	5	5	0	10	0
Pension Board		5	3	2	1	3	0	5	0
External Audit Fee		53	27	0	26	26	(1)	53	0
Internal Audit Fee		12	6	0	6	6	0	12	0
Actuarial Fees		500	250	191	55	246	(4)	491	(9)
General Expenses		271	135	113	62	175	40	281	10
Oversight & Governance Expenses Total		**1,119**	**560**	**365**	**229**	**594**	**34**	**1,126**	**7**

Note (Spend Variance ± 5%):

5. Forecast and Projected Spend for NESPF Investment Management Expenses

	Notes	Full Year Forecast 2023/24 £'000	Forecast to 30/09/23 £'000	Actual Spend to 30/09/23 £'000	Accrual to 30/09/23 £'000	Amended Spend to 30/09/23 £'000	Over or (Under) to 30/09/23 £'000	Proj Annual Spend 2023/24 £'000	Proj Over or (Under) Spend 2023/24 £'000
Investment Management		12,722	6,361	905	5,475	6,380	19	12,759	37
Performance Fees		5,150	2,575	7	2,575	2,582	7	5,158	8
Direct Property Expenses	1	862	431	395	0	395	(36)	790	(72)
Transaction Costs	2	1,001	500	269	0	269	(231)	538	(463)
Custody Fees		151	76	5	73	78	2	152	1
Investment Management Expenses Total		**19,886**	**9,943**	**1,581**	**8,123**	**9,704**	**(239)**	**19,397**	**(489)**

Note (Spend ± 5%):

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

Important to Note:

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

6. Analysis of Transaction Costs for the Period 1 April 2023 to 30 September 2023

	Commission (£)	Expenses (£)	Tax (£)	Total (£)
Equities	110,268.46	21,355.44	137,234.59	268,858.49
Pooled – Unit Trust	0.00	8.24	0.00	8.24
Grand Total (£)	**110,268.46**	**21,363.68**	**137,234.59**	**268,866.73**

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 December 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	2023 Actuarial Valuation Initial Results and Funding Strategy Statement
REPORT NUMBER	PC/DEC23/VAL
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Claire Mullen
TERMS OF REFERENCE	1.1 and 5.1

1. PURPOSE OF REPORT

1.1 To provide details of the 2023 triennial valuation for the North East Scotland Pension Fund including the proposed assumptions outlined in the Draft Funding Strategy Statement.

2. RECOMMENDATIONS

That the Committee:-

2.1 agree the funding approach outlined in the 2023 Funding Strategy Statement including the assumptions used in the calculation of the Fund liabilities for the triennial valuation as at 31 March 2023; and

2.2 note the overall whole Fund valuation as at 31 March 2023 (using the proposed assumptions).

3. CURRENT SITUATION

3.1 See attached main report

4. FINANCIAL IMPLICATIONS

4.1 Meeting the liabilities of the Fund is the responsibility of the participating employers. As part of the valuation process the employer contribution requirements for all individual employers for the years 2024/25 to 2026/27 are determined using the approved assumptions.

4.2 Determining the assumptions with the appropriate level of certainty/prudency will impact on the contribution requirements for each employer based on their own liabilities and funding levels.

5. LEGAL IMPLICATIONS

5.1 The Fund is required under the Local Government Pension Scheme (Scotland) Regulations 2018 to consult with all participating employers and the Pensions Committee around the funding approach for the triennial valuation.

5.2 The valuation is to be completed and signed off by the scheme actuary by 31 March 2024.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *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	Failure to meet the requirements of the LGPS (Scotland) Regulations.	Robust procedure in place between the Fund and the scheme actuary to ensure that the target date of March 2024 is achieved.	L	**Yes**
Operational	Incomplete valuation will mean that employers will not be able to apply the correct contribution rates from April 2024.	Communication plan in place by the Employer Relationship Team to ensure that employers are contacted and contributions are determined prior to cut off date.	L	**Yes**

Financial	Failure to complete valuation could lead to employers under or overpaying contributions from April 2024.	Contributions are to be determined by 31 January 2024 allowing time to implement any changes for April payroll rollout. Significant calculated surplus reduces this risk.	L	**Yes**
Reputational	Increased press and local scrutiny around valuation outcomes and the cost of the scheme to participating employers.	The NESPF have taken an appropriate approach to the valuation to ensure sustainability over the long term and stability in contribution requirements. Contribution requirements are to be reduced as a result of the funding level.	L	**Yes**
Environment / Climate	No significant risks identified	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is required.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix 1 NESPF Draft Funding Strategy Statement 2023

12. REPORT AUTHOR CONTACT DETAILS

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2023 Actuarial Valuation Initial Results and Funding Strategy Statement

December 2023

1. Background

Under the Local Government Pension Scheme (Scotland) Regulations 2018 the North East Scotland Pension Fund (NESPF) is required to instruct the scheme actuary to carry out a valuation of the liabilities based on the membership data held once every three years. Mercer is the scheme actuary for the NESPF. The valuation date for all Scottish Funds is 31 March 2023.

The outcome of the valuation will determine the Funding level of the NESPF as at 31 March 2023 and the employer contribution requirements for each participating employer for the three years from 2024/25 to 2026/27.

Having carried out their calculations on the data provided and using the assumptions outlined in the Funding Strategy Statement Mercer have provided indicative results on a whole Fund basis as at 31 March 2023.

In addition to the whole Fund results, indicative funding results and suggested contribution rates have been provided for the individual participating employers within the NESPF.

2. Funding Strategy Statement (FSS)

The Draft Funding Strategy Statement (FSS) outlines the approach used by the Scheme actuary to calculate the liabilities held. The assumptions used in these calculations are introduced in the draft document, with further detail provided in Appendix A – Actuarial Method and Assumptions.

The financial and demographic assumptions determine the outcome of the valuation and are subject to the discretion and approval of the Fund under the guidance and agreement of the Scheme actuary.

The results are particularly sensitive to the assumptions on the discount rate. The discount rate reflects the assumed level of investment return on the assets held by the Fund. This assumption has been determined using real returns since the 2017 valuation which reflects the link between expected returns (based on investment strategy) and liability changes (which are directly linked to CPI inflation).

For the purpose of the 2023 valuation the proposed discount rate is the Consumer Price Index (CPI) plus 2.0% p.a. for determining past service liabilities and CPI plus 1.5% p.a. for future service liabilities. This is an increase in the past service discount rate from the 2020 valuation which was CPI plus 1.25% p.a. This is reflective of the increased interest rate environment and expected future return on assets above inflation. The future service discount rate remains the same to provide the ongoing stability in the future service rate.

Other notable assumptions within the Funding Strategy Statement have been made around long term inflation, future salary increases for members, mortality rates and expected member movements.

The overall funding target for the NESPF remains as 100%. However a 15% ‘buffer’ has been provisionally applied for the purpose of determining any surplus to be returned to the employers over the surplus spread period. This reserve is being held as a method of providing extra resilience against adverse future events that could affect financial markets or the value of assets held (including reductions in interest rates globally) or continual persistence of UK inflation. In essence this means that only where an employer’s ongoing funding level is above 115% would any surplus be returned (over the agreed spread period). This will be consulted upon with employers.

The main aim of the valuation approach is one of contribution sustainability and intergenerational fairness to tax payers (as required by legislation). Maintaining a fully funded position over the long term will ensure that the Fund can meet the liabilities as they become due whilst trying to ensure that employers rates remain as stable as possible. The approach taken for the 2023 valuation aims to reduce the risk to the Fund whilst also acknowledging the surplus position by reducing the total contribution requirements for participating employer, wherever possible.

As ever there are some individual cases where parameters will need to be varied to address specific characteristics – typically based on covenant and affordability of contributions.

For those employers who do not have a guarantor in the Fund, who would stand behind any surplus/deficit upon exit, the illustrative termination position for employers is calculated on a more prudent set of assumptions compared to those assumptions used to set contribution levels. The approach for this calculation is detailed in the FSS. The provisional approach has changed and been made more prudent to reflect current markets and outlook as well as to protect taxpayers. The Actuary will keep the approach under review on a regular basis to ensure it remains fit for purpose. Given the higher interest rate market environment the termination positions are more favourable at the valuation than historically for these employers.

3. Employer Consultation

The LGPS (Scotland) regulations require the Fund to consult with all participating employers around the draft FSS. The consultation has now been issued to all employers along with their proposed employer contribution rate requirements for the three year inter-valuation period. The consultation period will run from 20th November 2023 with all responses to be received by the Employer Relationship Team by 8th January 2024.

Employers have been asked to comment on the actuarial approach, the suggested assumptions and provide any comments that they may have on the policies imbedded within the draft document e.g. the buffer mentioned above.

Consultation responses will be discussed with the Scheme actuary to determine any adjustments or action to be taken.

4. Preliminary Whole Fund Results

Based on the assumptions laid out in the FSS, the NESPF has a funding level of 125% as at 31 March 2023. This has been determined using a value placed on the liabilities held of £4.45bn and a calculated surplus of £1.13bn when compared against the assets held as at the valuation date.

Individual employer results can differ significantly from the whole Fund as these are based on their own membership profile, the experience of their membership since the previous valuation and the asset returns based on actual cashflows and benefits paid out.

However, across the range, individual funding levels have improved significantly from the 2020 valuation. This has resulted in an expected reduction to the contribution rates requirement for the vast majority (possibly all) employers that participate within the NESPF. The level of any change varies from employer to employer which is dictated by the requirement to meet future liabilities having regard to other aspects including an employer's covenant.

Employers have received their suggested contribution rate requirements and discussions are ongoing around any requested adjustments that can be made on affordability, risk and future budgets and plans e.g. if they are seeking to terminate participation. Any adjustments to rates will be carried out in conjunction with the Scheme actuary and any decisions taken by the Fund will based on evidence provided by the participating employer.

5. Completion of the Valuation

Following finalisation of the assumptions and discussions with all participating employers around their contribution rates requirements the valuation can be completed and signed off by the Scheme actuary in time to meet the deadline of 31 March 2024.

Following completion of the process, the signed valuation report and contribution certificate will be provided by Mercer and made available to all employers. In addition the report will be brought to the Pensions Committee in March 2024 before a copy is issued to the Scottish Government as per the regulatory requirements including a number of factors such as budget projections and outlook. The required data will also be sent to the Government Actuary's Department for the purpose of the Section 13 valuation required by the Public Service Pensions Act 2013.

FUNDING STRATEGY STATEMENT

North East Scotland Pension Fund

The information enclosed in this statement and the accompanying policies have a financial and operational impact on all participating employers in the North East Scotland Pension Fund. It is imperative that all existing and potential employers are aware of the details set out herein.

November 2023

A glossary of the key terms used throughout is available at the end of this document

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

1. Contents and Guide to the Funding Strategy Statement (FSS) and Policies

The information required by overarching guidance and Regulations is included in Section 2 and Section 3. This document also sets out the Fund's policies in the following key areas:

1. Actuarial Method and Assumptions (Appendix A)

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, known as the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits, known as the "Secondary" rate, together with other factors that may impact an employer's contribution outcomes, are set out here.

2. Deficit Recovery and Surplus Spread Periods (Appendix B)

The key principles when considering deficit recovery and surplus spread periods as part of the valuation are set out here.

3. Employer Types and Admission Policy, (Appendix C)

Various types of employers are permitted to join the LGPS under certain conditions. The conditions upon which their entry to the Fund is based/the approach taken is set out here.

4. Termination Policy, Flexibility for Exit Payments and Deferred Debt Agreements (Appendix D)

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's former employees along with a termination contribution certificate showing any exit debt or exit credit, due from or to the exiting employer. In some circumstances an employer and the Fund can enter a Deferred Debt Agreement. The termination policy can be found here.

5. Review of Employer Contributions between Valuations (Appendix E)

In line with the Regulations, the Administering Authority has the discretion to review employer contributions between valuations in prescribed circumstances. The Fund's policy on how the Administering Authority will exercise its discretion is set out here.

6. Covenant Assessment and Monitoring Policy (Appendix F)

The Fund has implemented a policy to regularly monitor the covenant of certain employers in the Fund to ensure they are able to meet their financial responsibilities to the Fund now and in the future. More details are set out here.

7. Glossary (Appendix G)

A glossary of the key terms used throughout is available at the end of this document here.

2. Background

Return to Contents

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

The purpose of this FSS is to set out a clear and transparent funding strategy that will identify how each Fund employer's pension liabilities are to be met.

> The details contained in this FSS will have a financial and operational impact on all participating employers in the Fund.
>
> It is therefore imperative that each existing or potential employer is aware of the details contained in this statement.

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

Integrated Risk Management Strategy

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

This prudence is required by the Regulations and guidance issued by professional bodies and Government agencies to assist the Fund in meeting its Primary solvency and long term cost efficiency objectives. Individual employer results will also have regard to their covenant strength, where deemed appropriate by the Administering Authority.

The Regulations

The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) ("the 2018 Regulations"), the Local Government Pension Scheme (Transitional) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS.

The Solvency Objective

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

However, because financial and market conditions/outlook change between valuations, the assumptions used at one valuation may need to be amended at the next in order to meet the Fund's objective. This in turn means that contributions will be subject to change from one valuation to another. This objective translates to an employer specific level when setting individual contribution rates so each employer has the same fundamental objective in relation to their liabilities.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen with sufficient prudence for this objective to be reasonably achieved in the long term at each valuation.

Long Term Cost Efficiency

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

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

Employer Contributions

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "Primary" and "Secondary" rate of the employer's contribution.

3. Key Funding Principles

Return to Contents

Purpose of the FSS

Funding is making advance provision to meet the cost of pension and other benefit promises. Decisions taken on the funding approach therefore determine the pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this FSS is therefore:

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

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled.

The aims of the fund are to:	The purpose of the fund is to:
• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due • enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes • maximise the returns from investments within reasonable risk parameters taking into account the above aims.	• receive monies in respect of contributions, transfer values and investment income, and • pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

Key parties to the FSS

The Administering Authority should:	**The Individual Employer should:**
• operate the pension fund • collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations • pay from the Fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default • manage the valuation process in consultation with the Fund's Actuary • prepare and maintain a FSS and a Statement of Investment Principles ("SIP), both after appropriate consultation with interested parties • monitor all aspects of the Fund's performance and funding, amending the FSS/SIP as necessary • effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.	• deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the Actuary, promptly by the due date (including any exit payment upon ceasing participation where applicable) • provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality. • undertake administration duties in accordance with the Pension Administration Strategy. • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding and comply with any particular Breaches of Law policy specified by the Fund. • understand the pension impacts of any changes to their organisational structure and service delivery model, and • comply with Regulations in the case of a bulk transfer of staff.

The Fund Actuary should:	A Guarantor should:
• prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements, which may be of relevance to the Fund Actuary's role in advising the Fund.	• notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements, the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

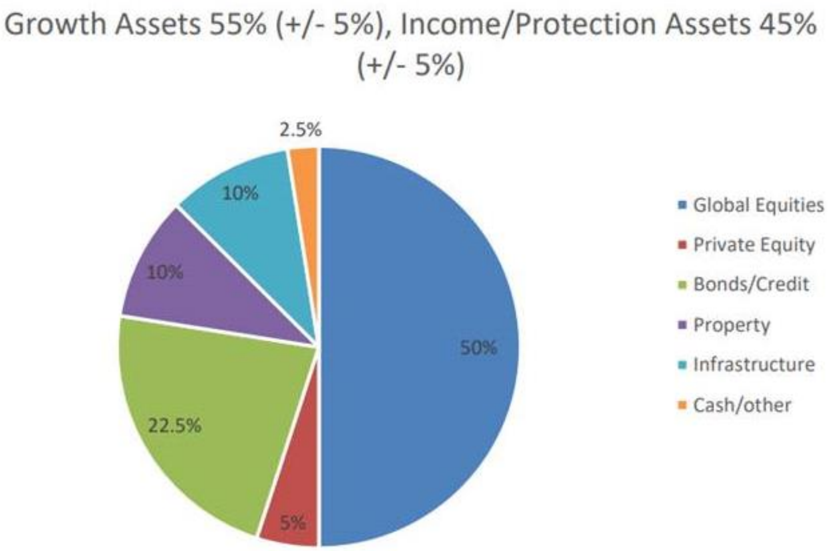
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

Link to Investment Policy

The results of the 2023 valuation show the liabilities to be 125% covered by the assets, with a funding surplus of £1.13bn.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the Statement of Investment Principles (SIP).

The overall strategic asset allocation is set out in the SIP. The current strategy is included below.



The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 4.7% per annum in excess of CPI inflation as at 31 March 2023 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in **Appendix A**).

Risk Management Strategy

A key systematic risk relating to assets and liabilities of the Fund is the impact of climate change. The Actuary will separately quantify and report on this risk. Details will be set out in the final actuarial valuation report in March 2024.

The Fund would consider implementing a bespoke choice of investment strategy for employers on request and in consultation with the Employer, based on advice from the Fund Actuary. Such a strategy may exhibit a different risk/return profile than the current whole fund strategy. This may be appropriate for employers who are deemed to have a weaker covenant than others in the Fund or those who wish to target a lower risk strategy (e.g. if planning for termination).

If implemented, the strategy will be reflected in the relevant employer's asset share, funding basis and contribution requirements. However, in the normal course of events, the contribution requirements for employers will not be reviewed until the following actuarial valuation of the Fund. However, the fund reserves the right to review contributions in the interim period.

If, based on the assessments carried out by the Administering Authority, an employer is deemed to have a weaker covenant than other employers in the Fund or alternatively is expected to exit in the near future, the Administering Authority reserves the right to move an employer (typically following discussions with the employer) into a lower risk investment strategy to help protect against a deterioration in the funding position and protect the Fund as a whole.

First Aberdeen Limited

One employer currently has a bespoke strategy (including an annuity contract) and specific termination basis, relating to the previous Fund merger with the Aberdeen City Council Transport Fund. This employer terminated with effect from 31 October 2023 so is no longer an active employer within the Fund.

Identification of Risks and Counter-Measures

The funding of defined benefits is by its nature uncertain. When actual experience is not in line with the financial and demographic assumptions adopted, a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term. The Actuary's formal valuation report includes quantification of some of the major risk factors.

Financial	**Demographic**
The financial risks are as follows:- • Investment markets fail to perform in line with expectations • Protection and risk management policies fail to perform in line with expectations • Market outlook moves at variance with assumptions • Investment Fund Managers fail to achieve performance targets over the longer term • Asset re-allocations in volatile markets may lock in past losses • Pay and price inflation significantly more than anticipated • Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions • An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements.	The demographic risks are as follows:- • Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. • Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers • Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy Early retirements for reasons of redundancy and efficiency do not affect the solvency of the

Financial	Demographic
Any increase in employer contribution rates (as a result of these risks) may in turn impact on the service delivery of that employer and their financial position. In practice, the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.	Fund because they are the subject of a direct charge.

Governance	Regulatory
Governance risks are as follows:- • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • Changes in the Committee membership. For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.	The key regulatory risks are as follows:- • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, • Changes to national pension requirements and/or HMRC Rules Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the valuation process), for example, if there:

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Scheme membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund
- if there have been material changes in the SIP

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employers will be contacted.

Appendix A – Actuarial method and assumptions

Return to Contents

The key whole Fund assumptions used for calculating the funding target and the cost of future accrual for the 2023 actuarial valuation are set out below.

Financial Assumptions	2023 valuation assumption at 31 March 2023	Description
Investment return / discount rate	Ongoing funding basis: 4.60% p.a. (past) 4.10% p.a. (future)	Derived from the expected return on the Fund assets based on the long term strategy set out in the SIP, including appropriate margins for prudence. For the 2023 valuation, this is based on an assumed return of: 2.00% p.a. above CPI inflation (past service) and 1.50% p.a. above CPI inflation (future service). This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics. Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 95 Officer and reported to the Committee. The assumed real returns quoted above will be periodically reviewed by the administering authority over the period to the next actuarial valuation to ensure that they reflect any significant changes in the Fund's investment strategy or significant changes in market conditions, which impact the appropriate margins for prudence referred to above that were agreed when setting the valuation funding strategy.
	Minimum risk termination basis:	Derived from the yield on conventional UK Government gilts. This assumption will be reviewed on an ongoing basis to allow for changes in market conditions at the relevant employing body's cessation date, along with any other structural or legislative changes. At 31 March 2023 this would be 3.8% p.a.

Financial Assumptions	**2023 valuation assumption at 31 March 2023**	**Description**
Inflation (Retail Prices Index)	3.40% p.a.	The investment market's expectation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date (reflecting the profile and duration of the whole Fund's accrued liabilities).
Inflation (Consumer Prices Index)	Ongoing funding basis: 2.60% p.a. (includes an adjustment of 0.80% p.a. from the RPI assumption)	RPI inflation (above) reduced to reflect the expected long-term difference between RPI and CPI measures of inflation (reflecting the profile and duration of the whole Fund's accrued liabilities and 2030 RPI reform) and adjusted to remove the estimated impact of supply/demand distortions as well as Bank of England forecasts. This varies for the ongoing and termination basis, reflecting the degree of inflation hedging inherent in the notional termination basis and will also reflect the duration of an employer's liabilities in the case of a low risk termination calculation. The adjustment to the RPI inflation assumption will be reviewed from time to time to take into account any market factors, which affect the estimate of CPI inflation. The minimum risk termination basis figure at 31 March 2023 would be 3.10%.
Salary increases	Ongoing funding basis: 4.10% p.a.	Pre 1 April 2015 benefits (and 2015 to 2022 McCloud underpin) - the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.50% p.a. over the CPI inflation assumption as described above. This includes allowance for promotional increases.
Pension Increases and Deferred Revaluation	Ongoing funding basis: 2.60% p.a.	Assumed to be in line with the CPI inflation assumption above (noting that pension increases cannot be negative as pensions cannot be reduced). At the 2023 valuation, an adjustment has been made to the liabilities to allow for the known inflation for the period 30 September 2022 to 31 March 2023, and where material, allowance will continue to be made for inflation as it emerges when assessing funding positions between valuations.

Financial Assumptions	2023 valuation assumption at 31 March 2023	Description
Indexation of CARE benefits	Ongoing funding basis: 2.6% p.a.	Assumed to be in line with the CPI inflation assumption above. For members in pensionable employment, indexation of CARE benefits can be less than zero (i.e. a reduction in benefits).
McCloud	A reasonable estimate for the potential cost of McCloud has been included within the 2023 valuation results for each employer. This has been calculated based on the data provided for the 2023 valuation and in line with national guidance.	

Demographic Assumptions

Mortality/Life Expectancy

The derivation of the mortality assumption is set out in separate advice as supplied by the Actuary. The mortality in retirement assumptions will be based on the most up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI) including a loading reflecting Fund specific experience and will make allowance for future improvements in longevity and the experience of the scheme. A specific mortality assumption has also been adopted for current members who retire on the grounds of ill health.

For all members, it is assumed that the trend in longevity seen over recent time periods (as evidenced in the 2022 CMI analysis) will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI 2022 projections and a long term improvement trend of 1.75% per annum.

As an indication of impact, we have set out the life expectancies at age 65 based on the 2020 and 2023 assumptions:

Membership Category	Male Life Expectancy at 65 (2020 assumptions)	Female Life Expectancy at 65 (2020 assumptions)
Pensioners	21.4	24.1
Actives aged 45 now	23.0	26.2
Deferreds aged 45 now	21.7	25.2

Membership Category	Male Life Expectancy at 65 (2023 assumptions)	Female Life Expectancy at 65 (2023 assumptions))
Pensioners	21.1	23.4
Actives aged 45 now	22.8	25.5
Deferreds aged 45 now	22.4	25.1

For example, a male pensioner, currently aged 65, would be expected to live to age 86.1. Whereas a female active member aged 45 would be expected to live until age 90.5. The difference reflects the expected increase in life expectancy over the next 20 years in the assumptions above.

The mortality before retirement has also been reviewed based on LGPS wide experience.

The post retirement mortality tables adopted for this valuation are set out below:

Current Status	**Retirement Type**	**Mortality Table**
Annuitant	Normal health	114% S3PMA_CMI_2022 [1.75%]
		108% S3PFA_M_CMI_2022 [1.75%]
	Current Dependant in payment	142% S3PMA_CMI_2022 [1.75%]
		126% S3DFA_CMI_2022 [1.75%]
	Ill health	164% S3IMA_CMI_2022 [1.75%]
		207% S3IFA_CMI_2022 [1.75%]
	Future dependant	142% S3PMA_CMI_2022 [1.75%]
		126% S3DFA_CMI_2022 [1.75%]
Active	Normal health	118% S3PMA_CMI_2022 [1.75%]
		108% S3PFA_M_CMI_2022 [1.75%]
	Ill health	263% S3IMA_CMI_2022 [1.75%]
		349% S3IFA_CMI_2022 [1.75%]
Deferred	All	125% S3PMA_CMI_2022 [1.75%]
		113% S3PFA_M_CMI_2022 [1.75%]
Future Dependant (from current non pensioners)	Future Dependant (from current non pensioners)	134% S3PMA_CMI_2022 [1.75%]
		125% S3DFA_CMI_2022 [1.75%]

* The life expectancy assumptions use a smoothing parameter of 7 and no short term improvements are allowed for.

Other Demographic Assumptions	
Commutation	Following analysis undertaken by the Actuary, it has been assumed that all retiring members will take 75% of the maximum tax-free cash available at retirement. The option, which members have to commute part of their pension at retirement in return for a lump sum, is a rate of £12 cash for each £1 p.a. of pension given up.
Proportions Married / Civil Partnerships assumption	This has been reviewed and updated based on LGPS wide experience.
Other Demographics	Other Demographics - Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements and withdrawal rates remain in line with the assumptions adopted for the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option. Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years.
Expenses	Expenses are met out of the Fund, in accordance with the Regulations. This is allowed for by adding 0.4% of pensionable pay to the contributions from participating employers. This is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.
Discretionary Benefits	The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation.

Further details on the demographic assumptions are set out in the Actuary's formal report.

Method

The actuarial method to be used in the calculation of the solvency funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the Fund on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, alternative methods are adopted, which make advance allowance for the anticipated future ageing and decline of the current closed membership group potentially over the period of the rates and adjustments certificate. Employers who move from open to closed may see an increase in contributions as a result of this change.

The assumptions to be used in the calculation of the funding target are set out above. Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

There will be a funding plan for each employer. In determining contribution requirements the Administering Authority, based on the advice of the Actuary, will consider whether the funding plan adopted for an employer is reasonably likely to be successful having regard to the particular circumstances of that employer (potentially taking into account any material changes after the valuation date up to 31 March 2024).

As part of each valuation separate employer contribution rates are assessed by the Fund Actuary for each participating employer or group of employers. As indicated above, these rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Fund.

Method and assumptions used in calculating the cost of future accrual (or Primary rate)

The future service liabilities are calculated using the same assumptions as the solvency funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

Future service contributions are paid in respect of benefits built up in the future, the Primary Rate should take account of the market conditions applying at future dates, not just the date of the valuation. In addition, the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only. This is taken in to account when considered what the appropriate discount rate is and can be higher or lower than the past service discount rate depending on market conditions and outlook and level of smoothing applied.

Employer asset shares

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation. In addition, the asset share maybe restated for changes in data or other policies.

Other adjustments are also made on account of the funding positions of orphan bodies, which fall to be met by all other active employers in the Fund.

The Fund’s formal policy on the calculation of employer asset shares can be provided as a standalone document upon request.

Return to Contents

Appendix B – Deficit recovery and surplus spread periods

If the funding level of an employer is above or below 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), an adjustment plan needs to be implemented such that the Secondary contributions for each employer can be calculated. This adjustment plan requires a period over which to recover the deficit or run off surplus i.e. the recovery / spread period.

Contribution Plans – Key Principles

Secondary contributions will be expressed as a percentage of pay. This, when combined with an employer's Primary rate, will determine the minimum contribution requirement and employers will be free to pay higher contributions if they wish.

The Administering Authority retains ultimate discretion in applying these principles for individual employers on grounds of affordability and covenant strength and it may be deemed necessary to deviate under exceptional circumstances. Employers will be notified of their individual spread period as part of the provision of their individual valuation results.

The key principles when considering surplus offsets are as follows:

1. In determining the actual recovery / spread period to apply for any particular employer or employer grouping, the Administering Authority may take into account some or all of the following factors:
    - The size of the funding surplus;
    - The business plans of the employer;
    - The assessment of the financial covenant of the Employer, and security of future income streams;
    - Any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.

    The objective is to remove any surplus over a reasonable timeframe, and this will be periodically reviewed.

2. **For the 2023 valuation the Fund has set a funding buffer.** For those employers assessed to be in surplus at the valuation date, a surplus buffer (expressed as a percentage of the employer's liabilities) will apply meaning surplus offsets will not be available to those with a funding level of less than the buffer. For those with funding levels greater than the buffer (typically [115%]), surplus offsets will be based on the surplus above the buffer only. Surplus below the buffer is to be retained within the Fund as a reserve against future adverse asset and liability experience, to increase the long-term stability of contributions. The size of the buffer will be reviewed at each valuation and may differ between employers for reasons set out above.

3. Where an employer is expected to exit the Fund then consideration of the appropriate contribution rate between now and exit would be given. This may mean that contributions are based on the termination funding assumptions as opposed to the

ongoing assumptions and appropriate consideration will be given to any surplus or deficit recognised when setting contributions.

4. For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.

5. Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C – Employer types and admission policy

Return to Contents

Introduction

This appendix details the admissions policy that applies to the Fund, including the methodology for assessing ongoing contribution requirements and the considerations for current and former admission bodies. Admissions to the Fund are generally relatively rare.

- Admission bodies are required to have an “admission agreement” with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.

- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

A list of all current employing bodies participating in the Fund is kept as a live document and will be updated by the Administering Authority as bodies are admitted to, or leave the Fund.

Please see the glossary for an explanation of the terms used throughout this Appendix.

Entry to the Fund

Prior to admission to the Fund, an Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. If the risk assessment and/or bond amount is not to the satisfaction of the Administering Authority (as required under the LGPS (Scotland) Regulations) it will consider and determine whether the admission body must pre-fund for termination with contribution requirements assessed using the termination methodology and assumptions.

Some aspects that the Administering Authority may consider when deciding whether to apply a minimum risk methodology are:

- Uncertainty over the security of the organisation’s funding sources e.g. the body relies on voluntary or charitable sources of income or has no external funding guarantee/reserves;
- If the admitted body has an expected limited lifespan of participation in the Fund;
- The average age of employees to be admitted and whether the admission is closed to new joiners.

In order to protect other Fund employers, where it has been considered undesirable to provide a bond, a guarantee must be sought in line with the Regulations.

Admitted bodies providing a service

Generally Admitted Bodies providing a service will have a guarantor within the Fund that will stand behind the liabilities on default. Accordingly, in general, the termination basis approach to funding and termination will not apply for these bodies.

As above, the Admitted Body is required to carry out an assessment of the level of risk on premature termination of the contract to the satisfaction of the Administering Authority. This assessment would normally be based on advice in the form of a “risk assessment report” provided by the actuary to the Fund. As the Scheme Employer is effectively the ultimate guarantor for these admissions to the Fund, it must also be satisfied (along with the Administering Authority) over the level (if any) of any bond requirement. Where bond agreements are to the satisfaction of the Administering Authority, the level of the bond amount will be subject to review on a regular basis.

In the absence of any other specific agreement between the parties, deficit recovery / surplus spread periods for Admitted Bodies will be set in line with the Fund’s general policy as set out in this FSS.

Any risk sharing arrangements agreed between the Scheme Employer and the Admitted Body will be documented in the commercial agreement between the two parties and not the admission agreement.

An exception to the above policy applies if the guarantor is not a participating employer within the Fund, including if the guarantor is a participating employer within another LGPS Fund. In order to protect other employers within the Fund, the Administering Authority may in this case treat the admission body as pre-funding for termination, with contribution requirements assessed using the termination methodology and assumptions.

Pre-Funding for Termination

An employing body may choose to pre-fund for termination i.e. to amend their funding approach to the termination methodology and assumptions. This will substantially reduce the risk of an uncertain and potentially large exit debt being due to the Fund at termination. However, it is also likely to give rise to a substantial increase in contribution requirements, when assessed on the termination basis or alternative prudent approach based on advice from the actuary.

For any employing bodies funding for termination, the assets applied will be credited in line with a notional or actual strategy (e.g. if a modified investment strategy has been implemented for the employer) based on the advice of the actuary to provide less volatility in the termination funding position.

Appendix D – Termination policy, flexibility for exit payments and Deferred Debt Agreements

Return to Contents

Exiting the Fund

This appendix details the Fund's policy on the methodology for assessment of termination payments in the event of the cessation of an employer's participation in the Fund.

Assumptions to adopt for termination assessment

On the cessation of an employer's participation in the Fund where an employer becomes an exiting employer, the Actuary will be asked to make a termination assessment. Depending on the circumstances of the termination, this assessment may incorporate a more cautious basis of assessment of the final liabilities for the employer. Typically, this would be where the employer does not have a guarantor in the Fund who has agreed to subsume the orphaned liabilities from the exiting employer.

	Employers with no guarantor in the Fund / only a guarantee of last resort	**Employers with a guarantor**
Financial assumptions	The minimum risk termination basis (unless the Administering Authority agrees otherwise, based on the advice of the Actuary). Adjustments may also be made to the inflation assumption to reflect the level of overall hedging in the Fund. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated). The assumptions will be based on a full yield curve and will take into account the duration of the employer's projected cashflows/liabilities.	If the employing body has a guarantor within the Fund or a successor body exists, either of which would take over the employing body's liabilities, the Fund's policy is that the ongoing funding basis will be used for the termination assessment (unless the guarantor informs the Fund otherwise). For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in alternative strategies.
Demographic Assumptions	In line with the assumptions adopted for the 2023 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to 2.25% p.a. This will be reviewed from time to time to allow for any material changes in life expectancy trends and	In line with the assumptions adopted for the 2023 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.

	Employers with no guarantor in the Fund / only a guarantee of last resort	**Employers with a guarantor**
	will be formally reassessed at the next valuation.	
McCloud	A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.	
Additional Costs	A reasonable allowance for expenses may also be made at the discretion of the Administering Authority, in relation administration and other expenses. This will be allowed for in the final termination assessment.	
Default policy once the termination certificate has been provided	• In the case of a surplus - the Fund pays the exit credit to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. • In the case of a deficit - the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.	The guarantor or successor body will then subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the “novation” of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the termination basis. In this situation the size of the termination payment would also depend on what has happened to the active members e.g. if they all transferred back to the original Scheme Employer (or elsewhere) and aggregated their previous benefits. As any transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy above and the termination assessment will assume that the liabilities are orphaned and the termination basis would apply.

The Administering Authority can vary the treatment on a case-by-case basis at its sole discretion if circumstances warrant it based on the advice of the Actuary based on any representations from the interested parties (where applicable). For example, the Fund may adjust any exit payment or exit credit to take into account any risk sharing arrangements which exist between the exiting employer and other Fund employers. This is subject to “representation” from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor. If all parties do not agree, then the surplus will be paid directly to the exiting employer (despite any other agreements that may be in place).

With regard to subsuming the residual assets and liabilities, this may, if agreed by the successor body, constitute a complete amalgamation of assets and liabilities to the successor body, including any funding deficit/surplus on closure. In these circumstances no termination payment will be required from the outgoing employing body itself, as the deficit/surplus would be dealt with via the successor body's own recovery/spread plan.

Review of the Termination Policy

As set out in the table above, for employers without a guarantor, the financial assumptions are currently related to the yields on Government debt (known as Gilts). The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is sufficient monies to pay all the benefits due in relation to the "orphan" members of the outgoing employer as otherwise the remaining employers would potentially have to fund this via their contributions at subsequent valuations. This is why the Fund take a more cautious view as set out in this policy. For other employers, the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

The policy will be reviewed as a matter of course at each actuarial valuation but will also be reviewed in times of extreme events, such as a material shift in market conditions or shift in economic/fiscal policy, which will affect the assets or liabilities of the exiting employer. This is to ensure that the approach remains appropriate, given the risk associated with funding the orphaned liabilities left behind by an exiting employer is being passed to other Fund employers, and ultimately the tax payer. This means that the assumptions (both financial and demographic) can be changed if circumstances warrant it. Employers would be notified of any change (and the rationale for the change) and the policy would be updated.

The Fund also has the discretion to apply a different approach on a case by case basis taking into account all factors (financial and non-financial) pertaining to the exiting employer.

Future Terminations

In some cases, termination of an employer's participation is an event that can be foreseen, for example, because the organisation's operations may be planned to be discontinued and/or the admission agreement is due to cease. Under the Regulations, in the event of the Administering Authority becoming aware of such circumstances, it can amend an employer's minimum contributions such that the value of the assets of the employing body is neither materially more nor materially less than its anticipated liabilities at the date it appears to the Administering Authority that it will cease to be a participating employer. In this case, employing bodies are encouraged to open a dialogue with the Fund to commence planning for the termination as early as possible. Where termination is disclosed in advance the Fund will operate procedures to reduce the sizeable volatility risks to the debt amount in the run up to actual termination of participation. The Fund will modify the employing body's approach in any case, where it might materially affect the finances of the Scheme, or depending on any case specific circumstances.

Determination notices (Employers with a guarantor)

Where the outgoing employer is responsible for only part of the residual deficit or surplus as per a separate risk sharing agreement, the Fund's default will also be that any surplus would be retained by the Fund in favour of the outsourcing employer/guarantor.

For the avoidance of doubt, where the outgoing employer is not responsible for any costs under a risk sharing agreement then no exit credit will be paid as per the Regulations unless the Fund is aware of the provisions of the risk sharing agreement in any representation made and determines an exit credit should be paid.

If there is any dispute, then the following arrangements will apply:

- In the case of a surplus, the parties will need to make 'representations' to the Administering Authority if they believe an Exit Credit should be paid outside the policy set out above, or if they dispute the determination of the Administering Authority. The Fund will notify the parties of the information required to make the determination on request.
- If the Fund determines an Exit Credit is payable then they will pay this directly to the exiting employer within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later)
- In the case of a deficit, in order to maintain a consistent approach, the Fund will seek to recover this from the exiting employer in the first instance although if this is not possible then the deficit will be recovered from the guarantor either as a further contribution collection or it will be taken into account at the next valuation depending on the circumstances.

If requested, the Administering Authority will provide details of the information considered as part of their determination.

An exit credit determination notice will be provided alongside the termination assessment from the Actuary in cases where there is an exit credit. The notice will cover the following information and process steps:

1. Details of the employers involved in the process (e.g. the exiting employer and guarantor).
2. Details of the admission agreement, commercial contracts and any amendments to the terms that have been made available to the Administering Authority and considered as part of the decision making process. The underlying principle will be that if an employer is responsible for a deficit, they will be eligible for any surplus. This is subject to the information provided and any risk sharing arrangements in place.
3. The final termination certification of the exit credit by the Actuary.
4. The Administering Authority's determination based on the information provided.
5. Details of the appeals process in the event that a party disagrees with the determination and wishes to make representations to the Administering Authority.

POLICY IN RELATION TO THE FLEXIBILITY FOR DEBT SPREADING AGREEMENTS (DSA) AND DEFERRED DEBT AGREEMENTS (DDA)

The Fund's policy for spreading termination exit debts (referred to as 'payment plans') is as follows:

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the

Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.

2. At the discretion of the administering authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.
3. The administering authority may in exceptional circumstances, issue written notice called a "suspension notice" to an employer to suspend that employer's liability to pay an exit payment starting from the date when that employer would otherwise become an exiting employer. If this occurs, the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer's current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.

As set out above, the default position for exit payments is that they are paid in full at the point of exit (adjusted for interest where appropriate). If an employer requests that an exit debt payment is recovered over a fixed period of time or that they wish to enter into a Deferred Debt Agreement with the Fund, they must make a request in writing covering the reasons for such a request. Any deviation from this default position will be based on the Administering Authority's assessment of whether the full exit debt is affordable and whether it is in the interests of other stakeholders e.g. the Fund/Other employers/taxpayers to adopt either of the approaches. In making this assessment the Administering Authority will consider the covenant of the employer and also whether any security is required and available to back the arrangements.

Any costs (including necessary actuarial, legal and covenant advice) associated with assessing this will be borne by the employer.

POLICY FOR SPREADING EXIT PAYMENTS

The following process will determine whether an employer is eligible to spread their exit payment over a defined period.

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.

2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.

3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.

4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time

5. If it is agreed that the exit payment can be spread then the Administering Authority will engage with the employer regarding the following:
    a. The spreading period that will be adopted.
    b. The initial and annual payments due and how these will change over the period
    c. The interest rates applicable and the costs associated with the payment plan devised
    d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.
    e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
    f. The views of the Fund Actuary, covenant, legal and any other specialists necessary
    g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
    h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)

6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

As opposed to paying the exit debt (immediately or spread over an agreed period of time), an employer may participate in the Fund with no contributing members and utilise the "Deferred Debt Agreement" (DDA) facility at the sole discretion of the Administering Authority. This would be at the request of the employer in writing to the Administering Authority.

The following process will determine whether the Fund and employer will enter into such an arrangement:

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority.

2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).

3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.

4. If the Administering Authority's assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the

employer about the potential format of a Deferred Debt Agreement. As part of this, the following will be considered and agreed:

a) What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won't enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.
b) The investment strategy that would be applied to the employer e.g. the standard, medium or lower risk strategy which could support the arrangement.
c) Whether an upfront cash payment should be made to the Fund initially to reduce the potential future debt.
d) What the updated Secondary rate of contributions would be required up to the next valuation.
e) The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
f) The advice of the Actuary, covenant, legal and any other specialists necessary.
g) The responsibilities that would apply to the employer while they remain in the Fund.
h) What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary contributions (e.g. provision of security).
i) The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
j) Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

The Administering Authority will then make a final decision on whether it is in the best interests of the Fund to enter into a Deferred Debt Agreement with the employer and confirm the terms that are required.

5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.

6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be invoiced to the employer by the Fund.

Appendix E – Review of employer contributions between valuations

Return to Contents

In line with the regulations that came in to force on 1 June 2022, The Administering Authority has the ability to review employer contributions between valuations. The Administering Authority and employers now have the following flexibilities:

1. The Administering Authority may review the contributions of an employer where there has been a significant change to the liabilities of an employer.
2. The Administering Authority may review the contributions of an employer where there has been a significant change in the employer's covenant.
3. An employer may request a review of contributions from the Administering Authority if they feel that either point 1 or point 2 applies to them. The employer would be required to pay the costs of any review following completion of the calculations and is only permitted to make a maximum of two requests between actuarial valuation dates (except in exceptional circumstances and at the sole discretion of the Administering Authority).

Where the funding position for an employer significantly changes solely due to a change in assets (and/or changes in actuarial assumptions), the overarching policy intent is that contribution reviews are not permitted outside of a full valuation cycle. However changes in assets would be taken into account when considering if an employer can support its obligations to the Fund after a significant covenant change (see 2. above).

The Administering Authority will consult with the employer prior to undertaking a review of their contributions including setting out the reason for triggering the review.

For the avoidance of doubt, any review of contributions may result in no change and a continuation of contributions as per the latest actuarial valuation assessment. In the normal course of events, a rate review would not be undertaken close to the next actuarial valuation date unless in exceptional circumstances. For example:

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.

- However, where there has been a material change in covenant, a review will be considered on a case by case basis, which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

Contributions may be reviewed if the Administering Authority becomes aware of any of the following scenarios. Employers will be notified if this is the case.

Consideration will also be given to the impact that any employer changes may have on the other employers and on the Fund as a whole, when deciding whether to proceed with a contribution review.

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
   i. Restructuring of an employer
   ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
   iii. A bulk transfer into or out of the employer
   iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals

b) Two or more employers merging including insourcing and transferring of services

c) The separation of an employer into two or more individual employers

In terms of assessing the triggers under a) above, the Administering Authority will only consider a review if the change in liabilities is expected to be more than 5% of the total liabilities. In some cases, this may mean there is also a change in the covenant of the employer.

Any review of the rate will only take into account the impact of the change in liabilities (including, if relevant, any underfunding in relation to pension strain costs) both in terms of the Primary and Secondary rate of contributions.

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement, which may impair the security provided to the Fund.

b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.

c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.

d) The Fund becoming subordinate behind other creditors of the employer such as banks or other pension funds.

In some instances, a change in the liabilities will also result in a change in an employer's ability to meet these obligations.

Whilst in most cases the regular covenant updates requested by the Administering Authority will identify some of these changes, in some circumstances employers will be required to agree to notify the Administering Authority of any material changes. Where this applies, employers will be notified separately and the Administering Authority will set out the requirements

Additional information will be sought from the employer in order to determine whether a contribution review is necessary. This may include annual accounts, budgets, forecasts and any specific details of restructure plans. As part of this, the Administering Authority will take advice from the Fund Actuary, covenant, legal and any other specialist adviser.

In this instance, any review of the contribution rate would include consideration of the updated funding position (both on an ongoing and termination basis) and would usually allow for changes in asset values when considering if the employer can meet its obligations on both an ongoing and termination basis (if applicable). This could then lead to the following actions:

- The contributions changing or staying the same depending on the conclusion, and/or;
- Security to improve the covenant to the Fund, and/or;
- If appropriate, a change in the investment strategy via the employer investment buckets (if implemented).
- Pre-funding for termination

Process and potential outcomes of a contribution review

Where one of the listed events occurs, the Administering Authority will enter into discussion with the employer to clarify details of the event and any intent of the Administering Authority to review contributions if a contribution review is deemed necessary. Ultimately, the decision to review contributions as a result of the above events rests with the Administering Authority after, if necessary, taking advice from their Actuary, legal or a covenant specialist advisors.

This also applies where an employer notifies the Administering Authority of the event and requests a review of the contributions. The employer will be required to agree to meet any professional and administration costs associated with the review. The employer will be required to outline the rationale and case for the review through a suitable exchange of information prior to consideration by the Administering Authority.

The Administering Authority will consider whether it is appropriate to use updated membership data within the review (e.g. where the change in data is expected to have a material effect on the employer's liabilities in the Fund) and whether any supporting information is required from the employer.

As well as revisiting the employer's contribution plan, as part of the review it is possible that other parts of the funding strategy will also be reviewed where the covenant of the employer has changed, for example the Fund will consider:

- Whether the employer's investment strategy remains appropriate or whether they should move to an alternative strategy (in line with the Funding Strategy Statement).
- Whether the employer should fund for termination.
- Whether the Primary contribution rate should be adjusted to allow for any profile change and/or investment strategy change
- Whether the Secondary contributions should be adjusted including whether the length of the recovery / spread period adopted at the previous valuation remains

appropriate. At the absolute discretion of the Administering Authority this may result in an increase to the recovery period where the evidence gathered demonstrates that the existing time horizon is no longer achievable and the extension is in the best interests of the tax payer, taking into account any security that may be available.

The review of contributions may take up to 6 months from the date of confirmation to the employer that the review is taking place, in order to collate the necessary data.

Any change to an employer's contributions will be implemented at a date agreed between the employer and the Fund. The Schedule to the Rates and Adjustment Certificate at the last valuation will be updated for any contribution changes. As part of the process, the Administering Authority will consider whether it is appropriate to consult any other Fund employers prior to implementing the revised contributions. Circumstances where the Administering Authority may consider it appropriate to do so include where there is another employer acting as guarantor in the Fund, then the guarantor would be consulted on as part of the contribution review process.

The Administering Authority will agree a proportionate process for periodical ongoing monitoring and review following the implementation of the revised contribution plan. The Employer will be required to provide information to the Fund to support this, which will depend in part of the reasons for triggering the contribution review.

Return to Contents

Appendix F –
Covenant Assessment and Monitoring Policy

Covenant is the employer's legal obligation and financial ability to meet their defined benefit obligations in the Fund now and in the future. Regular assessment and monitoring of employer covenant is undertaken to understand the current strength of the employer's covenant and how they could change in the future. This is important to assist the Fund in deciding the appropriate level of risk when setting the investment strategy, employer funding targets and, where necessary, employer recovery plans. Therefore, a sound understanding of the covenant of employers is an essential part of the integrated approach to risk management of the Fund.

Employer's covenant can change quickly and therefore assessing the covenant of employers from a legal and financial perspective is an ongoing activity. The Fund has a well-developed and proportionate framework to monitor employer covenant and identify changes in covenant. The Fund can also draw on the expertise of external covenant advisers when necessary.

RISK CRITERIA

The assessment criteria upon which the affordability and recovery of employer contributions should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial ability to meet contributions (both ongoing and on exit)
- Employer's credit rating
- Position of the economy as a whole
- Legal aspects

Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow
- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

The levels of risk facing the Fund can be generally classified as lower, medium and higher risk as illustrated below:

Participating Employers

Lower Risk	Medium Risk	Higher Risk
Local Authorities	Bodies which are part of a group or pooled bodies which share unfunded costs on default	Admission bodies with no guarantors and a significant deficit
Bodies with local authority guarantor	Admission bodies with a surplus or a relatively small deficit	Bodies with potentially limited life span and in deficit
Bodies with long-term funding from local or central government		No active members or closed with a significant deficit
		Relies on voluntary or charitable source of income with significant deficit

ASSESSING EMPLOYER COVENANT

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is undertaken. The employers' covenants will be assessed and monitored objectively in a proportionate manner and their ability to meet their obligations in the short and long term will be considered when determining an individual employer's funding strategy.

- An assessment of employer covenant includes determining the following:
- Type of employer body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery/spread plan should be enforced
- Whether there is an option to call in contingent assets
- Whether there is a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation

The employer covenant will be assessed based on publicly available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach. In order to objectively monitor the strength of an employer's covenant, adjacent to the risk posed to the Fund, a number of fundamental financial metrics will be reviewed to develop an overview of the employer's stability and a rating score will be applied using a Red/Amber/Green (RAG) rating structure. Research will be carried out into employers' backgrounds and, in addition, employers may be contacted to gather further information. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk. The covenant assessment will be combined with the funding position to derive an overall risk score. Action will be taken if these metrics meet certain triggers based on funding level, covenant rating and the overall risk score

FREQUENCY OF MONITORING

The funding position and contribution rate for each employer participating in the Fund will be reviewed in detail at each triennial actuarial valuation and will continue to be monitored between valuations (including on the termination basis) using an online system provided to officers by the Fund Actuary.

Employers subject to a more detailed review, where a risk criterion is triggered and are on the 'watch list', will be reviewed at least every six months.

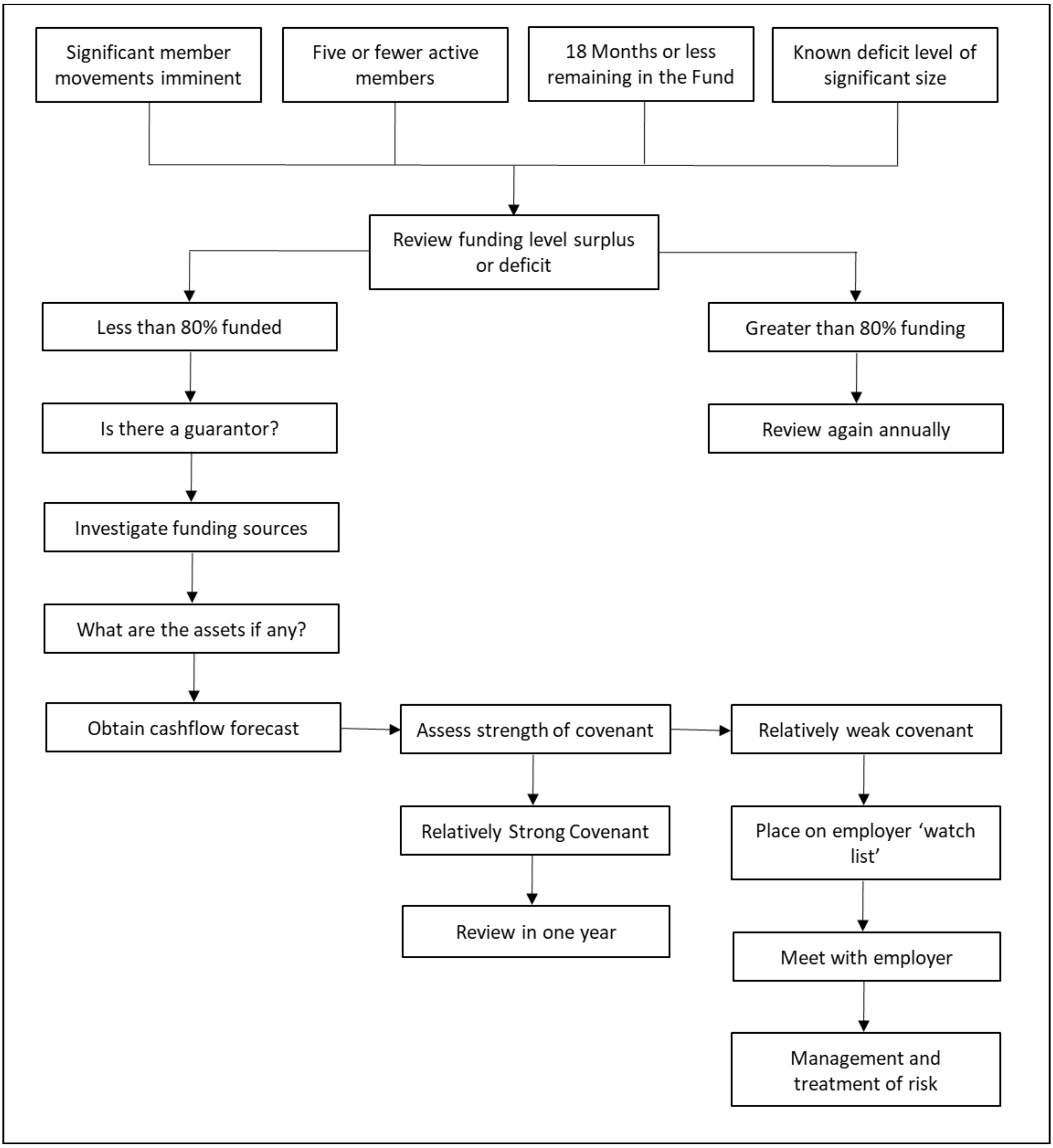
In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately.

COVENANT RISK MANAGEMENT

The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent funding/investment approach
3. Shortened recovery periods/lengthened surplus spread periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

FLOW CHART GUIDE TOWARDS MONITORING OF THE EMPLOYER COVENANT



Appendix G – Glossary of terms

Return to Contents

Actuarial Valuation
An investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the FSS. The asset value is based on market values at the valuation date.

Administering Authority
The council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies
A specific type of employer under the Local Government Pension Scheme (the "LGPS") who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark
A measure against which fund performance is to be judged.

Benefits
The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to within the FSS. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The Fund is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2015 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits in relation to the member only and pay 50% of the normal member contribution.

Best Estimate Assumption
An assumption where the outcome has a 50/50 chance of being achieved.

Bonds
loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts). See also 'index linked gilts' and 'gilts' below.

Career Average Revalued Earnings Scheme (CARE)
With effect from 1 April 2015, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CMI
Acronym standing for "Continuous Mortality Investigation". The CMI carry out research in relation to mortality and morbidity experience, which can then be used by actuaries to assess the funding required by pension funds and other bodies.

Contingent Assets
Assets held by employers in the Fund that can be called upon by the Fund in the event of the employer not being able to cover the debt due upon termination. The terms will be set out in a separate agreement between the Fund and employer

Covenant
The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

CPI
Acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Deferred Debt Agreement (DDA)
A written agreement between the Administering Authority and an exiting Fund employer for that employer to defer their obligation to make an exit payment and continue to make contributions at the assessed Secondary rate until the termination of the DDA.

Debt Spreading Agreement (DSA)
A written agreement between the Administering Authority and an exiting Fund employer where the Fund agree to receiving the payment of the exit Debt in installments across a specified period/payment plan.

Deferred Employer
An employer that has entered into a DDA with the Fund.

Deficit
The extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery / Surplus spread period
The target length of time over which the current deficit or surplus is intended to be eliminated. A shorter deficit recovery period will give rise to higher annual contributions, and vice versa. A shorter surplus spread period will give rise to lower annual contributions, and vice versa.

Derivatives
Financial instruments linked to the performance of specific assets which can be used to magnify or reduce exposure to those assets.

Discount Rate
The rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value i.e. the liabilities. A higher discount rate means lower liabilities and vice versa.

Early Retirement Strain
The additional cost incurred by a scheme employer as a result of allowing a Scheme Member aged 55 or over to retire before Normal Retirement Age and to receive a full pension based on accrued service at the date of retirement without full actuarial reduction.

Employing bodies
Any organisation that participates in the LGPS, including admission bodies and Fund employers.

Employer's Primary Contribution Rate ("Future Service Rate")
The contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs. It is expressed as a percentage of pensionable pay, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant. The Primary Contribution Rate for the whole Fund is the weighted average (by payroll) of the individual employers' Primary Contribution Rates.

Equities
Shares in a company which are bought and sold on a stock exchange.

Exit Credit
The amount payable from the Fund to an exiting employer where the exiting employer is determined to be in surplus at the point of cessation based on a termination assessment by the Fund Actuary.

Fund / Scheme Employers
Employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers. For example, these include councils, colleges, universities and academies

Funding or Solvency Level
The ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement
This is a key governance document that outlines how the Administering Authority will manage employer's contributions and risks to the Fund.

Gilts
Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The "coupon" (i.e. the interest paid as part of the loan agreement) and the final settlement amount will be a fixed amount and agreed at the outset of the loan.

Government Actuary's Department (GAD)
GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / Guarantor
A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Guarantee of Last Resort
For the purposes of the FSS, a guarantee of last resort refers to the situation where an employer has exhausted all alternative options for payment of an exit debt and so the debt is recovered from another employer in the Fund, however the liabilities are not subsumed in this case.

Hedging
A strategy that aims to reduce funding volatility and provide higher certainty of returns. This is achieved by investing in assets (usually bonds or gilts) that capture levels of real yield based on agreed levels so the assets mimic the change in liabilities.

Index-Linked Gilts
Loans made to the UK Government, which the Government undertakes to repay at an agreed later date. The coupon (i.e. the interest paid as part of the loan agreement) and the final settlement amount are adjusted in line with the movements in RPI inflation in order to retain their ‘real’ value over time and protect against the potential effects of inflation.

Investment Strategy
The long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk. Often documented and detailed in the Statement of Investment Principles (SIP).

Letting Employer
An employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

LGPS
The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members’ contribution rates, benefit calculations and certain governance requirements.

Liabilities
The actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

Long-term cost efficiency
This is a measure of the extent to which the Fund’s policies properly address the need to balance immediate budgetary pressures with the undesirability of imposing an excessive debt burden on future generations.

Maturity
A general term to describe a Fund (or an employer’s position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

McCloud Judgment
This refers to the linked legal cases of Sargeant and McCloud, and which found that the transitional protections (which were afforded to older members when the public service pension schemes were reformed in 2014/15) constituted unlawful age discrimination.

Members
The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum Risk Termination Basis
An approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This can be used as a benchmark to assess the level of reliance on future investment returns in the funding strategy and therefore the level of risk appetite in a Funds choice of investment strategy.

Ongoing Funding Basis
The financial and demographic assumptions used to determine the employer’s contribution requirements. The relevant discount rate used for valuing the present value of liabilities is determined based on the expected long term return achieved on the Fund’s investments. This is expressed as an expected return over CPI.

Orphan liabilities
Liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Payment Plans
Include DDA’s and DSA’s as defined above.

Phasing/stepping of contributions
On occasions where there is an increase/decrease in an employer’s long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling
Employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment
The payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value
The value of projected benefit payments, discounted back to the valuation date.

Primary Rate of the Employers’ Contribution
See definition of Employer’s Primary Contribution Rate.

Profile
The profile of an employer’s membership or liability reflects various measurements of that employer’s members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption
An assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate
A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three-year period until the next valuation is completed.

Real Return or Real Discount Rate
A rate of return or discount rate net of (CPI) inflation.

Recovery Plan / Spread Period
If the funding level of an employer is not equal to 100% at the valuation date (i.e. the assets of the employer are more or less than the liabilities), a recovery plan may be needed to return the funding level back to 100% over a fixed period ("the recovery period or surplus spread period", as defined in the FSS). The recovery plan will set out the Secondary contributions payable by an employer over the recovery / spread period. Secondary contributions can be positive or negative (i.e. an off-set to future accrual costs) but there are restrictions over which negative Secondary contributions will be applied, as set out in the Fund's policy.

SAB Funding Basis or SAB Basis
A set of actuarial assumptions determined by the LGPS Scheme Advisory Board (SAB). Its purposes are to set out the funding position on a standardised approach so that comparisons can be made with other LGPS Funds, and to assist with the "Section 13 review" as carried out by the Government Actuary's Department. The assumptions used can be substantially different from the actuarial assumptions used to calculate the Fund's solvency funding position and contribution outcomes for employers in the local funding valuation.

Scheduled bodies
Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc., other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Scheme Employers
Organisations that participate in the Fund.

Secondary Rate of the Employer's Contribution
An adjustment to the Primary Rate to reflect any past service deficit or surplus, to arrive at the rate each employer is required to pay. The Secondary Rate in the NESPF is typically expressed as a percentage adjustment to the Primary Rate, but can be expressed as a cash adjustment in each of the three years beginning 1 April in the year following that in which the valuation date falls. The Secondary Rate is specified in the Rates and Adjustments Certificate. For any employer, the rate they are actually required to pay is the sum of the Primary and Secondary Rates subject to a minimum of zero. Secondary Rates for the whole fund in each of the three years shall also be disclosed. These will be

calculated as the weighted average based on the whole fund payroll in respect of percentage rates and as a total amount in respect of cash adjustments.

Section 13 Valuation
In accordance with Section 13 of the Public Service Pensions Act 2013, the Government Actuary's Department (GAD) have been appointed by Scottish ministers in connection with reviewing the 2023 Scottish LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target
An assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Strain Costs
The costs arising when members retire before their normal retirement date and receive their pensions immediately without actuarial reduction. So far as the Fund is concerned, where the retirements are not caused by ill-health, these costs are invoiced directly to the retiring member's employer at the retirement date and treated by the Fund as additional contributions, unless agreed with the administering authority. The costs are calculated by the Actuary.

Surplus Buffer
Where an employer has a funding level above 100%, this is the surplus held back to act as a cushion against future adverse experience. It is retained in the employer's asset share, rather than used to reduce future contributions, to aid future contribution rate stability.

Surplus Spread Period
See definition of Recovery Plan/Spread period

Suspension Notice
A notice that may be issued to an employer to suspend that employer's liability to pay an exit payment in circumstances where the employer would otherwise exit. Should a notice be made, the employer must continue to make such contributions towards the liabilities of the fund in respect of benefits for the employer's current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn. A side legal agreement may be required alongside such notices.

Valuation Funding Basis
See definition of Ongoing Funding Basis.

50/50 Scheme
In the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 December 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Committee Annual Effectiveness Report
REPORT NUMBER	COM/23/340
DIRECTOR	Gale Beattie
CHIEF OFFICER	Vikki Cuthbert
REPORT AUTHOR	Steph Dunsmuir
TERMS OF REFERENCE	GD 8.5

1. PURPOSE OF REPORT

1.1 The purpose of this report is to present the annual report of the Pensions Committee to enable Members to provide comment on the data contained within.

2. RECOMMENDATIONS

That Committee:-

2.1 provide comments and observations on the data contained within the annual report; and

2.2 note the annual report of the Pensions Committee.

3. CURRENT SITUATION

Annual Reports on Committee Terms of Reference

3.1 The annual committee effectiveness reports were introduced in 2018/19 following a recommendation from the Chartered Institute of Public Finance and Accountancy (CIPFA) as part of the Council's work towards securing that organisation's accreditation in governance excellence. The Terms of Reference set out that each Committee will review its own effectiveness against its Terms of Reference through the mechanism of the annual report.

3.2 The annual effectiveness reports were mentioned by CIPFA in their report which awarded the Mark of Excellence in Governance accreditation to Aberdeen City Council. CIPFA highlighted the implementation of the annual effectiveness reports as a matter of good practice in governance and were encouraged that, during consideration of the reports at Committee and Council, Members had made suggestions for improvements to the reports in future years.

3.3 Data from the annual effectiveness reports is used to inform the review of the Scheme of Governance, ensuring that Committee Terms of Reference are correctly aligned, and identifying any areas of the Terms of Reference which had not been used throughout the year in order that they can be reviewed and revised if necessary. The information from the effectiveness reports has also been used in the past to feed into the Annual Governance Statement.

3.4 The reports provide a mechanism for each committee to annually review its effectiveness, including data on attendance, any late reports, referrals to Council and the number of times officer recommendations were amended, and to ensure that it is following its Terms of Reference.

3.5 Similarly, recording the sections or stretch outcomes of the Local Outcome Improvement Plan (LOIP) which apply to each report allows Members to be aware of the direct impact of any proposals before them on the LOIP, and gives a general overview at the end of each year of the number of reports which have had an impact on the LOIP stretch outcomes.

3.6 The annual effectiveness reports were delayed to allow the newly established Committees to have a full year of data to report.

3.7 Any comments from Members on areas of data that should be considered would be welcomed to ensure that Members are presented with meaningful data.

3.8 The annual report for 2022/2023 is therefore appended for the Committee's consideration. Following consideration by the Committee, the report will be submitted to Full Council for noting.

4. FINANCIAL IMPLICATIONS

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

7. MANAGEMENT OF RISK

Category	Risk	Low (L) Medium (M) High (H)	Mitigation	*Does Target Risk Level Match Appetite Set?
Strategic Risk	N/A			Yes

Compliance	Failure to submit this report would mean that the Council would not be complying with its instruction that all committees and Full Council receive such a report each year.	L	Council is given the opportunity to consider the reports and provide feedback on any amendments Members would wish to see in the content so that this can be taken on board for next year's Scheme of Governance review.	Yes
Operational	N/A			Yes
Financial	N/A			Yes
Reputational	N/A			Yes
Environment / Climate	N/A			Yes

8. OUTCOMES

There are no links to the Council Delivery Plan, however the committee effectiveness annual reports link to the Scheme of Governance, by ensuring that each committee is fulfilling its Terms of Reference.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	It is confirmed by Interim Chief Officer – Governance (Assurance), Vikki Cuthbert, that no impact assessment is required.
Data Protection Impact Assessment	Not required

10. BACKGROUND PAPERS

None.

11. APPENDICES

10.1 Pensions Committee Annual Effectiveness Report 14 October 2022 to 14 October 2023

11. REPORT AUTHOR CONTACT DETAILS

Steph Dunsmuir
Committee Services Officer
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Pensions Committee Annual Effectiveness Report 2022/2023

14 October 2022 to 14 October 2023

ABERDEEN
CITY COUNCIL

Contents

1. Introduction from Convener

1.1 I am pleased to present the third annual effectiveness report for the Pensions Committee (for the period 14 October 2022 to 14 October 2023). The annual effectiveness report informs the annual review of the Council's Scheme of Governance and enables officers to identify if any changes are required, for example, to the Committee Terms of Reference, as well as being a helpful tool for good governance in terms of allowing the Committee to review how well its remit has been discharged throughout the year.

1.2 A small change was made to the Pensions Committee Terms of Reference in 2023, and as usual, these will continue to be monitored throughout the year and any comments made or issues raised throughout the year will be taken into consideration during next year's review.

1.3 I would like to thank both my colleagues on the Committee and Board for their contributions throughout the year, and would also like to thank the officers, both at Aberdeen City Council and the NESPF, who provide the Committee with such excellent support for their continued hard work over the reporting period.

Councillor John Cooke
Convener – Pensions Committee

2. The Role of the Committee

PURPOSE OF COMMITTEE

To discharge all functions and responsibilities in respect of the Council's role as administering authority for the North East Scotland Pension Funds (NESPF). This includes managing the investment of the NESPF in accordance with the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010 and other relevant legislation.

The Committee will work alongside the Fund's Local Pension Board to consider any pension compliance matters raised.

Where reference is made to 'the Fund', this refers to the Main Fund (the North East Scotland Pension Fund) and the Transport Fund (the Aberdeen City Council Transport Fund).

REMIT OF COMMITTEE

1. Finance and Risk Management

The Committee will:

1.1 approve the Funding Strategy Statement, produced in light of the Fund's assets and liabilities, and appoint or remove Fund Managers or new financial vehicles in furtherance of the strategy;

1.2 approve the budget and expenditure in connection with the administration of the Fund;

1.3 ensure that an effective system of internal financial control is maintained through scrutinising financial information presented to Committee;

1.4 ensure effective risk management of the Fund through monitoring of adherence to the Fund Risk Management Policy and regular scrutiny of the Fund risk register; and

1.5 determine applications for Admitted Body Status.

2. Internal and External Audit

The Committee will:

2.1 approve the annual audit plans in relation to the Fund; and

2.2 consider all reports prepared by the Council's Internal and External Auditors in relation to the Fund.

3. Annual Report and Accounts

The Committee will:

3.1 approve the Annual Report and Accounts, including the Annual Governance Statement.

4. Legal Obligations

The Committee will ensure:

4.1 compliance with the Local Government Pension Scheme (Scotland) Regulations as amended and with all other legislation governing the administration of the Fund; and

4.2 adherence to the principles set out in the Pension Regulator's Code of Practice.

5. Scrutiny

The Committee will:

5.1 monitor and approve the administration of the Local Government Pension Scheme (LGPS) in accordance with the LGPS (Scotland) Regulations 2018 and other relevant legislation; and

5.2 scrutinise the performance of Fund Managers, including in relation to environmental, social and governance (ESG) and voting matters, through regular performance reports to Committee.

6. Outside Bodies

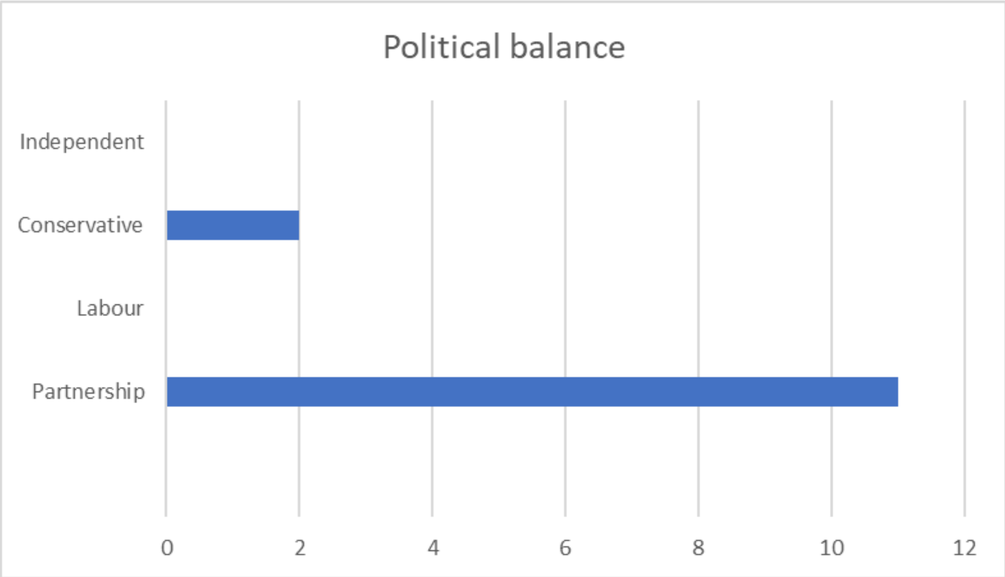
The Committee shall determine appointments and nominations to the Local Authority Pension Fund Forum (LAPFF) and other outside bodies relevant to its remit.

Executive Lead: Chief Officer – Finance

3. Membership of the Committee during 2022/2023

3.1 The Pensions Committee has 13 members – at the time of this report there are 10 members and 3 vacancies.

3.2 The current Committee composition is presented below:-



3.3 The Pension Board members have not been reflected in this report as the Board has its own annual report which is considered each year in June at the annual Board meeting.

4. Membership Changes

4.1 Councillor Mrs Jennifer Stewart resigned from the Committee as of 28 February 2023. Councillor Bonsell resigned from the Committee as of 26 April 2023.

4.2 Councillors Gordon Graham and Ross Grant were appointed to the Committee in October 2023, but resigned prior to their first scheduled meeting of 16 December 2023, therefore are not reflected in the report data below.

5. Member Attendance

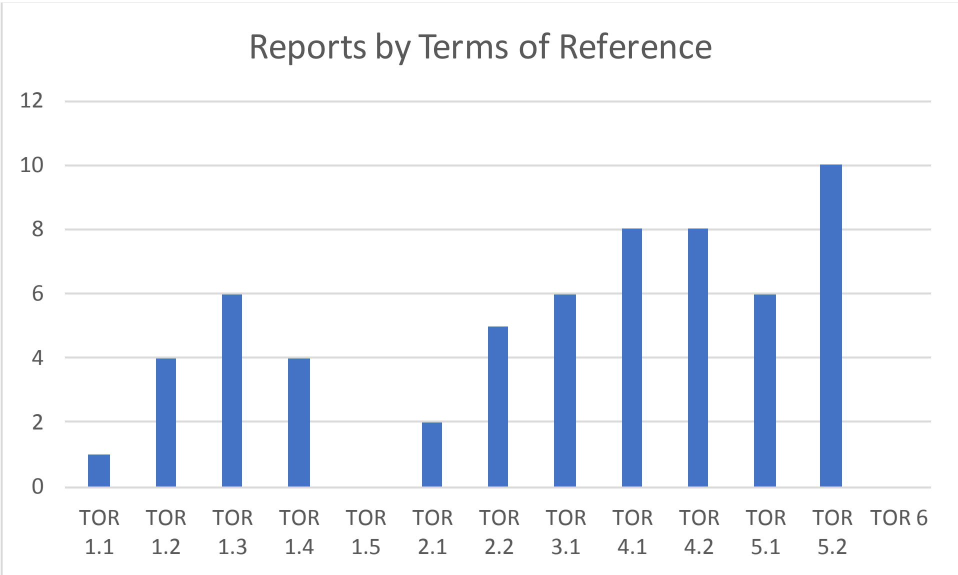
Member	Total Anticipated Attendances	Total Attendances	Substitutions
Councillor John Cooke	4	4	
Councillor Neil MacGregor	4	4	
Councillor Christian Allard	4	3	Due to an admin error, Councillor Allard was omitted from the invitees for the June meeting and could not then attend due to a clash of meetings once the error was realised
Councillor Alison Alphonse	4	3	
Councillor Jennifer Bonsell	2	1	
Councillor Sarah Cross	4	3	
Councillor Derek Davidson	4	4	
Councillor Dell Henrickson	4	4	
Councillor Duncan Massey	4	3	
Councillor Alex McLellan	2	1	Councillor Steve Delaney, the Depute Provost
Councillor Ciaran McRae	4	4	
Councillor Mrs Jennifer Stewart	1	0	
Councillor Kairin van Sweeden	2	2	

6. Meeting Content

6.1 During the 2022/2023 reporting period (14 October 2022 to 14 October 2023), the Committee had 4 meetings and considered a total of 29 reports.

6.2 **Terms of Reference**

6.2.1 The following chart details how reports aligned to the Terms of Reference (set out at section 2 above) for the Committee.



6.2.2 During the course of 2022/2023 the Committee received reports under each of the main Terms of Reference which indicates that the Committee has discharged its role effectively throughout the course of the reporting period.

6.2.3 There were no reports under TOR 1.5 (The Committee will determine applications for Admitted Body Status) as there were no requests for Admitted Body Status during the reporting period. There were also no reports under TOR 6 (The Committee shall determine appointments and nominations to the Local Authority Pension Fund Forum (LAPFF) and other outside bodies relevant to its remit). There was a decision required in relation to nominations to the LAPFF during the reporting period which would have fallen under this TOR, however due to the deadlines for responding to the LAPFF, it was not possible to present this to the Pensions Committee to determine, and an Urgent Business Committee was instead held on 11 August 2023 to determine the matter.

6.2.4 As the committee structure was reviewed in late 2022, very few changes to the Terms of Reference were made following the June 2023 Scheme of Governance review. Any changes made were generally to provide clarity where required and ensure consistency between committees. The Pensions Committee Terms of Reference were altered to include the new TOR 6 mentioned above. The new Terms of Reference will continue to be monitored throughout the year, in preparation for the 2024 Scheme of Governance review.

7. Reports and Decisions

7.1 The following information relates to the committee reports and Notices of Motion presented to Committee throughout the reporting period, as well as the use of Standing Orders and engagement with members of the public.

	Total	**Total Percentage of Reports**
Confidential Reports	0	N/A
Exempt Reports	8	27%
Number of reports where the Committee amended officer recommendations	0	N/A
Number of reports approved unanimously	29	100%
Number of reports or service updates requested during the consideration of another report to provide additional assurance and not in business planner	1*	3%
Number of reports delayed for further information	0	N/A
Number of times the Convener has had to remind Members about acceptable behaviour in terms of the Code of Conduct	0	N/A
Late reports received (i.e. reports not available for inspection at least 3 clear days before the meeting)	1**	3%
Number of referrals to Council under SO 34.1	0	N/A

*A service update was requested to provide additional information on actuarial spend.
**This was the External Audit Annual NESPF Annual Audit Report, as the External Auditor's report was received late

Notices of Motion, Suspension of Standing Orders, Interface with the Public	
Number of Notices of Motion to Committee	None
Number of times Standing Orders suspended	None
Specific Standing Orders suspended	N/A
Number of deputations requested	None
Number of deputations heard	N/A
Number of petitions considered	None

The nature of business considered at the Pensions Committee means it is unlikely that deputation requests or petitions will be received.

8. Reports with links to the Local Outcome Improvement Plan

8.1 Due to the nature of the Pensions Committee remit, reports to the Committee are mainly for assurance and to allow the Members to scrutinise the operation and administration of the NESPF, therefore it is very unusual for any of the reports to be specifically linked to the Local Outcome Improvement Plan stretch outcomes. For the reporting period, there were no links to the LOIP stretch outcomes.

9. Training and Development

9.1 Training opportunities for Members during the reporting period were as follows:-

A. LGC Investment Seminar – 20-21 October 2022
Held over two days in Edinburgh, this event covered a range of topics including:

- Social Investing;
- Exploring Investment Opportunities;
- Emerging Markets.

B. PLSA: Implementing TPR's New Code of Practice - 28 March 2023 (Webinar)
This webinar covered the next steps to apply The Pension Regulator's (TPR) new Code of Practice, which aims for a single, clear, up to date and consistent source of information on Scheme governance.

C. Net Zero Discussion Training – 30 March 2023
Investments Manager Graham Buntain hosted a discussion training session for Pensions Committee and Board Members. This session covered a range of sub topics within Net Zero, including:

- Environmental factors within ESG;
- Scope Emissions;
- Carbon Scoring.

D. Hymans Robertson LGPS Online Learning Academy
Hymans online Learning Academy covers a range of modules, including the following topics:

- Introduction
- Introduction to the LGPS, Role of Elected Members on Committee; Governance and Regulators
- LGPS Governance, LGPS Oversight Bodies and Regulators, Business Planning;
- Administration and Management

- Introduction to Administration, Policies and Procedures, Public Procurement, Additional Voluntary Contributions, Accounting and Audit; Funding and Actuarial Matters
- Introduction to Funding Strategy, LGPS Actuarial Valuation (Process & Technical Aspects) and LGPS Employers;
- Investments
- Introduction to Investment Strategy, Performance Monitoring,
- Responsible Investment and Revision to Markets in Financial Instruments Directive, i.e. MiFID II;
- Current Issues
- McCloud, Goodwin and Cost Sharing.

9.2 Officers have also recently begun to provide a monthly bulletin to keep the Committee and Board informed of important developments between the quarterly meetings.

9.3 Further development opportunities will be considered for next year based on Committee business throughout the year, Executive Lead and officer proposals and Member feedback on what may be required to assist them in performing their roles.

10. Code of Conduct Declarations and Transparency Statements

10.1 There were no declarations of interest and no transparency statements made by Members during the reporting period. Information in respect of declarations of interest and transparency statements is recorded to evidence awareness of the requirements to adhere to the Councillors' Code of Conduct and the responsibility to ensure fair decision-making.

11. Executive Lead to the Committee - Commentary

11.1 Generally, the Committee considers the same reports at each point in the year in line with its role to monitor the administration of the NESPF. A major piece of work each year is the presentation and approval of the NESPF Annual Report and Accounts. The draft accounts were presented to the Pensions Committee in June 2023 and the final audited accounts were presented to the Pensions Committee in September 2023 for approval and I would like to thank the team for their continued hard work to ensure that the accounts are presented on time.

11.2 In such uncertain financial times, it is imperative that the Fund maintains its long term approach which has provided stability for members over many years. Our diversified portfolio helps minimise the financial impact by spreading the risk of exposure to any one investment area or stock. The Fund is also increasingly focusing on how we can contribute to moving towards tackling climate change.

11.3 I am pleased to note that all business was approved unanimously during the reporting period.

12. The Year Ahead

12.1 Looking ahead to 2023/24, the Fund will continue to focus on developing services by maintaining data quality, increasing member engagement and performance monitoring.

12.2 At its meeting in December 2023, the Committee will also consider a report on the Service Business Plan which includes information on future projects and therefore this report should be read in conjunction with the Future Service Improvement / Transformation Plan contained within that paper.

Appendix 1 – Local Outcome Improvement Plan Stretch Outcomes

Economy	
1.	No one will suffer due to poverty by 2026
2.	400 unemployed people supported into fair work
3.	500 people skilled/ reskilled
People (Children & Young People)	
4.	95% of children will reach their expected developmental milestones
5.	90% of children and young people will report that their experiences of mental health and wellbeing have been listened to
6.	95% of care experienced children and young people will have the same levels of attainment in education, health and emotional wellbeing, and positive destinations as their peers
7.	95% of children living in our priority neighbourhoods will sustain a positive destination upon leaving school
8.	Child friendly city where all decisions which impact on children and young people are informed by them
9.	30% fewer young people (under 18) charged with an offence
People (Adults)	
10.	25% fewer people receiving a first ever Court conviction and 2% fewer people reconvicted within one year
11.	Healthy life expectancy (time lived in good health) is 5 years longer
12.	Rate of harmful levels of alcohol consumption reduced by 4% and drug related deaths lower than Scotland
Place	
13.	Addressing climate change by reducing Aberdeen's carbon emissions by at least 61% and adapting to the impacts of our changing climate
14.	Increase sustainable travel: 38% of people walking and 5% of people cycling as main mode of travel
15.	Addressing the nature crisis by protecting/managing 26% of Aberdeen's area for nature
Community Empowerment	
16.	100% increase in the proportion of citizens who feel able to participate in decisions that help change things for the better by 2026

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	15 December 2023
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/DEC23/STRAT
DIRECTOR	Steven Whyte
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss and Mairi Suttie
TERMS OF REFERENCE	1.1-1.4, 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.

2. RECOMMENDATIONS

That the Committee:-

2.1 note the final outcome of the annual benefit statement project, which was completed successfully, for assurance (4.1 of the main report);

2.2 approve the travel for one Advisory Committee Officer (Pension Fund Manager or suitable Officer substitute) to attend the following Advisory Committee (as per item 6.2 of the main report);

- Partners Group, March 2024 – Miami, US
- HarbourVest, May 2024 – Boston, US
- Robbins Geller, June 2024 – Baltimore, US
- Unigestion, June 2024 – Lucerne, Switzerland
- RCP, October 2024 – Chicago, US
- IFM, October 2024 – US
- HarbourVest, December 2024 – Boston, US

2.3 delegate authority to the Chief Officer – Finance following consultation with the Convener of the Pensions Committee, to approve travel for one Advisory Committee Officer (Pension Fund Manager or suitable Officer substitute) to attend the following Advisory Committee meetings once locations and times have been confirmed:

- Blackrock, Date and Location to be confirmed
- Capital Dynamics, Date and Location to be confirmed; and

2.4 note the update to the Fund policy documents as detailed in 6.4 of the main report.

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 Travel does have an environmental impact. The approvals for travel sought within this report are to various Advisory Committees. The attendance at which strengthens the governance arrangements for the Fund by allowing greater access to the Manager, the management of those investments and access to the General Partners (underlying assets). Attendance is therefore perceived to be of great value and provides additional governance and transparency.

7. RISK

7.1 The Pension Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.

Appendix I, Copy of Risk Register (November 2023)

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	It is confirmed by Chief Officer Jonathan Belford that no Integrated Impact Assessment is required.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (November 2023)
Appendix II, PAS Report
Appendix III, Pension Service Business Plan 23/26

12. REPORT AUTHOR CONTACT DETAILS

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Strategy Report

Quarterly Reporting December 2023

1. Background

1.1 Quarterly Report to December 2023

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 fully address the strategic management of the Fund;

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

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

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

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

2. Investment

2.1 Asset & Investment Manager Performance Report Investment Strategy Report

Separate reports, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

3. Accounting

3.1 Budget/Forecast and Projected Spend 23/24 Report

Separate report, provided

4. Benefit Administration

4.1 Pension Fund Annual Benefit Statements

Following on from the update to Committee in September (PC/SEPT23/STRAT), the annual benefit statement project has now been successfully completed.

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

Following the successful completion of the move to the new *My Pension+*, a soft launch and then further promotion was made to members.

The Fund recorded **99.78%** compliance for all benefit statements in 22/23 (active, deferred and councillors). This is an increase from the reported figure of 98.31% in 21/22. In terms of calculating the final percentage for reporting:

- 100% of all deferred ABS were issued;
- 100% of ABS were issued for Councillors (both active and deferred); and
- 99.62% of active ABS were issued;

By the 31 August deadline.

For the active members 100 errors were reported for members who joined the scheme before 1 April 2023 but had not paid any pension contributions, i.e. joined mid March but didn't receive their first salary payment until the April payroll, therefore no CARE pay was held on the Altair system. There was 1 further error identified which was caused by a late aggregation (i.e. joining of multiple records).

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

At present 742 (-28 from 21/22) active and 657 (-31 from 21/22) deferred members have opted in to receive traditional paper statements and letters will still be sent to members not registered for *My Pension+*. The cost of each ABS letter is approximately 73p compared to an email notification which costs only 5p. Overall the move to online benefit statements has delivered a cost saving for the Fund, we anticipate costs to continue to reduce as the process is streamlined and more members register for *My Pension+*.

With the move to the new online platform, the Fund requires all members currently registered to MSS to complete a migration process in order to access their account on the new site. This is due to enhanced security measures and ensures user details meet new safety standards in regards to password requirements and two factor authentication. As of 1 November, 15,636 active members were registered, with 5,786 (37%) migrated to *My Pension+* and 9,837 deferred members registered, with 2,782 (28%) successfully migrating.

A full review of the ABS project will be carried out in the coming months to guide future improvements.

4.2 McCloud Remedy

When the Government reformed public service pension schemes in 2014 and 2015, they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the judges' and firefighters' pension schemes had been discriminated against because the protections did not apply to them. This ruling is known as the McCloud Judgement. As a result of the ruling, all public service pension schemes that provided protection, including the Local Government Pension Scheme, have been changed to remove the age discrimination found in McCloud. These changes are known as the McCloud Remedy.

On 1 October 2023 the McCloud Remedy became law through The Local Government Pension Scheme (Remediable Service)(Scotland) Regulations 2023. To remove the McCloud age discrimination, qualifying younger members will now receive underpin protection too.

The Scottish Public Pensions Agency (SPPA) have agreed a protocol with the Department for Levelling-up, Housing and Communities and the Department for Communities, Northern Ireland on how cases affected by the McCloud Remedy should be prioritised (available at Priorisation.pdf (lgpslibrary.org). Fund Officers have been working on this and updates are provided through the PAS reporting. Communications will be issued in due course to members to ensure the Fund meets its Disclosure requirements.

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to September 2023 is attached to this report.

6. Governance

6.1 Scheme Advisory Board

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

6.2 Overseas Travel

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

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

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

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

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

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

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

1. **Partners Group, March – Miami, US**
2. **HarbourVest, May – Boston, US**
3. **Robbins Geller, June – Baltimore, US**
4. **Unigestion, June – Lucerne, Switzerland**
5. **RCP, October – Chicago, US**
6. **IFM, October – US**
7. **HarbourVest, December – Boston, US**
8. **Blackrock, Date and Location TBC**
9. **Capital Dynamics, Date and Location TBC**

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

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

6.3 Hymans Knowledge Progress Assessment

The Hymans Knowledge Progress Assessment (KPA) ran from 23 October for two weeks. The online assessment covered the eight topics of the CIPFA (Chartered Institute of Public Finance and Accountancy) knowledge and skills framework and was designed to complement Hymans' LGPS Online Learning Academy (LOLA). Following the end of the assessment, an analysis and results report will be produced for the Pension Fund Officers. This will help guide and shape future training for Committee and Board members.

The results will be shared with Committee and Board members in due course in the secure Trustees Area of the NESPF website at https://www.nespf.org.uk/about/committee-board-login/.

6.4 Document Update

The following document has been updated and is available in the secure trustee area of the NESPF website or from the Governance Team on request:

- Cash Management Policy (Update to processes and minor tidy up)
- Pension Service Business Plan (updated for 23/26) (see Appendix III)

7. Employer Relationship

7.1 Employer Updates

- **Aberdeen Cyrenians** terminated their admission agreement with the North East Scotland Pension Fund with effect from 31 October 2023 as a result of their last two active members being offered alternative pension arrangements. In accordance with the regulations and the NESPF Termination Policy, the scheme actuary will carry out their calculations as at the exit date to determine the value of the liabilities held. Following the settlement of any deficit or exit credit due a termination certificate will be issued to finalise the exit from the scheme.

- **FirstBus**

  Separate report, provided

7.3 Valuation Outcome and Funding Strategy Statement

Separate report, provided

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Risk Register

Pensions Dashboard

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

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

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

Risk Scoring Process

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

4	Very Serious	4	8	12	16	20	24
3	Serious	3	6	9	12	15	18
2	Marginal	2	4	6	8	10	12
1	Negligible	1	2	3	4	5	6
Impact / Likelihood		1	2	3	4	5	6
		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 / Likelihood		1	2	3	4	5	6
		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)

nespf North East Scotland Pension Fund

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPF001	**Risk:** Lack of effective risk controls **Causes:** Failure to implement risk management framework **Potential Impact:** Operational, financial and reputational issues	• 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**
NESPF002	**Risk:** Poor Governance **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	• 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 2023 meeting. ACC Scheme of Governance annual review completed and approved in June 2023.	**Ongoing**
NESPF003	**Risk:** Lack of performance measures **Causes:** Failure to develop performance reporting framework **Potential Impact:** Lack of transparency, poor	• Statutory and local KPI's • Pension Administration Strategy published quarterly • Investment performance (against benchmark) reported to Committee quarterly	2	3	6	↔	**TREAT**	Revised PAS effective from Jan'23 with new reporting expected for March'24 meeting.	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	performance could go unaddressed								
NESPF004	**Risk:** Failure of Pensions Committee and Pension Board to operate effectively **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	• Publication of Pension Board Annual Report • Training Policy reviewed annually and training register in place • Nomination & Appointment procedure • Annual Committee Effectiveness Report • Monthly Committee & Board Bulletin	3	3	9	↔	**TREAT**	Pension Board Annual Report approved June 2023. Additional meeting/training took place Sept'23. High turnover of Committee members. Currently 3 vacancies on Committee and 1 on Board. Hymans Knowledge Progress Assessment 2023 in progress.	**Ongoing**
NESPF005	**Risk:** Operational Disaster; unable to access the workplace **Causes:** Major incident, natural disaster **Potential Impact:** Loss of service delivery, staff downtime	• ACC Disaster Recovery policy in place • NESPF Business Continuity Plan to address loss/disruption to benefit administration system	2	2	4	↔	**TOLERATE**	Disaster Recovery Testing is underway.	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPF006	**Risk:** Failure to recruit, retain and develop staff **Causes:** Limited pool of resources/competition with private sector, lack of training/development opportunities, resource drain from wider priorities **Potential Impact:** Loss of service delivery, risk to succession planning	• All staff have individual development plans which are reviewed regularly through CR&D • Training register to monitor • 2 full time training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review	3	2	6	↔	**TREAT**	Two Modern Apprentices started in May 2023 and are progressing well. Number of vacancies being advertised and recruitment process ongoing.	**Laura Colliss, ongoing**
NESPF007	**Risk:** Pay and price inflation valuation assumptions either higher or lower **Causes:** Economic factors **Potential Impact:** Potential increase in employer contribution rates and liabilities	• Quarterly funding updates to Committee (using FSM) • Tri-ennial valuation • Individual employer contribution rates	3	4	12	↔	**TOLERATE**	Short term inflation continues to be impactful, directly affecting liabilities and pensions paid. 2023 valuation will set inflation assumption higher than in 2020 based on current environment but also reflect national long term forecast for lower inflation.	**Ongoing**
NESPF008	**Risk:** Over reliance on services provided by the		3	3	9	↑	**TOLERATE**	Risk level increased slightly due to	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Administering Authority (e.g. HR, Payroll, Legal, IT) **Causes:** VS/ER exercise leading to loss of knowledge and expertise, recruitment freeze, poor service provision **Potential Impact:** Ability to meet regulatory and tPR requirements, staff downtime, loss of service delivery/delays and staff time	• Internal controls including policies and procedures • Pensions Administration Strategy in place • Communication between Pensions Manager and ACC Chief Officers						current issues being experienced.	
Governance									
NESPF009	**Risk:** Failure to adhere to relevant pensions legislation and guidance **Causes:** Political and legislative changes, increased administrative complexity, staff training issue **Potential Impact:** Audit criticism, legal challenge, reputational risk, financial loss and tPR action	• Six monthly compliance review, with annual reporting to Pensions Committee and Board • Active participation at LGPS events, Testing Working Party for administration software updates • Established processes for staff training • Oversight by Pensions Board • Regular benefit admin team meetings to share knowledge	3	2	6	↓	**TREAT**	Annual Compliance Report went to Committee in March 2023. Six monthly compliance review due in December 2023. Overall score lowered slightly as risk of likelihood deemed very low.	**Ongoing**
NESPF010	**Risk:** Failure to comply with FOI or SAR requests		3	1	3	↔	**TREAT**		**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Causes: Missed statutory deadlines due to training or resource issues **Potential Impact:** Audit criticism, legal challenge, reputational risk	• Internal written procedures in place • FOI/SAR log to record & monitor • Online process through GovServices							
NESPF011	**Risk:** Conflicts of Interest **Causes:** Competing professional and personal interests of staff, Committee and Board members **Potential Impact:** Audit criticism, legal challenge, reputational risk	• Regular discussions between CO-Finance and Pension Fund Manager • Standing agenda item at meetings • Conflicts policy & register in place, with conflicts declarations issued annually	2	4	8	↔	**TREAT**		**Ongoing**
Benefit Administration									
NESPF012	**Risk:** Fraud/Negligence **Causes:** Dishonesty or human error by staff, scheme members **Potential Impact:** Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	• Segregation of duties for benefits staff authorising/submitting lump sum payments • Pension payments signed off by benefits senior • Advanced Admin to Pay Module to provide secondary calculation checks • Participation in National Fraud Initiative exercise • Overseas pensioner existence checking	2	3	6	↔	**TREAT**	1 Fraud case detected in July 2023 – see risk NESPF020. 1 personal data breach this quarter, risk remains static.	**Ongoing**

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North East Scotland Pension Fund

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		• Breaches Policy & register • Internal Audit control reviews							
Investments									
NESPF013	**Risk:** Insufficient assets to meet the Funds long term liabilities **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	• 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 process underway, Fund in very healthy position and valuation approach continues to ensure high level of prudency, therefore risk remains static. Investment strategy review to follow.	**Ongoing**
NESPF014	**Risk:** Failure to monitor investment managers and assets **Causes:** Lack of internal procedures **Potential Impact:** Audit criticism, legal challenge, reputational risk	• Quarterly assessment and reporting of asset performance • Regular meetings with investment managers	3	2	6	↓	**TREAT**	Risk likelihood reduce following review.	**Ongoing**
NESPF015	**Risk:** Failure of world stock markets **Causes:** Systemic	• Diversification of Scheme assets	4	2	8	↔	**TOLERATE**	Tri-ennial valuation underway, investment	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Increase in employer contribution rates, financial loss	• Tri-ennial valuation and investment strategy review						strategy review to follow.	
NESPF016	**Risk:** Negligence/Fraud/Default **Causes:** Dishonesty by fund managers, lack of care or human error **Potential Impact:** Financial loss, reputational damage	• Due diligence on appointment and appropriate clause in legal agreements • Fund management monitoring • SAS 70 reports	2	1	2	↔	**TOLERATE**		**Ongoing**
NESPF017	**Risk:** Failure of Global Custodian **Causes:** Financial market crisis, regulatory/political **Potential Impact:** Loss of assets or control of assets	• Regular meeting with custodian • Service Level Agreement in place • Receipt of SAS 70 reports and monitoring	4	2	8	↔	**TOLERATE**	Global Custodian tender process underway following approval at Sept'23 Committee & Board meeting. Risk remains static as service delivery is being impacted on by HSBC's staffing issues.	**Ongoing**
NESPF018	**Risk:** Failure to implement ESG policy **Causes:** Lack of skills/knowledge, lack of transparency on practices or clear policy **Potential Impact:** Reputational damage	• Member training on roles and fiduciary duties • Policy incorporated within SIP • PRI membership, annual signatory assessment	2	3	6	↔	**TREAT**	Members of Committee and Board attended Net Zero training in March 2023.	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		• Monitor impact of climate change • Adoption of TCFD • Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work.							
Accounting									
NESPF019	**Risk:** Poor financial reporting **Causes:** Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues **Potential Impact:** Qualified accounts	• Comprehensive policies and procedures in place and review of *the Code* • Attending CIPFA meeting and reviews • Regular reconciliations e.g. fund managers, custodian • Internal/External Audits	3	2	6	↔	**TREAT**	Audited Annual Report & Accounts approved and signed following Sept'23 Committee & Board meeting.	**Ongoing**
Systems									
NESPF020	**Risk:** Failure to secure and manage personal data in line with data protection requirements **Causes:** Cyber-attack, human processing error **Potential Impact:** Audit criticism, legal challenge, reputational risk, financial penalties	• Annual information governance training for staff • Policies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule)	4	2	8	↔	**TREAT**	Staff have completed annual information governance refresher training. Breaches procedure reviewed Feb'23.	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk Impact	Current Risk Likelihood	Current Risk Score	Current Risk Movement	Approach	Additional Actions/Latest Notes	Owner & Timescale
		• Secure physical storage measures • Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc						Following recent attempted fraud, NESPF staff are receiving further training on data protection/cyber security.	
NESPF021	**Risk:** Failure of the Fund's administration system **Causes:** Outages, hardware and software failures and cyber attacks **Potential Impact:** Staff downtime, loss of service delivery	• 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, mitigations in place. NESPF Cyber Security Policy went to Sept'23 Committee & Board meeting.	**Ongoing**
NESPF022	**Risk** Failure to track member status and trace information **Causes:** Poor record keeping **Potential Impact:** Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action	• 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**	Final trace results from Target expected Nov'23. New mortality tracing will check against national death records daily and automatically upload to Altair administration database.	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Employer Relationship									
NESPF023	**Risk:** Failure to monitor employer covenant **Causes:** Failure of internal procedures **Potential Impact:** Orphaned liabilities could fall on remaining employers	• 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**
NESPF024	**Risk:** Changes in early retirement strategies by employers **Causes:** Public service cuts to funding **Potential Impact:** Pressure on cash flows	• Management through Covenant Assessment and Monitoring Policy (within FSS)	2	3	6	↓	**TREAT**	Impact risk reduced given the calculated surplus for the 2023 valuation.	**Ongoing**
NESPF025	**Risk:** Employers leaving Scheme or closing to new members **Causes:** Public service cuts to funding, increased pension contribution costs **Potential Impact:** Orphaned liabilities could fall to remaining employers	• Management through Covenant Assessment and Monitoring Policy (within FSS) • Cost Cap mechanism introduced in LGPS regulations • Termination Policy to be reassessed in line with the 2023 Fund Valuation	2	6	12	↔	**TREAT**	Regulation changes allow greater flexibilities to exiting employers to reduce risk of orphaned liabilities. Calculated surplus for 2023 valuation may create opportunities for employers to exit in the near future. Discussions expected as part of	**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
								valuation consultation.	
NESPF026	**Risk:** Longevity **Causes:** Increasing life expectancy rates **Potential Impact:** Increase in employer contribution rates and liabilities	• 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**	Valuation outcomes will reflect fact that life expectancy is decreasing at lower rate than previously expected, positive effect on liability calculation compared to previous valuation in 2020.	**Ongoing**
NESPF027	**Risk:** Employer contributions not received, collected or recorded accurately **Causes:** Lack of staff resources, training issues **Potential Impact:** Orphaned liabilities could fall to remaining employers	• Internal escalation procedures • Breaches policy and register Monthly data submission reconciled by ERT • Quarterly PAS reporting to Committee & Board • Ongoing training provided by dedicated ERT to scheme employers • Employer Briefings	2	3	6	↔	**TREAT**	LGPS (Scotland) Regulations delivered Summer 2022 to help manage risk. Employer contribution requirements to be issued during valuation consultation.	**Ongoing**
NESPF028	**Risk:** Failure to maintain member records; data incomplete or inaccurate		2	2	4	↔	**TREAT**		**Ongoing**

Last Update: November 2023

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Causes: Lack of staff resources, training issues **Potential Impact:** Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action	• Monthly data from employers which is reconciled by ERT • Quarterly PAS reporting to Committee & Board • Data quality improvement plan implemented • Data readiness assessment for Pensions Dashboard Project							
NESPF029	**Risk:** The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement **Causes:** Not having the required historic data, adequate resources, sufficient guidance **Potential Impact:** Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation	• SAB and other industry guidance • Early and ongoing communication with employers • McCloud project team created	2	3	6	↔	**TREAT**	Work has begun communicating with employers and updating member records ahead of "McCloud Regulations" and Altair software sign off.	**Ongoing**

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North East Scotland Pension Fund

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Pension Administration Strategy

Quarterly Reporting 30th September 2023

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

1.1 Key administration tasks

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

		Completed cases during reporting period			Additional targets for completed cases during reporting period				Uncompleted cases during reporting period	
Administration Task	Target	Cases	Achieved	Percentage	+ 5 days	+ 10 days	+ 20 days	> + 20 days	Cases	Revised %
Notification of death in service	5 days	25	22	**88.0%**	92.0%	92.0%	96.0%	1	1	**84.6%**
Notification of retirement estimate	10 days	241	239	**99.2%**	99.2%	99.6%	99.6%	1	5	**97.2%**
Notification of retirement benefits	10 days	939	863	**91.9%**	93.5%	96.2%	98.8%	11	4	**91.5%**
Notification of deferred benefits	10 days	1211	1165	**96.2%**	97.0%	98.3%	99.1%	11	6	**95.7%**
Notification of refund	10 days	707	703	**99.4%**	99.7%	99.9%	99.9%	1	11	**97.9%**
Notification of transfer in value	10 days	104	68	**65.4%**	66.3%	69.2%	73.1%	28	2	**64.2%**
Notification of transfer out value	10 days	275	153	**55.6%**	56.4%	58.2%	63.6%	100	6	**54.4%**
		3502	3213	91.7%				153	35	90.8%

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

- *The SCAPE rate change announced in March impacted on transfer performance as revised factors were not available until July.*

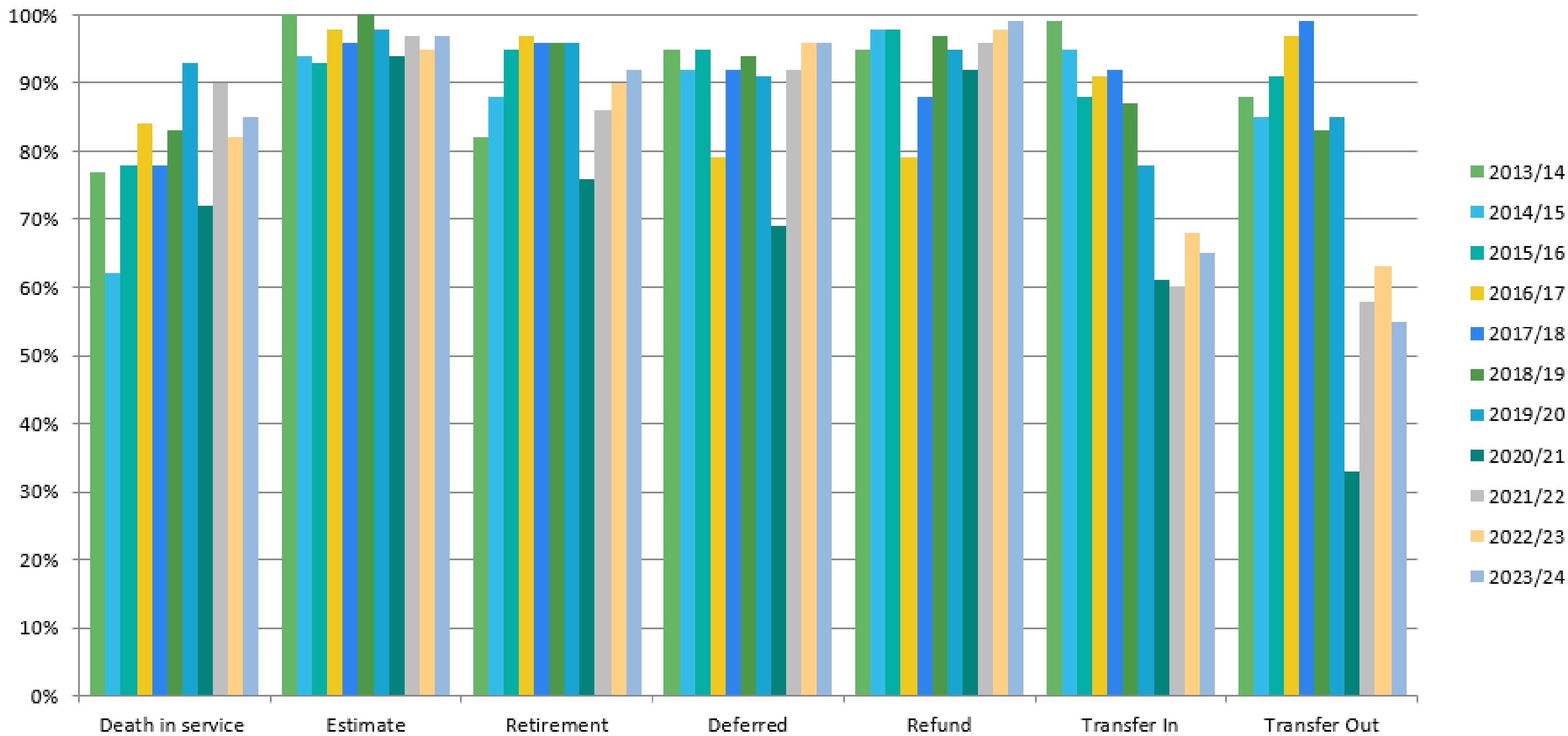
Additional targets for completed cases during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *Holding back transfers that could not be processed until factors received explains the high numbers taking more than 20 days.*

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 remain lower than previous year with 35 compared to 90 in Q2 2022/23.*

1.2 Previous years comparison

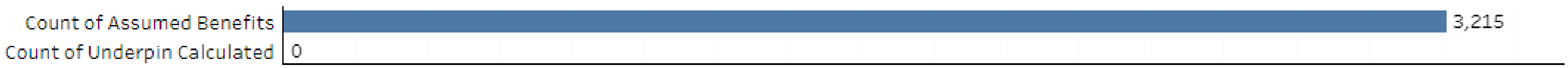


1.3 McCloud remedy

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 Assumed Benefits is the total number of eligible members for whom we have calculated the Care benefits that are to be used in the Underpin 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

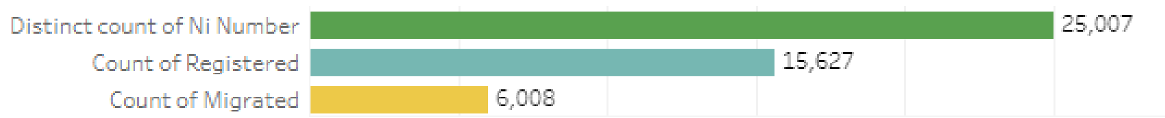
This is the additional cost of benefits identified during the 1 April 2015 to 31 March 2022 remedy period for benefits already paid to members.

3,215 eligible members are ready for the underpin calculations which will commence on 1 December.

1.4 Members online

This dashboard shows members that have registered for online self service and those that have migrated to *My Pension+* which went live on 26 June 2023.

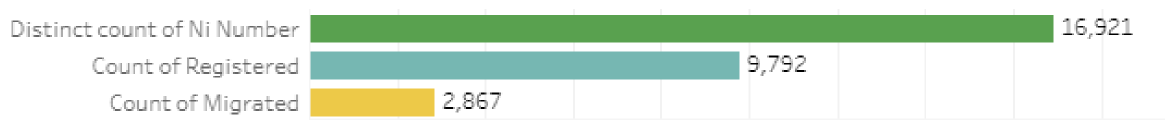
Actives



Percentages

Registered members	62.5%
Migrated members	38.4%

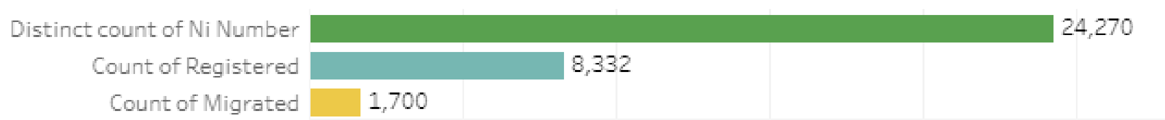
Deferreds



Percentages

Registered members	57.9%
Migrated members	29.3%

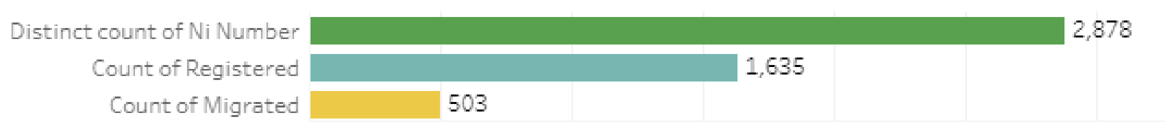
Pensioners & Dependants



Percentages

Registered members	34.3%
Migrated members	20.4%

Undecided Leavers



Percentages

Registered members	56.8%
Migrated members	30.8%

More than 11,000 members have successfully migrated to *My Pension+*.

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Pension Service Business Plan

September 2023

Contents

Document	**Pension Service Business Plan**
Review Date	September 2023
Approval Date	
Author & Team	Laura Colliss
Review Date	September 2024

Introduction

Welcome to the Pension Fund Business Plan for 2023/26. This document sets out our plans to build on our strengths and internal capabilities to drive transformation through the service, involve our staff and customers in delivering a first-class service to Pension Fund stakeholders.

The Plan covers a three-year planning cycle from 2023/26 with a focus on 2023/24 and will be subject to regular reviews and updates in line with the development of the Local Government Pension Scheme and Aberdeen City Council as the administering authority for the Pension Fund.

The Pension Fund Business Plan builds on our objective:

To work together as an effective and flexible team that will deliver a high-quality service to scheme members, scheme employers, council tax payers and others with an interest in the management and administration of the North East Scotland Pension Fund.

North East Scotland Pension Fund

The North East Scotland Pension Fund is administered by Aberdeen City Council within the Local Government Pension Scheme regulations (Scotland).

The Scheme was established under the Superannuation Fund Act 1972, it is a statutory scheme. The scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers). Employees of admitted bodies can join the scheme subject to their individual admission criteria which are out with the control of Aberdeen City Council.

Employers within the North East Scotland Pension Fund include the administering authority, Aberdeenshire Council and Moray Council along with 7 further scheduled bodies, 13 transferee bodies and 19 admission bodies.

Pension Fund Section

The Pension Fund Section is responsible for the day to day management of the North East Scotland Pension Fund, reporting to the Chief Officer - Finance and quarterly to the Pensions Committee and the Pension Board. Full details of the Pension Fund governance arrangements can be found in the Pension Fund '**Governance Statement**' which is reviewed annually by the Pensions Committee.

The Pension Fund Section is divided into 6 teams:

The Investment Team is responsible for all aspects of the management of the Funds' investments

- Delivery of an investment strategy, having due regard to risk and return within the Funds' objectives and liability requirements
- Corporate, Social and Economic Governance
- Review and appointment of new investment managers
- Performance Monitoring

The Accounting Team is responsible for recording and oversight of all financial transactions carried out by the Pension Fund

- Receipt of monies in respect of contributions, transfer values and investment income
- Provides funds to pay out monies in respect of Scheme benefits, transfer values, costs, charges and expenses
- Account for the funds' assets and all monies received and paid from the Fund
- Prepares the Fund's Annual Report and Accounts.

The Benefit Administration Team is responsible for over 70,000 scheme members and the calculation of scheme benefits covering,

- Retirement benefit calculations
- Survivor/Dependant's benefit calculations
- Transfer benefit calculations
- Divorce calculations
- Estimates for retirement calculations
- Payment of pensions through Pensioner payroll
- Employee surgeries
- One to one meetings with scheme members
- Supporting system testing for system upgrades and regulation changes

The Employer Relationship Team is a dedicated team responsible for managing employer engagement

- Support employers from initial enquiry to join the Fund, through general administration to termination
- Work with Directors of Finance, Legal Advisors, HR and Payroll departments
- Assess and monitor employer covenant risk
- Reconcile monthly data received from employers
- Monitor and report on quality of common and scheme specific data
- Provide face to face training for scheme employers
- Monitor employer PAS performance and engage with scheme employers

- Work with the Scheme Actuary, day to day delivery of services including actuarial valuation

The Systems Team is responsible for maintenance and upgrade of the Altair Benefits Administration System

- Maintenance and upgrade of the Altair administration and payroll system
- Maintenance and upgrade of Member Self Service
- Scheme technical reporting
- Participation in national testing of new software releases
- Apply revaluation and pensions increase
- Production of annual benefit statements and pension saving statements

The Governance Team is responsible for governance matters in relation to the Fund.

- Committee reporting
- Tendering
- Document control
- Staff training
- Freedom of Information requests
- Communication
- Maintenance and development of the Pension Fund website
- Preparation of the Pension Fund annual report

Service Description

What services do you provide, and to whom?

Customer Relationships

Team	Internal	External
Accounting	Finance, Pension Fund, Audit	Audit, Fund Managers, Global Custodian
Benefit Administration	Pension Fund	Scheme Members, Scheme Employers
Employer Relationship	Pension Fund	Scheme Members, Scheme Employers, Regulatory Bodies, Actuary
Investment	Pension Fund	Service Providers, Regulatory Bodies, Scheme Members
Governance	Pension Fund, Finance, Audit, Elected Members	Audit, Scheme Members, Scheme Employers, Regulatory Bodies

Systems	Pension Fund	Scheme Members, Scheme Employers, Regulatory Bodies, Actuary

The Pension Fund section has an important role in supporting the council priorities, being responsive to the retirement benefit provision of Council staff, Elected Members and employees of both Aberdeen City Council and a range of external organisations.

Our objective is to deliver best value. We do this through improving service delivery, meeting changing customer requirements and contributing to the savings target of both Aberdeen City Council and our external bodies.

Challenges ahead

The pace of change and challenges that the Local Government Pension Fund is facing are unprecedented, it is therefore becoming even more essential that effective financial and administration management underpins the Pension Fund plans, operations and transformation as we face the challenges ahead.

The detailed improvement plans, and actions are introduced later in the document, however, it is recognised that in addition to the tasks themselves, new approaches and measures are required to make their implementation successful.

Examples of these measures include:

- Restructuring the Pension Fund section to meet the changes in the technology and engagement with scheme employer
- Investment in measures to deliver training, support and technology to improve our services
- The creation of working groups within the Fund to deliver specific projects such Buy in, Actuarial Valuations, Investment Strategy Review and changes coming from the McCloud judgement.
- Enhanced communication tools

Improving our efficiency

Our approach to our improvement plans will be in accordance with the following principles:

- Pro-active involvement of staff to identify improvements and drive change
- Close consultation with staff on any service changes
- Applying opportunities to work across the Pension Fund section to strengthen skills and integrate processes
- The application of Modern Apprenticeships

- Use of targeted external support to complement the skills of our staff
- Phasing initiatives appropriately for the most effective delivery

Our approach is relevant for all staff working in the Pension Fund section. A particularly important aspect is to strengthen our team work and effectiveness; many of our new initiatives and the way we plan tasks are being designed to support this way of working to improve our resilience, quality of service and to deliver improvements more successfully.

To fulfil this approach, we will:

- Make best use of the staffing resources available to us, delivering improvement in our service priorities in the most cost-effective manner;
- Develop a flexible, skilled and motivated workforce;
- Listen to, and be responsive to, our customers, shaping our services around their needs and focusing our resources where they are most needed; and
- Work closely with our partners, including elected members of both the Pensions Committee and the Pension Board, scheme employers and scheme advisors

Summary of Performance

Key achievements for 2021 – 23

Business Priorities	Achievement	Evidence
Digitalisation	✓	All Annual Benefit Statements on line via Members Self Service portal, 2022. **Teams: Systems & Governance**
Corporate Governance	✓	Quarterly ESG reporting to Committee. **Team: Investment**
Collaboration	✓	Merge of the Aberdeen City Council Transport Fund with the main NESPF Fund, 2022/23. **Teams: Accounting & ERT**
Trainee Pension Officers	✓	Successful inhouse training program, alongside further recruitment, 2023. **Teams: Benefits & Governance**
Training Portal	✓	Implementation of the online training portal for Committee, Board and Officers. **Team: Governance**

Audit	✓	Audits complete as per Internal audit Plan. **All Teams**

KPI performance

NESPF performance measurements are reported as part of the Pension Administration Strategy (PAS) introduced in July 2013 in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008[1].

Key performance measurement 2022/23

NESPF key performance measurements	Target	2020/21*	2021/22*	Amount	Achieved	2022/23
Letter notifying death in service to dependent	5 days	72%	90%	44	36	82%
Letter notifying retirement estimate	10 days	94%	97%	507	480	95%
Letter notifying actual retirement benefits	10 days	75%	86%	2126	1903	90%
Letter notifying deferred benefits	10 days	69%	92%	1911	1842	97%
Letter notifying amount of refund	10 days	92%	95%	1386	1351	98%
Letter detailing transfer in quotes	10 days	61%	60%	129	88	68%
Letter detailing transfer out quotes	10 days	33%	58%	440	277	63%

*KPI's impacted by COVID pandemic and resulting homeworking of NESPF staff

Service Assessment

PESTLE analysis (*External factors that will/may impact on the service)*

Political	**Economic**
• National and international geopolitical outlook	• Global economic outlook • Market volatility

[1] Amended to Regulation 57 of the Local Government Pension Scheme (Scotland) Regulations 2018

- International political outlook - COSLA - Policy changes affecting scheme employers impacting on financial pressures - Local political impact and reputational factors - Scheme Advisory Board (SAB) scheme review	- Currency risk - Interest rate risk - Inflation risk - Regional economic strategies - Aberdeen locality – impact on recruitment - EU relations/funding for scheme employers
Social Responding to demographic change	**Technological** - New technological developments - Social media - Digital strategy - Flexible working - Upgrades to our existing software products and standards
Legal - Legislative change - Council restructuring – national/local - New standards of governance stakeholder expectation - Admission Agreements - Fund Manager contracts - Procurement - Internal/External legal requirements	**Environmental** - Environmental Social and Governance agenda - Best practice and development of standards on a wider scale - Benchmarking and sharing of services

Summary of critical issues from the PESTLE analysis that will influence the plan

Noted below are some of the areas to be monitored over the period of the Service Plan:

- Political impact – review of the nature of the scheme, impact on scheme employers and their funding
- Economic – global outlook, market volatility, currency risk, interest rate risk and inflation risk
- Legal – domicile of scheme managers and the global custodian, their legal and regulatory obligations. Impact on procurement rules

Political

The Fund recognises the changes in global and national politics will impact on the Fund; much of this will be incorporated in the work of the Scheme Advisory Board . The Fund will support and work with, the SAB to promote the future welfare of the LGPS Scotland.

Economic

Global economic outlook and its impact on market volatility, presents challenges to the Fund in meeting its long-term funding plan.

Social

The Fund continues to monitor the impact of longevity on the liability profile of the Fund, taking appropriate steps to mitigate risk.

Technological

Technology continues to be a key factor in the Fund delivering an efficient and cost-effective administration solution to all scheme employers.

Internally the Fund continues to work to enhance the use of its systems to ensure that the Fund meets and seeks to exceed its performance targets.

All Pension Fund section staff now have a personal training plan which recognises the need for ongoing training and development of technology skills.

Legal

Document Review – The Pension Fund Governance Team are responsible for the review of scheme documentation, ensuring that all contracts are fit for purpose.

Procurement – The Pension Fund recognises the key role service providers play in the administration of the Pension Fund and its assets. Effective procurement and review of contract arrangements on a regular basis are essential to the cost-effective management of the Pension Fund.

Environmental

Good corporate governance and good social and environmental practice can have a favorable effect on financial performance and improve investment returns to shareholders as well as society at large. Conversely, companies that fail to adequately manage good governance and social and environmental risks may become vulnerable to higher operating costs, (including fines, lawsuits, damage to reputation) and subsequent loss of confidence to the detriment of all shareholders.

Therefore, to protect and enhance the value of its investments, the NESPF seeks to encourage the companies in which it invests to operate to the highest standards of corporate governance, corporate social responsibility and environmental practices. As a major long-term shareholder, the main tools open to the NESPF to use its influence are, by the responsible exercise of its voting power and engagement on social and environmental factors with the companies in which it invests.

SWOT analysis (Strengths, Weaknesses, Opportunities & Threats for the service)

Strengths	**Weaknesses**
• Audit record of strong financial management • Successful history of delivering critical legislative tasks • Successful improvements implemented and responsiveness to change/approachability, high customer satisfaction • Strong succession plan and staff development programme • Networks to national and international bodies • Successful collaboration with the LGPS across the UK • Status in Scottish LGPS Community	• Need to continue to embed staff development and engagement programmes within Pensions • Managing changing priorities and resources is effective but needs more evidence • Connectivity of systems and teams within Pensions and our wider stakeholders • Evidence based decision making could be strengthened
Opportunities	**Threats**
• Further collaboration • Staff empowerment • Outcomes approach • Growing service building on strengths • Longer term planning	• Economy and austerity • Market volatility • Recruitment and staff turnover • Political change leading to short termism • Transformation failing and impacting on Pension service

Evidence of strengths:

- Consistent record of unqualified accounts
- Collaboration with other Scottish LGPS's

- Successful introduction of new LGPS 2018
- Introduction of new system to enhance service delivery
- Continued review of the Pension Fund staffing structure to focus on the key delivery areas: Governance, Employer Relationships, Benefit Administration, Systems, Accounting and Investment
- Setting a long-term investment strategy focused on meeting the Fund's long-term liabilities at minimum risk
- Maintaining employer contribution rates as nearly constant as possible, setting a rate that is a reasonable cost to the taxpayers, scheduled and admitted bodies

Identified Weaknesses

- The Governance Team will work with all teams within the Pension Fund section to enhance financial processes and ensure that the Fund's training plans are implemented across all staff
- The Pension Fund management team will be responsible for actively engaging with all team members to deliver improvement in our service priorities in the most cost-effective manner and develop a flexible, skilled and motivated workforce;
- Enhanced communication with our stakeholders will be led by the Governance Team
- The Pension Fund management team will focus on evidencing performance achievements and key tasks

Summary of critical success factors emerging from the SWOT

Critical success factors emerging from the SWOT drive directly the key priorities and action plans around organisational culture.

Customer experience – we need to be proactive in building on strengths, marketing our services and building our reputation to minimise threats. This includes exploring joint arrangements and reviewing those in place, strengthening our approach to benchmarking and links to other organisations and ensuring consistent customer standards.

Staff experience – to meet the organisation's goals, we need to focus strongly on developing our most critical and significant resource – our staff. Stronger staff engagement can enable us to maximise our opportunities and build on our strengths. We need to continue to strengthen Continuous Review & Development (CR&D), staff development and change management. The 6 teams will support this. We need to continue to develop our approaches to succession planning and performance management.

Options are being accessed to enhance the Fund's ability to recruit and retain critical staff, including the review of Terms and Conditions and adoption of best practice approach that is widely available.

Service Business Plan

Service Vision

The mission for the Pension Fund section is: **To be the best in the eyes of our customers, staff and stakeholders.**

We will achieve this through aiming towards our vision that:

- Our stakeholders have confidence in the Fund's financial integrity.
- There is a clear framework of leadership, accountability, systems and controls supported by external scrutiny.
- Fund policies reinforce scheme sustainability and support strategic decision making and performance management.
- Fund strategies support a culture of innovation and improvement, balancing control and flexibility.
- Our income collection maximises the effectiveness of the capability of the organisation.
- Our Pension Fund administration provides our members and employers with a high degree of confidence.

As part of our planning process we have thought carefully about how we add value to the Fund stakeholders. We have developed our Fundamentals to find a way of expressing how we do this in a way that is clear and simple to understand whilst recognising the complexity and diversity of the team. They form a set of standards which give us focus and a clear framework we will use across the different areas in the Pension Fund section and with all our stakeholders.

Financial Leadership	Strengthen the Fund, Develop strategy, Build for the future
Insight and Solutions	Scheme focused, Innovative Solutions, Customer focused
Customer Engagement	Proactively engaging, Assertive and confident, Customer focused
High Quality Reporting, Planning and Analysis	Quality financial information
Strong Financial Controls and Accurate transaction processing	Efficient processes, Right first time, Continuous improvement

HOW WE DO BUSINESS:

For the Pension Fund, this means changing how we do business, recognising the challenging landscape within which we operate, of increasing service demand, and reducing financial envelopes.

We will need to **modernise** the ways in which we deliver our services, embracing new technology and changing our processes to improve our service quality and operational efficiency.

We will need to become more **innovative**, seeking better and new ways to serve our customers, both external and internal. A programme of continuous improvement through doing things better, and a more transformational approach looking at doing better things will demand different thinking and learning from best practice elsewhere.

Putting these new ideas into practice is effectively how we **transform** the organisation, which will demand courage in decision making, diligence in our assessment and management of risk, and a focus upon rigorous implementation of our plans.

ORGANISATIONAL CULTURE:

How we go about this is guided by the culture we wish to evolve and nurture within the Pension Fund section – a culture based upon an avid commitment to add value to our stakeholders, on improving the work environment and opportunities for our staff and through managing the resources of the Fund in a more efficient and effective way.

Improving the Staff Experience recognises that the employees of the Pension Fund are the core "product" of service and that the quality of the services that we provide is entirely dependent upon a motivated and empowered staff, whose behaviors, relationships and ways of working form the culture of the Pension Fund section. A positive culture depends on a staff who understand our vision and direction, share our values and ambitions and have the drive and desire to play their part, and on managers who take on a lead role in this and understand how to engage and empower their teams. The Pension Fund aims to be an employer of choice within and outwith the Council, attracting, recruiting and retaining staff whose values are aligned to the Pension Fund section, who share the Council's vision and goals and who have the drive and ambition to make a difference.

Improving our Use of Resources recognises that the Pension Fund faces a challenging environment whereby costs are to be reduced, service demand and customer expectations are increasing, and we have an ambitious agenda and vision for the Pension Fund. We therefore, must become much more efficient at delivering the core services through continuous improvement, to create the headroom to transform the organisation and invest in our future priorities for the Fund.

Improving the Customer Experience starts with an organisation that embeds "customer centricity" within everything we do, from the staff we employ to the processes and systems we adopt to manage the organisation effectively. This also recognises that everyone in the Pension Fund section has a contribution to make, and that our customers may be external or internal, but the focus upon delivering an improved experience to those customers is paramount. We will transform the ways in which customers are able to access our services, and the services themselves as we continuously review what we do against a backdrop of changing customer demands and increasing financial constraints. We will recognise that one size does not fit all and build in tailored solutions where appropriate that recognises the diversity of our customer base and their individual needs and expectations.

RESOURCES MANAGEMENT:

As recognised above the Pension Fund section continues to need to respond to constant changing demands from all our stakeholders. Many of those changes are set out in this improvement plan.

- The need for more value-added analysis to enable the business to respond to the challenges of austerity, commercialisation, demographic and political change
- Increasing customer demands for quality of service, improved technology, transparency, information and delegated decision making
- A changing Pension Fund landscape requiring collaboration with other Scottish LGPS Funds

How will the Fund meet those needs?

- The Pension Fund cannot match the private sector in pay levels for qualified and experienced Pension Fund staff. This challenge can be somewhat balanced by offering flexible terms and conditions, job satisfaction and training opportunities
- Recognise and develop the talents of existing Pension Fund staff
- Support succession planning throughout the Pension Fund section
- Maximise the use of technology to allow the effective use of staff resources
- Identify areas of weakness within the knowledge basis and either provide staff training or employ external service providers to meet the knowledge requirements
- Respond to Team needs through role redesign, restructuring and collaboration.
- Seek skills development and knowledge sharing opportunities.

Risk management

At the heart of the Pension Fund improvement plan is the need to manage within a risk framework. Our approach to risk management is linked to the overall review of risk at a Corporate level. The Pension Fund section reviews risk on a quarterly basis considering:

- Accounting Risk - finance administration, effective financial control
- Benefit Administration Risk – maintaining service levels to meet KPi's
- Employer Relationship Risk– external stakeholders, assessment of employer covenants
- Investment Risk – asset management, impact on funding strategy
- Governance Risk – high level oversight of the Fund
- Systems Risk – systems availability, reviews and upgrades

The Pension Fund Risk Register details specific risks while providing increased accountability.

Pension Fund Service Goals – overarching goals that link to strategic priorities

	Goal – description	Lead Officer
1	Responsible for preparation and delivery of the Pension Accounting Function including production of annual statement of accounts	Accounting Manager
2	Day to day management of the benefits function, ensuring full compliance of financial and legislative requirements. Ensure timeous and correct payment of pensions benefits	Benefit Administration Manager
3	Efficient and effective management of all matters relating to scheme employers within the NESPF	Employer Relationship Manager
4	Development and management of the Fund's Investment Strategy and Fund Manager Appointments. Management of the Global Custodian. Incorporate ESG oversight, Taxation, and Cash Management	Investment Manager
5	Management of the governance arrangements of the Pension Fund, ensuring that the Pension Fund meets its regulatory obligations, reporting and communication requirements to the Pensions Committee, Pension Board, Pensions Regulator and all those with an interest in the administration of the North East Scotland Pension Fund. Internal training arrangements for Benefit staff within the Pension Fund section.	Governance Manager

6	Management and development of the Pension Fund IT systems in support of the Pension Fund provision of benefit administration to scheme members and scheme employers	Systems Manager

Pension Fund Level - Key Priorities

Objective	Activity	Outcome	Timetable	Lead Officer
Improve customer experience	1. Review all communication and develop new website. 2. Continue to utilise technology to improve service delivery.	Improved customer service impacts positively on customer outcomes and experience.	Ongoing	Pension Fund Manager
Improve staff experience	1. Continue to implement workforce and succession planning. 2. Continue to roll out and update individual training plans. 3. Review recruitment and retention options	Improved staff development leads to better trained staff and impacts positively on customer outcomes and experience.	Ongoing	Pension Fund Manager
Improve our use of resources	1. Improve work planning and business support. 2. Develop management reporting across the Fund. 3. Risk review.	Improved use of resources impacts positively on all Pension Fund KPI's and reduces risk across the Fund.	Ongoing	Pension Fund Manager

Accounting – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Improve and develop Budget Profiling and reporting.	2023/25	Accounting Manager & Senior Pension Officer (Accounting)
Financial Management	Improving use of resources	Develop Multi Purpose Ledger Database and safeguard IT Data Security	2023/25	Accounting Manager & Senior Pension Officer (Accounting)
Staff	Improving staff experience	Succession Planning – Train and Develop skills and experience Continuous review of professional development (CPD)	2023/24	Accounting Manager & Senior Pension Officer (Accounting)

Benefit Administration – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance Measurement	Improving stakeholders experience	Develop reporting.	Ongoing	Benefit Administration Manager
Administration	Improving use of resources	Monitor the level of outstanding workload and allocate resources to ensure targets are met. Mortality Screening	Ongoing	Benefit Administration Manager
Systems	Improving customer experience	Ensure that all procedures are reviewed and relevant to assist with the administration of pension benefits and best utilise the workflow system. Payroll Enhancements Online Pension Surgery Pension Presentations	Ongoing 2024 2024	Benefit Administration Manager
Staff	Improving staff experience	Continuation of staff training.	Ongoing	Benefit Administration Manager

Employer Relationship – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting, PAS	Ongoing	Employer Relationship Manager
Financial Management	Improving customer experience	Continued implementation and maintenance of the Covenant Policy	Ongoing	Employer Relationship Manager
Administration	Improving customer experience	Ensure the continued provision of monthly data and employer compliance (discretions).	Ongoing	Employer Relationship Manager
Valuation	Delivery of triennial valuation	Engage with the Scheme Actuary, employers regarding the completion of the triennial valuation, Funding Strategy Statement and Termination Policy	2023/24	Employer Relationship Manager
Staff	Improving staff experience	Continuation of staff training & Development, including supporting Modern Apprentices	Ongoing	Employer Relationship Manager

Investment - Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting Task Force on Climate-Related Financial Disclosures (TCFD), Principles of Responsible Investment (PRI)	Ongoing	Investment Manager
Financial Management	Improving use of resources	Implementation of strategic benchmark allocation of assets, including ESG Policy.	Ongoing	Investment Manager
Financial Management	Improving use of resources	Performance monitoring of current fund managers and mandates.	Ongoing	Investment Manager
Financial Management	Custody Services	Custody review	2023/24	Investment Manager
Staff	Improving staff experience	Staff Training & Development, team structural change	Ongoing	Investment Manager

Governance – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting	Ongoing	Governance Manager
Governance	Improving use of resources	Ongoing review of Fund regulatory compliance.	Ongoing	Governance Manager
Committee & Board	Improving member engagement	Development of communication and training.	Ongoing	Governance Manager
Staff	Improving staff experience	Continuation of staff Training & Development.	Ongoing	Governance Manager

Systems – Key Priorities

Area	Objective	Action Point	Timetable	Lead Officer
Performance measurement	Improving customer experience	Develop reporting.	Ongoing	Systems Manager
Systems	Improving use of resources	Automation processes within Altair	Ongoing	Systems Manager
Staff	Improving staff experience	Continuation of staff Training & Development	Ongoing	Systems Manager
Systems	Improve Customer experience	Online processes, retirements and refunds	2023	Systems Manager
Systems	Improve Customer experience	Annual Benefit Statements	2023	Systems Manager
Systems	Regulatory	Implementation of Pension Increase	2024	Systems Manager
Systems	Improving Staff and Customer experience	Lead Testing Working Party	Ongoing	Systems Manager

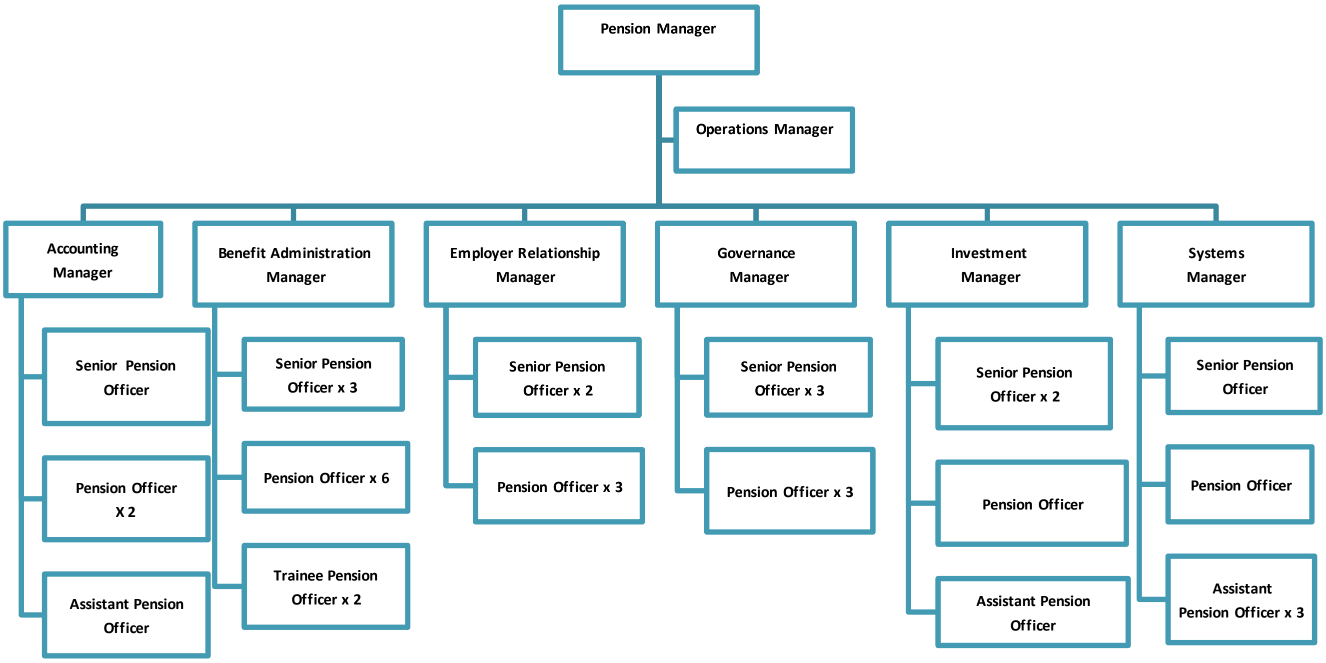
Systems	Regulatory	Revaluation update	2024	Systems Manager

Future Service Improvement/Transformation Plan

No	Section	Description	Outcome	Timetable
1	Accounting	Technology lead efficiencies	Ledger Database, straight through processing	2023/25
2	Accounting	Financial System	Fund specific financial system, providing further efficiencies	2024/25
3	Benefit Administration	Benefit System	Ensuring full utilisation of existing system to drive service delivery (Altair)	Ongoing
4	Benefit Administration	Benefit Administration review	To ensure best practice delivering an efficient service Video Guides Team Structure	Ongoing 2024/25 2024/25
5	Employer Relationship	Data	Data Quality	Ongoing
6	Employer Relationship	Employer Engagement	Provision of Forums, training and regular meetings	Ongoing
7	Employer Relationship	Technology lead efficiencies	Ensuring full utilisation of existing systems to drive service delivery; Electronic monthly final salary information, bulk calculations, Benefit statements and website	Ongoing
8	Governance	Global Custody Tender	Provision of Global Custody service	2023/24
9	Governance	Legal Services Tender	Provision of external legal services	2023/24
10	Governance	Transformational Member Experience	Successful roll out of new MSS	2023/24
11	Governance	Staff Training	Roll out of new training programme to Trainee Pension Officers	Ongoing
11	Investment	Investment Strategy review	Strategy to align with funding requirements	2023/24
13	Investment	Consolidation of banking requirements	Increased efficient management of cash providing improved governance and potential returns	2022/23
14	Investment	Stewardship	ESG, Net Zero	Ongoing
15	Systems	Pension Dashboard	The implementation of regulatory Pension Dashboard	2025
16	Systems	Robotics	Further the use of Automated processes by implementing robotics programmes	2025
18	Systems	Reporting and Statistics	Review and update all reporting	2024
19	Systems	Business Intelligence	Incorporate insights into all areas	2024
20	Systems	McCloud	Completion of the McCloud project	2023

The above have been identified as leading the way to continue to improve service delivery to all stakeholders, focusing on technology driven opportunities to deliver efficiencies with in the service, improve potential asset returns and improve overriding governance of the Pension Fund.

North East Scotland Pension Fund - Team



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