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ABERDEEN CITY COUNCIL

To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Alphonse, Davidson, Henrickson, Massey and van Sweeden (Pensions Committee); Mrs M Lawrence, Chairperson; Councillor Smith, Vice Chairperson; Councillors Gordon and Mennie, Mr J Lindley, Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

Town House,
ABERDEEN,13 June 2024

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, 21 JUNE 2024 at 10.00 am. This is a hybrid meeting and Members may also attend remotely. Please note that the annual Pension Board meeting will follow directly after this meeting.**

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

ALAN THOMSON
INTERIM CHIEF OFFICER – GOVERNANCE

BUSINESS

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

4.1. There are no deputations at this time

MINUTES OF PREVIOUS MEETINGS

5.1. Minute of Previous Meeting of 22 March 2024 - 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

INTERNAL AND EXTERNAL AUDIT

8.1. Internal Audit Annual Report 2023/24 - IA/24/008 (Pages 13 - 26)

ANNUAL REPORT AND ACCOUNTS

9.1. Unaudited Annual Report and Accounts - PC/JUN24/ARA (Pages 27 - 136)

9.2. Budget Forecast 2024/2025 - PC/JUN24/BUD24-25 (Pages 137 - 144)

SCRUTINY

10.1. Investment Strategy Review 2024 - PC/JUN24/REVIEW (Pages 145 - 154)

10.2. Strategy - PC/JUN24/STRAT (Pages 155 - 274)

10.3. LAPFF Nomination - PC/JUN24/LAPFF (Pages 275 - 284)

10.4. Training - PC/JUN24/TRA (Pages 285 - 318)

EXEMPT BUSINESS - NOT FOR PUBLICATION

11.1. Procurement - PC/JUN24/PRO (Pages 319 - 326)

11.2. Asset and Investment Manager Performance Report - PC/JUN24/AIMPR (Pages 327 - 390)

11.3. Investment Strategy Update - PC/JUN24/INVSTRAT (Pages 391 - 396)

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 22 March 2024. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Davidson, Henrickson, Massey and van Sweeden (Pensions Committee); and Councillor Smith, Vice Chairperson; Councillors Gordon and Mennie; Mr K Luke (as substitute for Mrs M Lawrence), Mr N Stirling, Mr A Walker and Mr G Walters (Pension Board).

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

The agenda and reports associated with this minute can be found here.

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

DETERMINATION OF EXEMPT BUSINESS

1. The Committee was requested to determine that the following items of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973 be taken in private – Items 11.1 (Procurement), 11.2 (Investment Strategy) and 11.3 (Asset and Investment Manager Performance Report).

The Committee resolved:-
in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned items so as to avoid disclosure of exempt information of the classes described in paragraphs 6 and 8.

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

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

MINUTE OF PREVIOUS MEETING

3. The Committee had before it the minute of its previous meeting of 15 December 2023 for approval.

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

BUSINESS PLANNER

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

<u>The Committee resolved</u>:-
(i) to note that item 12 (Budget/Forecast and Projected Spend 23/24 Report) was currently under review and a revised report was expected to be taken to the June 2024 meeting; and
(ii) to otherwise note the planner.

INTERNAL AUDIT PLAN 2024-27 - IA/24/004

5. The Committee had before it a report by the Chief Internal Auditor which sought approval for the Internal Audit plan for 2024-27. Mr Dale, Chief Internal Auditor, introduced the report.

The report recommended:-
that the Committee approve the attached Internal Audit Plan for 2024-27.

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

INTERNAL AUDIT UPDATE REPORT - IA/24/005

6. The Committee had before it a report by the Chief Internal Auditor which provided an update on Internal Audit's work since the last report to Committee. The report included details of progress against the approved Internal Audit plans; any follow up on audit recommendations; and other relevant matters for the Committee. Mr Dale spoke to the report and noted that as at 31 December 2023, there were no actions outstanding.

The report recommended:-
that the Committee –
(a) note the progress of the Internal Audit plan; and
(b) note the progress that management had made with implementing recommendations agreed in Internal Audit reports.

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

INTERNAL AUDIT REPORT AC2410 - PENSIONS INVESTMENT STRATEGY - IA/AC2410

7. The Committee had before it a report by the Chief Internal Auditor which presented the planned Internal Audit report on the Pensions Investment Strategy. Mr Dale introduced the report.

Members asked a number of questions in relation to the balance of asset allocations and the investment strategy, as well as the session on environmental, social and corporate governance (ESG) which had been held previously.

The report recommended:-
that the Committee review, discuss and comment on the issues raised within this report and the attached appendix.

The Committee resolved:-
(i) to note that officers would arrange further training in relation to ESG, following the constructive session held previously with the Committee and Board; and
(ii) to otherwise note the report.

EXTERNAL AUDIT ANNUAL PLAN 2024/25

8. The Committee had before it a report by the External Auditor on the NESPF Annual Audit Plan for 2023/24. Members heard from Ms MacDonald, Senior Audit Manager, on the detail of the report.

The report summarised the work plan for the 2023/24 external audit of the North East Scotland Pension Fund, with the main elements to include:-

- evaluation of the key controls within the main accounting systems
- an audit of the annual accounts, and the provision of an independent auditor's report
- independent audit opinions on statutory information published in the annual accounts, comprising the Management Commentary, the Annual Governance Statement and the Governance Compliance Statement; and
- consideration of arrangements in relation to wider scope areas: financial management; financial sustainability; vision, leadership and governance; and use of resources to improve outcomes.

The Committee resolved:-
to note the report.

REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS - PC/MAR24/GOV

9. The Committee had before it a report by the Chief Officer – Finance which provided Members with a review of the North East Scotland Pension Fund's (the "Fund") compliance with the Public Service Pensions Act 2013 ("PSPA") and the Pensions Regulator's ("tPR") requirements during the financial year 2023/24.

The report recommended:-
that the Committee note the assurance provided in the main report.

The Committee resolved:-
to approve the recommendation.

STRATEGY - PC/MAR24/STRAT

10. The Committee had before it a report by the Chief Officer – Finance which provided various updates and recommendations (if applicable) to changes to the North East Scotland Pension Fund.

The report provided an update on the two Modern Apprentices who had started with the Fund in May 2023; the increase in Local Government Pension Scheme (LGPS) pensions and CARE pots from April 2024; staff training; the Pension Regulator's new general code; the tracing exercise undertaken in relation to 2027 "gone away" members where the Fund did not hold up to date addresses; and amendments to the Local Government Pension Scheme (Scotland) Regulations 2018. The report noted that there had been no cases relating to fraud, whistleblowing and breaches of the Bribery Act this year.

The report advised that the following documents had also been updated:-
- Local Contingency Plan (minor corrections for clarity, removal of data centre naming)
- Cyber Security Policy (minor corrections for clarity, removal of names of some 3rd party external providers due to contractual changes)
- Governance Policy (minor corrections for clarity, number of Committee members reduced from 13 to 9 following recent Council decision)
- Breaches of Law Policy (updated to remove reference to Transport Fund).

Appended to the report were updated copies of the risk register and the Pensions Administration Strategy.

Members asked a number of questions in relation to the information provided in the report.

The report recommended:-
that the Committee –
(a) note the updates to the Fund Policy documents in item 6.5 of the main report; and
(b) note the remainder of the report for reassurance.

The Committee resolved:-
(i) to congratulate Noah Cuthbert and Kornelia Malinowska, the Modern Apprentices who had now secured employment with the Fund; and
(ii) to approve the recommendations.

STATEMENT OF ACCOUNTS 2023/24 - ACTION PLAN - PC/MAR24/ACCOUNTS

11. The Committee had before it a report by the Chief Officer – Finance which provided high level information and key dates in relation to the 2023/24 Statement of Accounts, including linkages to the plans and timetables of the Council's External Auditors.

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

The Committee resolved:-
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/MAR24/PRO

12. The Committee had before it a report by the Chief Officer – Finance which sought approval to enter into contractual arrangements for the provision of soft facilities management services for the North East Scotland Pension Fund office at 2 Marischal Square, following the end of the term of the existing contract which had been in place since the Pension Fund moved into the building in 2021.

The report recommended:-
that the Committee –
(a) approve the tender process to appoint a supplier to provide facilities management services for the NESPF office, located at 2 Marischal Square, for a period of three years (with the option to extend for a further 1 year term) with effect from 1st August 2024; and
(b) approve the estimated expenditure associated with granting such approval, as set out in the recommendations section of the main report.

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

INVESTMENT STRATEGY - PC/MAR24/INVSTRAT

13. The Committee had before it a report by the Chief Officer – Finance which provided an update on the re-balancing activity relating to the North East Scotland Pension Fund (NESPF) for the three month period ending 31 March 2024; and an update on the Principles of Responsible Investment (PRI) results.

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

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

ASSET INVESTMENT AND PERFORMANCE MANAGEMENT REPORT - PC/MAR24/AIMPR

14. 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 31 December 2023.

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

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

<u>The Committee resolved</u>:-
to note the report.
- **COUNCILLOR JOHN COOKE, <u>Convener</u>**

	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	**21 June 2024**								
4	Nominations to LAPFF Executive Committee	To determine any nominations		Laura Colliss	Finance	Corporate Services	6.1		
5	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
6	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
7	Procurement	To appoint an ISP provider in relation to the Pensions Dashboards.		Mairi Suttie	Finance	Corporate Services	1.2 and 1.3		
8	Training	To provide details of the training plan (2024/25)		Laura Colliss	Finance	Corporate Services	4.1 and 4.2		
9	Investment Strategy	To present an update on ongoing legal matters		Graham Buntain	Finance	Corporate Services	5.2		
10	Investment Strategy Review 2024	To present an update on the investment strategy		Graham Buntain	Finance	Corporate Services	1.1 and 4.1		
11	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Corporate Services	3.1		
12	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3		
13	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		
14	**13 September 2024**								
15	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Corporate Services	3.1		
16	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report		Anne MacDonald	External Audit	External Audit	2.1		
17	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
18	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	Corporate Services	5.2		
19	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3		
20	**13 December 2024**								
21	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		

	A	B	C	D	E	F	G	H	I
2	**Report Title**	**Minute Reference/Committee Decision or Purpose of Report**	**Update**	**Report Author**	**Chief Officer**	**Directorate**	**Terms of Reference**	**Delayed or Recommended for removal or transfer, enter either D, R, or T**	**Explanation if delayed, removed or transferred**
22	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Corporate Services	GD 8.5		
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	Corporate Services	5.2		
24	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3		
25	**March 2025**								
26	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Corporate Services	3.1		
27	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
28	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
29	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Corporate Services	1.3		
30	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide a review of compliance for 2023/24		Mairi Suttie	Finance	Corporate Services	4.1 and 4.2		
31	External Audit Annual Plan 2024/25	To present the annual plan		Anne MacDonald	External Audit	External Audit	2.1		

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2023/24
REPORT NUMBER	IA/24/008
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2023/24.

2. RECOMMENDATIONS

It is recommended that the Committee:

2.1 Note the Annual Report for 2023/24;

2.2 Note that the Chief Internal Auditor has confirmed the organisational independence of Internal Audit;

2.3 Note that there has been no limitation to the scope of Internal Audit work during 2023/24; and

2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. CURRENT SITUATION

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

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

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
    - Governance
    - Risk management
    - Internal control
- A narrative over the key findings from the assurance work undertaken by IA during 2023/24, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2023/24

3.3 This report covers the period from 1 April 2023 to 31 March 2024 and any work finalised during the 2023/24 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. MANAGEMENT OF RISK

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

8. OUTCOMES

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

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

9. IMPACT ASSESSMENTS

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

10. APPENDICES

10.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2024.

11. REPORT AUTHOR DETAILS

Jamie Dale, Chief Internal Auditor
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(01467) 530 988

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ABERDEEN
CITY COUNCIL

Internal Audit

North East Scotland Pension Fund Annual Assurance Report and Chief Internal Auditor’s Opinion 2023/24

Contents

1 Executive Summary

1.1 Introduction and background

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

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

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

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

1.2 Purpose of this report

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

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

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
  - Governance
  - Risk Management
  - Internal Control
- A narrative over the key findings from the assurance work undertaken by IA during 2023/24, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2023/24.

This report covers the period from 1 April 2023 to 31 March 2024 and any work finalised during the 2023/24 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

1.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2023 to 31 March 2024.

For further commentary see the Annual Assurance Opinion section below.

1.4 Action requested of the Pensions Committee

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

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

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

- The results of internal audits completed up to the date of this report.
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in control environment.
- Matters arising from previous annual reports to the NESPF.
- Any limitations that may have been placed on the scope of IA – there are no restrictions to declare in this report.
- Reports issued by External Audit.
- IA's knowledge of the NESPF and the Council's Governance, Risk Management and Performance Monitoring arrangements.
- The assessment of risk completed during the formation of the 2024-27 Audit Plan.
- The results of other assurance activities completed during the year.

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

2.2 Annual assurance opinion 2023/24

IA is satisfied that sufficient audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of the NESPF's framework for governance, risk management and control. NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2023 to 31 March 2024.

2.3 Rationale for the opinion

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

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

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

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

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

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

Analysis of the findings within the year highlights positively that audited area was operating as anticipated. This reflects a strong control environment and the need for IA to only make limited recommendations.

During the year IA issued one specific NESPF report:

- **Pensions Investment Strategy** – The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the Pension Investment Strategy. Assurance was taken over the following specific aspects of governance, risk management and control: Approved Investment Strategy, Governance Arrangements, Fund Managers, Regular Performance Monitoring, and Environmental, Social and Corporate Governance Reporting. However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of control, specifically: Asset Class Strategic Allocation, Investment and Disinvestment Decision Making, and Board and Committee Members' Training.

Management accepted all recommendations and are working on implementation presently as part of timebound actions plans.

2.4 Follow up of audit recommendations

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

As at the 31 March 2024, four Moderate audit recommendations were open and actively being worked on by Management, with one subsequently being closed. Follow up will take place in the coming months and the progress with implementation reported to Committee with each update report.

As has been reported to the Committee previously, implementation of agreed actions is a strength of the Pension Fund.

3 Audit Results

3.1 In year audit results

Across the year, IA issued one audit report – Pension Fund Investment Strategy

3.2 2023/24 Audits

Council Area	Audit Area	Overall Rating
NESPF	Pensions Fund Investment Strategy	**Moderate**

3.3 Counter Fraud

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

4 IA Performance

4.1 Quality assurance and improvement plan

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

In previous reports IA has updated the Committee on work to address previously noted issues; the main driver for these being the internal quality assessment, any external quality assessments and recommendations made by External Audit.

IA is pleased to confirm an internal review of the control framework has concluded that IA fully conforms with PSIAS. An External Quality Assessment, which was reported to the Aberdeenshire Council Audit, Risk and Scrutiny Committee in 2023 also confirmed this assessment.

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

4.2 Staffing

At present IA is operating with a 12.6 FTE, 0.4 FTE under budget. This 0.4 variance is reflective of flexible working within the Service.

5 Appendix 1 – Grading of Recommendations

Risk level	Definition
Corporate	This issue / risk level impacts the Fund as a whole. Mitigating actions should be taken at the Senior Leadership level.
Function	This issue / risk level has implications at the functional level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given function.
Cluster	This issue / risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible officers.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net risk rating	Description	Assurance assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	**Substantial**
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	**Reasonable**
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	**Limited**
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	**Minimal**

Individual issue / risk	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, such as those described in the Scheme of Governance. This could result in, for example, a material financial loss, a breach of legislative requirements or reputational damage to the Fund. Action should be taken within three months.
Severe	This is an issue / risk that is likely to significantly affect the achievement of one or many of the Fund's objectives or could impact the effectiveness or efficiency of the Fund's activities or processes. Examples include a material recurring breach of legislative requirements or actions that will likely result in a material financial loss or significant reputational damage to the Fund. Action is considered imperative to ensure that the Fund is not exposed to severe risks and should be taken immediately.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Unaudited Annual Report and Accounts
REPORT NUMBER	PC/JUN24/ARA
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

1.1 To present the unaudited Annual Report and Accounts for the North East Scotland Pension Fund.

2. RECOMMENDATION

That the Committee:-

2.1 Review and consider the unaudited Annual Report and Accounts for the North East Scotland Pension Fund.

3. CURRENT SITUATION

3.1 Further to the Local Authority Accounts (Scotland) Regulations 2014 the unaudited Annual Report and Accounts for the North East Scotland Pension Fund are presented to the Committee at this stage for review, with the audited version to be presented to the 13 September 2024 meeting for consideration and signing.

Appendix I, North East Scotland Pension Fund Unaudited Annual Report and Accounts

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

7.2 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts to be approved no later than 30 September each year. Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Fund, that officer is the Chief Officer – Finance of Aberdeen City Council.

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

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

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

8. OUTCOMES

8.1 N/A

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDIX

11.1 Appendix I, North East Scotland Pension Fund Unaudited Annual Report and Accounts.

12. REPORT AUTHOR CONTACT DETAILS

Name	Laura Colliss
Title	Pensions Manager
Email Address	LColliss@nespf.org.uk
Tel	01224 067109

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North East Scotland Pension Fund

Unaudited Annual Report & Accounts

For the period 1 April 2023 to 31 March 2024

Contents

Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2023/24 Annual Report and Accounts which reflects a significant year of both challenges and achievements.

The continued war in Ukraine, the attacks between Hamas and Israel and the continued Cost of Living Crisis all dominated the headlines this year and contributed towards the Fund operating within a fast changing environment.

Despite these challenges, the Fund's Net Asset Value increased from £5,804m to £6,237m.This increase is not as a result of any of my own decisions, but rather the result of good decisions made by our fund managers and by staff at the NESPF.

The Fund's investment strategy has not only positively impacted the asset value but funding levels too. The 2023 actuarial valuation saw funding levels increase to 126%, which further demonstrated the strength and long term security of the Fund.

While financial performance and efficiency is a primary focus, the Fund remains committed to being a socially responsible investor. In 2023/24, the Fund engaged with the fund managers to expand their reporting on Environmental, Social and Governance (ESG) metrics. In the coming year, the NESPF will produce their first Task Force on Climate Related Financial Disclosures (TCFD) report, which aims to develop consistent climate related financial risk disclosures.

The NESPF was the first Local Government Pension Scheme (LGPS) in the UK to go live with the new online member portal, rebranded as My Pension+. With improved design, usability and enhanced security, the site also brings additional functionality including personalised Annual Benefit Statement (ABS) videos for active members produced utilising Artificial Intelligence (AI). The Fund will continue to make best use of technological advances to improve member experience and services.

From a regulatory and compliance point of view, the long awaited McCloud remedy came into force in October 2023, which expanded the underpin protection for certain members. Also, The Pensions Regulator's (TPR) new General Code of Practice took effect in March 2024. To ensure we met both these new requirements, the Fund updated processes, tested system developments and implemented new guidance.

In recognition of all that was achieved, I am delighted that the Fund was shortlisted for several awards including the LGPS Fund of the Year at the LAPF awards and Defined Benefit Scheme of the Year at the Pension Age awards. These national awards look at best practice, performance and innovation and the nominations highlight the Fund's accomplishments.

Looking ahead to 2024/25, in addition to the delivery of essential services, the Fund will proceed with several projects. These include a procurement for a Global

Custodian; further improvements to administrative processes; and the introduction of the Pensions Dashboard (a government initiative that allows the public to see all their pension savings online and in one single place).

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

Councillor John Cooke
Pensions Committee Convener

2. About the North East Scotland Pension Fund

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

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

NESPF has an asset value of £6.2 billion and 77,865 members. It is the third largest LGPS fund in Scotland.

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

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

3. Administration 2023/24

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

*Clydesdale Bank trading as Virgin Money

4. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

The Committee consists of nine elected members of Aberdeen City Council each with equal voting rights. Following a full Council meeting in February 2024, the number of Committee members was reduced from 13 to 9. As at 31 March 2024, the Committee had two vacancies.

Membership 2023/24

Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Cllr John Cooke	Yes			Yes
Cllr Neil MacGregor	Yes			Yes
Cllr Dell Henrickson	Yes			Yes
Cllr Alison Alphonse	Yes			Yes
Cllr Sarah Cross	Yes		21/02/2024	
Cllr Derek Davidson	Yes			Yes
Cllr Duncan Massey	Yes			Yes
Cllr Ciaran McRae	Yes		13/02/2024	
Cllr Christian Allard	Yes		13/02/2024	
Cllr Jennifer Bonsell	Yes		27/04/2023	
Cllr Kairin van Sweeden*		07/06/2023		Yes
Cllr Alex McLellan		07/06/2023	13/02/2024	
Total	**10**	**2**	**(5)**	**7**

Notes:
*Councillor van Sweeden resigned from the Pensions Committee on 12 October 2023 and was re elected on 14 December 2023.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	15/12/23	22/03/24	Overall Attendance
Cllr John Cooke	✓	✓	✓	✓	**100%**
Cllr Neil MacGregor	✓	✓	✓	✓	**100%**
Cllr Dell Henrickson	✓	✓	✓	✓	**100%**
Cllr Alison Alphonse	✓	**X**	✓	**X**	**50%**
Cllr Sarah Cross	✓	✓	✓	**N/A**	**100%**
Cllr Derek Davidson	✓	✓	✓	✓	**100%**
Cllr Duncan Massey	**X**	✓	✓	✓	**75%**
Cllr Ciaran McRae	✓	✓	✓	**N/A**	**100%**
Cllr Christian Allard	**N/A***	✓	✓	**N/A**	**100%**
Cllr Jennifer Bonsell	**N/A**	**N/A**	**N/A**	**N/A**	**100%**
Cllr Kairin van	✓	✓	✓	✓	**100%**
Cllr Alex McLellan	✓**	✓	✓	**N/A**	**100%**

Notes:
* Councillor Allard did not attend the meeting on the 23 June as he was missed from the original invitation in error.

**Councillor McLellan sent Councillor Delaney as a substitute.

Pension Board

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

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

Membership 2023/24

Membership	Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Unison	Morag Lawrence (Chair)*	Yes			Yes
Aberdeenshire Council	Cllr Stephen Smith (Vice Chair)	Yes			Yes
Aberdeen City Council	Cllr Jessica Mennie	Yes			Yes
The Moray Council	Cllr Graham Leadbitter	Yes		15/12/2023	No
The Moray Council	Cllr David Gordon		19/12/2023		Yes
First Bus	Ian Hodgson	Yes		22/09/2023	No
Robert Gordon University	Jeremy Lindley		15/02/2024		Yes
GMB	Neil Stirling	Yes			Yes
UCATT	Gordon Walters	Yes			Yes
Unite	Alan Walker**	Yes			Yes
Total		**8**	**2**	**(2)**	**8**

Notes:
*   Morag Lawrence was reappointed to the Pension Board on 13 February 2024.

** Alan Walker was reappointed to the Pension Board on 24 January 2024.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	25/09/23*	15/12/23	22/03/24	Overall Attendance
Morag Lawrence	✓	✓	✓	✓	✓**	**100%**
Cllr Stephen Smith	✓	✓	✓	✓	✓	**100%**
Cllr Jessica Mennie	✓	✓	✓***	✓	✓	**100%**
Cllr Graham Leadbitter	✓	✓	✓	✓	**N/A**	**100%**
Cllr David Gordon	**N/A**	**N/A**	**N/A**	✓****	✓	**100%**
Ian Hodgson	✓	**X**	**N/A**	**N/A**	**N/A**	**50%**
Jeremy Lindley	**N/A**	**N/A**	**N/A**	**N/A**	**X**	**0%**
Neil Stirling	✓	✓	✓	✓	✓	**100%**
Gordon Walters	✓	✓	✓	**X**	✓	**80%**
Alan Walker	✓	✓	✓	✓	✓	**100%**

Notes:
*   Pension Board additional meeting.

**   Morag Lawrence sent Kenny Luke as a substitute.

***   Councillor Mennie sent Councillor Neil Copland as a substitute.

**** Councillor David Gordon attended the meeting on 15 December 2023 in an observing role.

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

In assisting with compliance, the Board can report the Fund to The Pensions Regulator for non compliance with guidance or regulations. In 2023/24 no issues were reported by the Board to The Pensions Regulator.

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

Conflicts of Interest

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

A 'Declaration of Interest' form is completed every 12 months and individuals confirm that the information submitted is complete, accurate and is to the best of their knowledge.

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

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

Pensions Committee members are governed by the national Councillors' Code of Conduct. Training on the Code of Conduct was delivered by Aberdeen City Council in May 2022. Full list of each member's interests can be found on the Aberdeen City Council website: https://committees.aberdeencity.gov.uk/mgMemberIndex.

Committee and Board Training 2023/24

Pensions Committee members are not legally obliged to undertake training. The Fund feels strongly that Committee members should receive training to ensure that they have the necessary level of knowledge and understanding to exercise their functions. Whereas for the Board, the Public Service Pensions Act 2013 requires that members have an appropriate level of knowledge and understanding in order to carry out their role. The agreed Training Plan for both Committee and Board members has an expectation that members maintain their level of knowledge and training throughout the year. Recording and monitoring of attendance at meetings or training events ensures the requirements of the Training Plan are met.

At the June 2019 meeting the Pensions Committee and Pension Board agreed to undertake the online Public Service Toolkit produced by The Pensions Regulator.

The Training Report and Training Policy was approved at the June 2022 Pensions Committee. It was recommended that Committee and Board members work through and complete the Hymans LGPS Online Learning Academy (LOLA), and on an ongoing basis thereafter as new versions were delivered.

Pensions Committee - Mandatory Training Record as at 31 March 2024				
Name	**Hymans Robertson LOLA Version 1.0***	**Hymans Robertson LOLA Version 2.0***	**TPR Toolkit**	**Attended**
Cllr John Cooke	✓	✓	✓	**3/3**
Cllr Neil MacGregor	✓		✓	**2/3**
Cllr Dell Henrickson	✓	✓	✓	**3/3**
Cllr Alison Alphonse				**0/3**
Cllr Derek Davidson				**0/3**
Cllr Duncan Massey	✓		✓	**2/3**
Cllr Jennifer Bonsell	✓			**1/3**
Cllr Kairin van Sweeden**				**0/2**
Cllr Sarah Cross**	✓			**1/3**
Cllr Alex McLellan**				**0/2**
Cllr Ciaran McRae**				**0/2**
Cllr Christian Allard**				**0/2**

Pension Board - Mandatory Training Record as at 31 March 2024				
Name	**Hymans Robertson LOLA Version 1.0***	**Hymans Robertson LOLA Version 2.0***	**TPR Toolkit**	**Attended**
Morag Lawrence	✓		✓	**2/3**
Cllr Stephen Smith	✓			**1/3**
Cllr Jessica Mennie				**0/3**
Cllr Graham Leadbitter				**0/3**
Cllr David Gordon**		✓		**1/2**
Ian Hodgson				**0/3**
Jeremy Lindley**				**0/2**
Neil Stirling	✓	✓	✓	**3/3**
Gordon Walters	✓			**1/3**
Alan Walker	✓	✓	✓	**3/3**

Notes for Committee and Board tables above:

* Hymans Robertson LOLA Version 1.0 24 June 2022 to 23 April 2023
Version 2.0 24 April 2023 to 31 March 2024

** Leavers/joiners during the year

In addition to the mandatory training, the Pensions Committee and Board were offered 25 additional training opportunities including:

- Introduction training delivered by Laura Colliss, Pensions Manager, for all new Committee and Board members;
- A variety of webinars covering topics from industry experts such as:
  - Pension Dashboards;
  - Cyber Risk;
  - Investment Markets;
- Actuarial training delivered by Mercer;
- The NESPF Finance Forum.

Members had the option to complete further additional training courses outwith those advertised, if they so wished.

5. Administration and Performance

Digital Developments

A primary focus for the NESPF throughout the course of 2023/24 was the development of our new member self service portal.

Following an internal administration review in 2022, the NESPF placed focus on making advancements to its systems and processes. This coincided with the introduction of software developer, Heywood Pension Technologies' (HPT) new member portal and upon seeing the potential opportunities this could bring, NESPF volunteered to be an early adopter.

Working closely alongside Heywood, the Fund commenced its journey, that included extensive testing, to implement a new intuitive platform, My Pension+, which went live in June 2023. The NESPF was the first LGPS in the UK to go live with the platform.

My Pension+ offers an entirely fresh look, with enhanced technologies that vastly improve functionality across the site. Some of the primary developments include:

- Simpler login, without the requirement of usernames and security questions; Members can use their email address and password to access;
- Enhanced security with two factor authentication;
- Simplified navigation and design built with users in mind which incorporates best User Experience (UX) practices;
- Retirement forecasting tools;
- Personalised explanatory videos for complex topics, e.g. Annual Benefits Statements.

Although the new portal is now live, it remains a hybrid system. Not all features of the previous member portal have been developed for My Pension+, with the site linking back to the old portal for specific functionality. As such NESPF and HPT will continue to work closely as the remaining functionality is built, with feature parity the primary focus in 2024/25. In addition to the development of outstanding functionality, further innovative developments on the horizon include:

- Electronic Identification verification which will allow members to verify their identity when registering, removing the need for Fund intervention and reducing registration lead time;
- SMS multi factor authentication;
- Fully digital, online retirement and refund processes.

Digital Engagement

The delivery of My Pension+ to the Fund's membership was coordinated to coincide with the publication of our Annual Benefit Statements. This resulted in the migration of thousands of members to the new site and six months after the launch, over 12,500 members had registered, with a staggering 15% increase in site usage compared to the prior year.

Registration and migration statistics as at 31 March 2024 are displayed below:

	Registered for My Pension+	% Members Registered	Migrated to My Pension+	% Members Migrated
Active	15,717	63.0%	7,632	48.6%
Deferred	9,948	59.1%	3,748	37.7%
Pensioners & Dependants	8,675	35.5%	2,540	29.3%

Annual Benefit Statements

Annual Benefit Statements (ABS) in 2023 were delivered online as per previous years, however the medium of Active and Deferred statements differed. Deferred members were able to view an ABS document that had been generated onto their record which they could then download.

However for active members, with the implementation of My Pension+, we were able to provide ABS via a newly designed, regulatory compliant ABS webpage which delivers information in a easy to understand and visually engaging way. As part of the revised ABS area, each active member can access a personalised video, outlining key figures and information in a conversational and user friendly manner. Deferred members will have a similar ABS page available to them ahead of their 2024 Statements.

A key advantage of using digital statements is that it allows us greater performance monitoring. Through website analytics, ABS email testing and establishing key performance indicators such as open and click through rates of email campaigns, the Fund can gain a better understanding of its membership and their behaviours and thus modify its approach to maximise engagement with them.

The overall percentage achieved for providing Annual Benefit Statements to more than 45,000 active and deferred members prior to the 31 August deadline was 99.78% (98.31% 2022/23).

Pension Administration Strategy (PAS)

In December 2022 a revised PAS was approved by the Pension Committee following a full consultation. The aim of the PAS is to aid the delivery of high quality pension administration for the members of the Fund on behalf of its participating employers.

The underlying objectives are:

- To provide high quality pension service delivery;
- Paying pensions and calculating benefits due accurately and on time;
- Good working relationships between the NESPF and its participating employers;
- Delivery of the LGPS requirements in line with the Scheme regulations;
- Compliance around the Codes of Practice put in place around service delivery and service standards.

Processing Performance

Key performance measurement	Target	Work Volume	Target Achieved	2023/24	2022/23
Letter notifying death in service to dependant	5 days	45	39	87%	82%
Letter notifying retirement estimate	10 days	496	478	96%	95%
Letter notifying actual retirement benefit	10 days	1,738	1,596	92%	90%
Letter notifying deferred benefit	10 days	1,980	1,875	95%	96%
Letter notifying amount of refund	10 days	1,178	1,157	98%	98%
Letter detailing transfer in quotes	10 days	176	122	69%	68%
Letter detailing transfer out quotes	10 days	544	303	56%	63%
Total		**6,157**	**5,570**	**91%**	**91%**

This year saw similar performance to 2022/23 with the overall percentage achieved above 90% for the second consecutive year.

Actual retirement benefit percentage continues to increase and the number of retirement estimate requests continues to fall as members choose to self serve online through My Pension+. Bulk automated processing of deferred benefits for members with Care only service increased to almost 1,000 and continues to deliver efficiency savings.

Transfer processing proved difficult with cases having to be stockpiled from announcement of SCAPE rate change on 29 March 2023 until new factors delivered in July 2023 and for cases impacted by McCloud from the date regulations came into force on 1 October 2023 until new guidance was received in March 2024.

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 became known as the McCloud remedy with the LGPS (Remediable Service) (Scotland) Regulations 2023 coming into force on 1 October 2023.

Communications were issued in December 2023 to eligible members advising that there was no requirement to do anything whilst the Fund recalculates their benefits. In February 2024 recalculations for 15,227 members identified a total cost of £6,900 for pension and death benefits paid out during the remedy period from 1 April 2015 to 31 March 2022, work is underway to rectify the underpayments.

Delivering the remedy has been challenging, initially the Fund worked closely with employers to identify any missing or incorrect data during the remedy period and this resulted in 3,781 updates to the pensions administration system. The 18 month delay between draft and final regulations caused issues with software already delivered which had to be amended and re delivered in additional releases. Despite all this the majority of work required to comply with the regulations has been completed.

Employer Data Provision

Throughout the year, good quality, timely data for all active members was provided by the participating employers of the NESPF through the secure online portal, i-Connect. The information uploaded monthly directly updates our member database with starters, leavers, contributions and pay information and ensures that each members personal details are kept up to date.

More than 1 million data events have been uploaded to the pension administration system in 2023/24.

The use of i-Connect for data collection has provided substantial benefits to the fund over the last few years ensuring that the Fund is in the best position to meet the administrative and regulatory requirements of the Scheme.

The benefits include:

- Reduced administrative burden for day to day processing, contribution reconciliation and preparations needed in advance of issuing annual benefit statements;
- Improved data quality allowing the Fund and the participating employers to have confidence in the triennial valuation results;

- Members have access to up to date information on their individual records through My Pension+;
- Significant advantages in respect of the future challenges faced by the Fund around being dashboard ready, applying the McCloud remedy and other regulatory requirements.

The Fund continues to engage with participating employers, the system provider and other pension funds around the development of i-Connect to ensure it continues to deliver data requirements of the ever changing LGPS.

Data Quality

The Fund holds a vast amount of data on our pension administration system. This database holds individual records for each contract of employment for all members including active, pensioner and deferred members. The quality of the data held in relation to these member records directly impacts on all aspects of Fund administration including the calculation of benefits, payment of members pensions and the triennial valuation results.

Due to the method of data collection and the level of checking and reconciliation that is carried out the information held is consistently of a high quality. This provides comfort for the Fund, the participating employers and the members around the accuracy of the benefits held and the funding calculations.

The data quality scores that are provided by the Fund as part of the Pension Regulator annual Scheme return are determined by our data analysis tool, Insights. Dashboards and reports allows us to assess the data held against a number of parameters allowing for direct comparison against previous years and other LGPS funds.

The annual Scheme return scores are as follows:

	2022	**2023**	**Target**
Common Data	97.9%	98.7%	100%
Scheme Specific Data	99.2%	99.2%	100%

The Fund’s data quality improvement plan is revised annually in an effort to maintain the high quality of data held and explore options for further improvement. This is especially relevant with onboarding to the Pension Dashboards ecosystem scheduled for 2025.

Complaints

NESPF aims to demonstrate the highest level of customer service at all times, however disputes and issues sometimes arise. The Fund takes all complaints seriously and will attempt to resolve issues in an effective and timely manner.

Complaints are handled in accordance with Aberdeen City Council's Complaints Handling Procedure. All complaints the Fund receives are monitored and recorded by the Governance team in the Complaints Register.

If no resolution is possible at the informal stage, the complaint proceeds to the Fund's Internal Dispute Resolution Procedure (IDRP). The IDRP consists of two formal stages. Stage 1 is dealt with by an independent appointed person. If the complainant is not satisfied with the appointed person's decision, the matter proceeds to Stage 2 of the process which is dealt with by the Scottish Ministers.

The table below is an analysis of those complaints received during 2023/24. There were 11 complaints made during the year. Of the 7 complaints that were within the Fund's scope to help remedy, all were resolved at the informal stage.

Complaint Analysis	Number of Complaints
Waiting Time – Correspondence	3
Processing Delay	3
Staff Knowledge	1
No NESPF Power to Remedy	4
Total Complaints	**11**

Complaints may not always relate to a NESPF decision or process, for example it may relate to an employer decision, e.g. ill health retirement. In these instances the complainant may take their complaint directly to the Pensions Ombudsman.

Not included in the above is one prior year complaint, which was submitted to the Pension Ombudsman Stage during 2023/24. The case is ongoing.

The full complaints procedure and IDRP process is on our website: https://www.nespf.org.uk/about/complaints.

6. Financial Performance

2023/24 at a Glance

£179m **Additions**	**£231m** **Withdrawals**
£26m **Management Expenses**	**£533m** **Net Return on Investments**

£6,237m

Net Assets of the Fund at the End of the Year

Key Statistics	
41 Total Number of Employers	**77,865** Total Membership
1,554 Votes at AGMS	**52%** Members Registered for My Pension+
42.5 Staff Employed (FTE)	**1,832** Members to Staff Ratio

North East Scotland Pension Fund Financial Summary

From the year 2022/23, the following tables are the merged figures for the NESPF and ACCTF.

	2019/20 £'000	**2020/21 £'000**	**2021/22 £'000**	**2022/23 £'000**	**2023/24 £'000**
Contributions Less Benefits and Expenses paid **Net Additions/ (Withdrawals)**	**(30,977)**	**(51,481)**	**(33,048)**	**(34,257)**	**(78,570)**
Net Investment Income Change in Market Value **Net Return on Investment**	**(71,648)**	**1,462,128**	**181,752**	**(342,832)**	**532,616**
Transfer In of ACCTF at Market Value	**0**	**0**	**0**	**290,035**	**0**
Revaluation of Insurance Buy In Contract	**0**	**0**	**0**	**(35,062)**	**(20,924)**
Net Increase/ (Decrease) in Fund	**(102,625)**	**1,410,647**	**148,704**	**(122,116)**	**433,122**
Fund Balance as at 31 March (Market Value)	**4,366,542**	**5,777,189**	**5,925,893**	**5,803,777**	**6,236,899**

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

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

Budget

	Note	Actual Spend 2023/24 £'000	Budget or Forecast 2023/24 £'000	Over or (Under) Spend 2023/24 £'000
Administration Expenses	1	3,113	3,032	81
Oversight and Governance Expenses	2	872	1,119	(247)
Investment Management Expenses	3	22,039	19,886	2,153
Management Expenses Total		**26,024**	**24,037**	**1,987**

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

1. Over spend – Pay award and one off IT costs.

2. Under spend – Although there were increases in the Actuarial Fees and General Expenses those increases were less than anticipated.

3. Over spend – Upturn in markets and transaction activity.

Membership Statistics

NESPF	**2019/20**	**2020/21**	**2021/22**	**2022/23**	**2023/24**
Active	26,275	26,315	26,961	27,751	27,708
Pensioners	22,156	22,692	23,854	26,146	27,171
Deferred	17,965	17,704	18,150	19,379	19,246
Frozen Leavers	3,021	2,664	3,111	3,602	3,740
Total	**69,417**	**69,375**	**72,076**	**76,878**	**77,865**

Active membership appears to have remained stable from 2022/23 to 2023/24 and may reflect the continuing budgetary pressure faced by the Local Authorities as, in previous years, there has consistently been an increase to the active membership totals. The number of deferred members has remained consistent indicating that members accessing their pensions and transferring their benefits have been in line with the number of leavers. Pensioner numbers have increased in line with previous years despite the early retirement exercises currently being undertaken by Local Authorities. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a contributions refund or a transfer of their entitlement.

Management Expenses

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Administration	1,822	2,236	2,388	2,958	3,113
Oversight and Governance	422	713	615	743	872
Investment Management	17,953	23,820	23,901	17,767	22,039
Total Management Expenses	**20,197**	**26,769**	**26,904**	**21,468**	**26,024**

Unit Cost Per Member

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Administrative Unit Cost per Member	26.25	32.23	33.13	38.48	39.98
Oversight and Governance Unit Cost per Member	6.08	10.28	8.53	9.66	11.20
Investment Management Unit Cost per Member	258.62	343.35	331.61	231.11	283.03
Total Cost per Member	**290.95**	**385.86**	**373.27**	**279.25**	**334.21**

Remuneration Report

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

Note 22 to the Accounts details the Key Management Personnel. Councillor and senior employee remuneration is detailed within the Remuneration Report of Aberdeen City Council's Financial Statements.

7. Economic and Market Background

Global Market

The past financial year was marked by volatility driven by high inflation and rapid interest rate hikes. The stock market oscillated between fears of recession and hopes of interest rate cuts as inflation moderated. The market overall rallied with the Morgan Stanley Capital International All Country World Index (MSCI ACWI) GBP returning +20.6% as technology stocks, especially those related to Artificial Intelligence (AI), dominated while the rest of the market took time to catch up. Policymakers were focused on balancing the risk of recession with persistent inflation. While the Federal Reserve held rates steady, it signalled the intention to cut rates in 2024. The European Central Bank (ECB) and Bank of England (BoE) also maintained a cautious stance. Despite the potential delay in rate cuts, the financial markets continued to post positive returns, driven by the anticipation of returns from AI in the technology sector and the performance of value stocks towards the latter part of the period.

US Equities

During the year ending 31 March 2024, the US equity markets experienced a strong and sustained rally. The S&P 500 index gained 29.88% during the 1 year period, with high growth stocks leading the way. Last March, exuberance around AI helped the market shake off the turbulence of the regional banking crisis. The market rally was driven by positive economic conditions, including the Federal Reserve's expected rate cut timeline, strong earnings, low unemployment, and high consumer spending. In terms of index performance, the Russell 1000 Growth index outperformed the Russell 1000 Value index over the 1 year period, on the backs of the “Magnificent Seven” tech giants (Microsoft, Apple, Nvidia, Amazon, Meta, Tesla, and Alphabet), which accounted for a significant portion of the growth index returns. While sentiment in the market shifted positive over the last year with many market participants growing increasingly bullish in their outlooks, questions remain on the continued growth of productivity, outlook for inflation and long term effects of higher interest rates.

UK Equities

2023 was another year where markets remained focused on interest rate policy and inflation, as central banks deliberated on how to respond to a mixed picture from the inflation data. Central bankers had been quick through the year to reaffirm their commitment to curbing inflation, highlighting the need for rates to remain elevated against the backdrop of falling goods inflation, but services inflation remained sticky, driven by tight labour markets. Further volatility was sparked through the year, first as the collapse of Silicon Valley Bank and Signature Bank led to concerns of a banking crisis in the US. This was shortly followed by a disruption in the financial sector in Europe as Credit Suisse was taken over by UBS in a deal brokered by the Swiss National Bank. Then followed the rise of AI, with divergence driven by the perceived beneficiaries versus the victims, and finally the outbreak of war in the Middle East. At the end of 2023 interest rate expectations fell sharply and risk assets rallied. Global equity markets rallied at the start of 2024 on strong earnings from technology names, despite mixed macroeconomic data. The Financial Times Stock Exchange (FTSE) All Share rose 8.4%, however lagged global equity markets on concerns around growth in China, notably in the commercial real estate market.

European Equities

European equities delivered very strong returns over the last year, despite a backdrop of cautious sentiment given concerns over a potential recession, weaker China macro data and geopolitical risks. The asset class remains under owned by investors and we observe a generally defensive positioning. European markets particularly started to rally from November 2023 on into the end of the period as market expectations began to look past the potential for recession which had clouded sentiment for more than 18 months. This move was supported by a dramatic fall in energy prices in the region, which had risen because of the Russian invasion of Ukraine, feeding through, amongst other factors, into lower inflation and an increasing likelihood of cuts to interest rates. During the most recent earnings season, we noted more companies speaking of stabilisation and/or potential for improvement, with very clear trajectory for increasing orders in certain end markets.

Emerging Markets Equities

MSCI Emerging Markets ended the period up 8.5%, materially underperforming Developed Markets, which gained +25.7%. Emerging Markets started 2023 on a strong note as sentiment surrounding China equities meaningfully reversed amid growing excitement around China’s much awaited reopening from the Covid-19 pandemic, and the market was hopeful for a peaking US dollar. However, China’s reopening ultimately disappointed and the US proved remarkably resilient despite aggressive monetary tightening. Elsewhere the trend of generative AI propelled the technology sector to substantial gains and Taiwan reached all time highs towards the tail end of Q1 2024 as the cases for AI grew.

Regionally, Latin America emerged as the top performer over the period with a 23.4% increase. Peru stood out as one of the strongest performers, largely due to the sustained high demand for its primary export, copper, in the wake of the AI boom. The Central and Eastern Europe, Middle East, and Africa (CEEMEA) region saw a 10.6% rise. Asia, excluding Japan, lagged (+4.3%), primarily due to China’s weakness.

Japanese Equities

Japan equity markets gained during this period, driven by heightened expectations of corporate reforms by Tokyo Stock Exchange, Semiconductor and other related growth stocks positioned to benefit from the adoption of AI, and greater inbound demand by foreign tourists.

In April, the market experienced a rally triggered by statements by American Investor Warren Buffet accompanied by expectations for structural reforms in domestic companies, such as improvement in Price to Book Ratio, reopening of the economy causing greater inbound demand, and continuation of accommodative monetary policy. Furthermore, the market experienced a rally in growth stocks, fuelled by heightened expectations for AI related companies. Following such rout, the market experienced profit taking along with higher US long term interest rates which impacted US and Japan markets. However, as the market factored in rate cuts, lower treasury yields helped US and Japan equities to soar. Coming into 2024, data further confirmed that Japan is finally breaking out of the deflationary cycle and entering a virtuous cycle of price increases and wage hikes. Although Bank of Japan (BoJ) has ended its negative interest rate policy, such reversal, confirmed Japan's return to normal policy and above mentioned cycle of prices increases and wage hikes.

Bonds

Q2 2023 saw negative bond market sentiment, as economic data points in developed markets pointed to an environment in which central banks would need to continue increasing interest rates to slow down the economy. In the US, the March Year on Year (YoY) Consumer Price Index (CPI) inflation rate accelerated by 5.0% YoY. This was slightly below the consensus expectation of 5.1%, and a notable decline from the February CPI number of 6.0%. By the end of the quarter, the Federal Reserve had paused their interest rate increases. Uncertainty surrounding the ongoing US debt ceiling negotiations contributed to the negative sentiment. In May, a debt ceiling deal was agreed which included a suspension of the debt ceiling until January 2025. Euro area inflation also printed in line with expectations, with March headline and core inflation rising to 6.9% and 5.7% YoY respectively. Meanwhile, in what was a second consecutive upside surprise in the UK, prices accelerated by 10.1% having been expected to accelerate by only 9.8% YoY in March. The ECB and the BoE increased interest rates over the quarter. UK Inflation once again surprised to the upside with core at 7.1% YoY vs expected 6.8%. The UK became the only country in the G7 with rising inflation.

Q3 2023 saw mixed bond market performance, driven by the release of generally soft economic data, and views on longer term inflation and interest rates. As widely expected, after pausing its aggressive rate hiking trajectory in June, the Federal Reserve raised key interest rates during the month. The US CPI inflation rate for the month of June accelerated by 3.0% YoY. The ECB also raised rates during the month. In the Euro Area, Gross Domestic Product (GDP) figures increased by 0.3% quarter on quarter as expected. Once again in the UK, the main story for the month was inflation, with core inflation remaining high while Services CPI rose, and headline inflation met expectations. The BoE raised rates to 5.25%. Global bond market sentiment ended the quarter negative as developed market government bond yields generally rose over the month, driven mostly by hawkish projections by the Federal Open Market Committee (FOMC), which left its policy rate unchanged at 5.25% to 5.50%. In Europe, the ECB raised its key interest rates, while the BoE maintained the Bank Rate at 5.25% following the drop in inflation. However, they cut their forecasts for economic growth for the second quarter while warning rates may need to remain at these high levels.

Global bond market sentiment was generally negative at the start of Q4 2023, driven predominantly by a continued ‘higher for longer’ narrative and solid economic data in the US. In the US, the CPI inflation data for September showed increases in the Month over Month (MoM) core and headline rates. Euro area headline inflation fell from 2.9% YoY in October, below consensus. CPI inflation data was published during the month in the UK. On a YoY basis prices increased marginally ahead of expectations in September, with headline inflation printing at 6.7% against the 6.6% expected. By the middle of the quarter, many believed that developed market central banks had finally reached the end of their tightening cycles. In the US, headline CPI inflation was flat on the month, holding the YoY inflation rate. In the Euro Area, headline CPI inflation surprised to the downside and MoM CPI decelerated, as did UK inflation. Global bond markets finished the year on a highly positive note, with bond yields falling notably in developed markets in December. In the US and the Euro area, November CPI inflation printed in line with expectations. In the UK, YoY November CPI was lower than expected.

With the start of Q1 2024, global bond markets experienced a slight downturn, with economic data and central bank communications not swaying expectations for rate cuts in 2024, despite a challenging start to the year for risk assets. The Federal Reserve maintained its policy rate, and the ECB noted a declining inflation trend, while BoJ continued its ultra loose policy. Europe’s GDP growth was stagnant, but jobs growth showed a slight increase, and the ECB maintained its rates. The BoE held the bank rate steady with a dovish tone, and the unemployment rate was lower than expected. The quarter ended on a high in March, where global bond market sentiment was positive, with tightening spreads and slightly reduced yields. The US ended the quarter with a slight decrease in core CPI both MoM (0.35%) and YoY (3.8%), while Europe confirmed its annual inflation rates to be in line with estimates, and the UK experienced a drop in CPI inflation YoY (3.4%). Japan’s CPI figures were in line with expectations. Government bond yields in developed markets fell modestly, with US treasury yields, German bund yields, and UK gilt yields all declining. Most G10 currencies weakened against the US dollar, except for the Canadian and Australian dollars which appreciated slightly.

UK Property

The past year has been a dynamic period for the UK real estate market, characterised by a mix of challenges and opportunities. At the end of 2023, we reflected on what was a very challenging year for the UK real estate markets, as investors grappled with the implications of higher costs of debt and falling valuations. In the prior 18 months, we have seen inflation remain persistently high and, as a result, have witnessed continual rises in the base rate, totalling 500 basis points in that time. The ramifications of such a large change in the macro environment have been felt throughout all financial markets. This has affected all assets and led to repricing in line with this fundamental rebasing as the period of great moderation comes to an end.

In the UK, debt costs continued to remain above yields, even for prime properties, which caused a widening of the bid ask spread as buyer and seller expectations moved further apart. The lack of price discovery from subdued transaction activity made it difficult to monitor pricing and led to a steep decline in liquidity across all sectors. Capital market activity ended the year on a weak note. In 2023, UK All Property transaction volumes totalled £32 billion, which is 42% below the five year average. As yields decompress in 2024, we expect buyer and seller expectations to become more aligned, supporting a pickup in transaction volumes.

We began to observe a degree of stabilisation by the end of Q4 2023. Valuations remained steady for several months following a 22% decline in the UK real estate market from peak pricing in June 2022. This reflected a level of transparency compared to much of the rest of the world and indicated that the significant correction appears to be behind us.

It seems that an inflection point is imminent in 2024, with inflation seemingly on a downward trajectory and interest rates at the peak of the hiking cycle as the BoE held rates steady at 5.25%, and forward guidance is becoming slightly more dovish. The renewal in the relative attractiveness of the UK real estate market will be driven by the first rate cut forecasted to happen later in 2024, coupled with the growing optimism surrounding the UK's macroeconomic climate, now in expansionary territory, translating to a more positive outlook for the real estate market going into 2024.

Market Returns	1 Year (% p.a.)	3 Year (% p.a.)	5 Year (% p.a.)
Equities			
FTSE All Share Index	2.9	13.8	5.0
FTSE All World Index	-6.9	15.9	7.4
FTSE All World ex UK Index	-7.2	15.9	7.6
FTSE North American Index	-3.1	18.0	13.1
FTSE European (ex UK) Index	2.1	14.9	4.9
FTSE Japan Index	2.0	7.8	3.9
FTSE Developed Asia (ex Japan) Index	-9.5	14.0	2.5
FTSE Emerging Markets Index	-4.3	29.4	13.9
Bonds			
FTSE Actuaries UK Conventional Gilts All Stocks Index	-16.3	-9.1	-3.1
ICE BofA Sterling Non Gilts Index	-10.3	-3.1	-0.8
FTSE Actuaries UK Index Linked Gilts All Stocks Index	-26.7	-7.6	-3.2

Source: Bloomberg

8. NESPF Investment Strategy

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

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

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

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

Asset Structure 2023/24

Asset Class	**Distribution as at 31 March 2023**		**Distribution as at 31 March 2024**	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including alternative assets)	63.3	55.0	63.5	55.0
Bonds/Credit	17.7	22.5	17.9	22.5
Property/Infrastructure	15.9	20.0	16.4	20.0
Cash/Other	3.1	2.5	2.2	2.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

During the first part of 2023 and given the volatility in markets, NESPF slowed its rebalancing efforts, making selective and tactical changes in line with its investment strategy where appropriate. Given the rise in equity markets towards the back end of 2023 and into 2024, this has positively increased the overweight to equities and therefore allocations have been made to infrastructure and direct lending, with more rebalancing to follow.

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

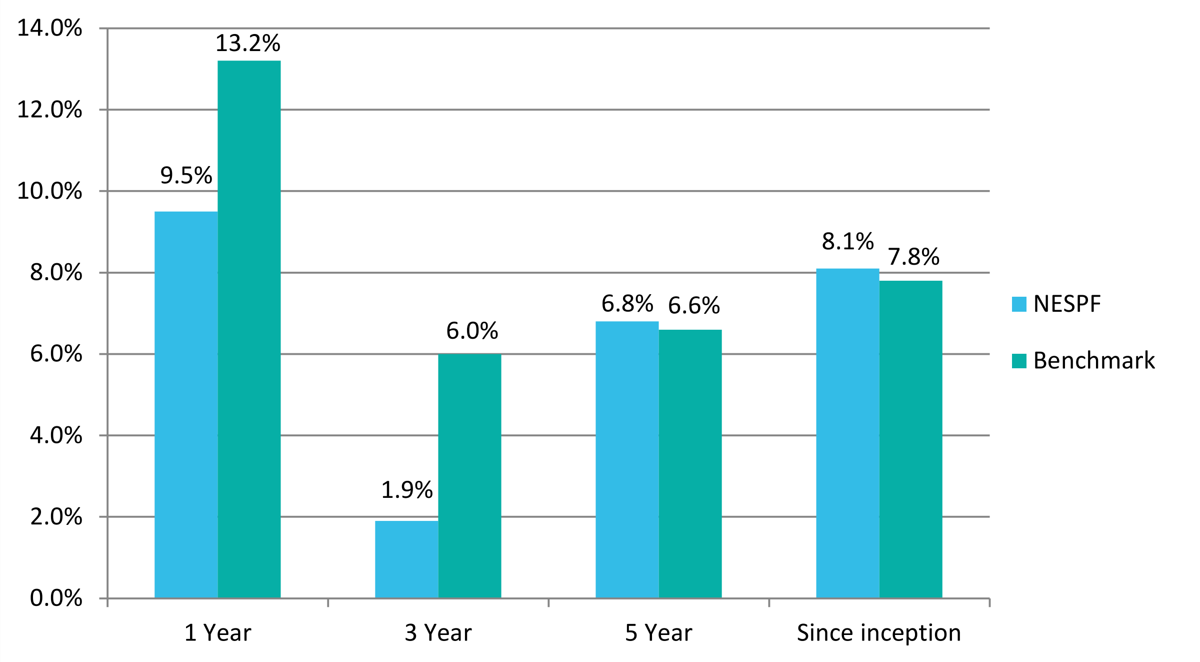
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds/Credit	22.5% (range +/- 5%)
Property/Infrastructure	20.0% (range +/- 5%)
Cash/Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been strongly positive delivering 9.5%, given a difficult market backdrop with constant changes regarding sentiment towards interest rates and inflation affecting different asset classes. In the shorter term some of the active Equity holdings are behind benchmark, but performance is beginning to turn around and the NESPF has conviction in these positions as a long term investor. A number of benchmarks are also arbitrarily higher this year on Sterling Overnight Index Average (SONIA) targets, which is not necessarily reflective of the asset class it is measuring against.

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

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



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

Year Ending	**2021/22 %**	**2022/23 %**	**2023/24 %**	**Since Inception Annualised %**
CPI*	7.0	10.1	3.2	2.9
Average Earning*	7.0	5.8	5.7	3.3
NESPF Return	2.4	-4.1	9.5	8.1

*Source: Office of National Statistics

Investment Management Structure

Details of the Investment Management Structure is in the "Investments Analysed by Fund Manager" Note to the Accounts.

9. Risk

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

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

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

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

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

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

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee and can be found within the Committee packs. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified. It is also key that the Fund has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

10. Funding Strategy Statement

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

The purpose of the FSS is therefore:

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

The FSS is required as part of Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2023 actuarial valuation, the FSS for the North East Scotland Pension Fund was reviewed, with employers consulted on the revised version.

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

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund. All investment decisions are governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016. The Fund objective is to meet benefit liabilities as they fall due at a reasonable cost to participating employers, given that employee contributions are fixed. “Reasonable” in this context refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding (ratio of the value of assets to liabilities) and the assumptions underlying the actuarial valuation.

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

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

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

12. Environmental, Social and Governance Issues

Responsible Investment & Engagement

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

What does this look like in practice?

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

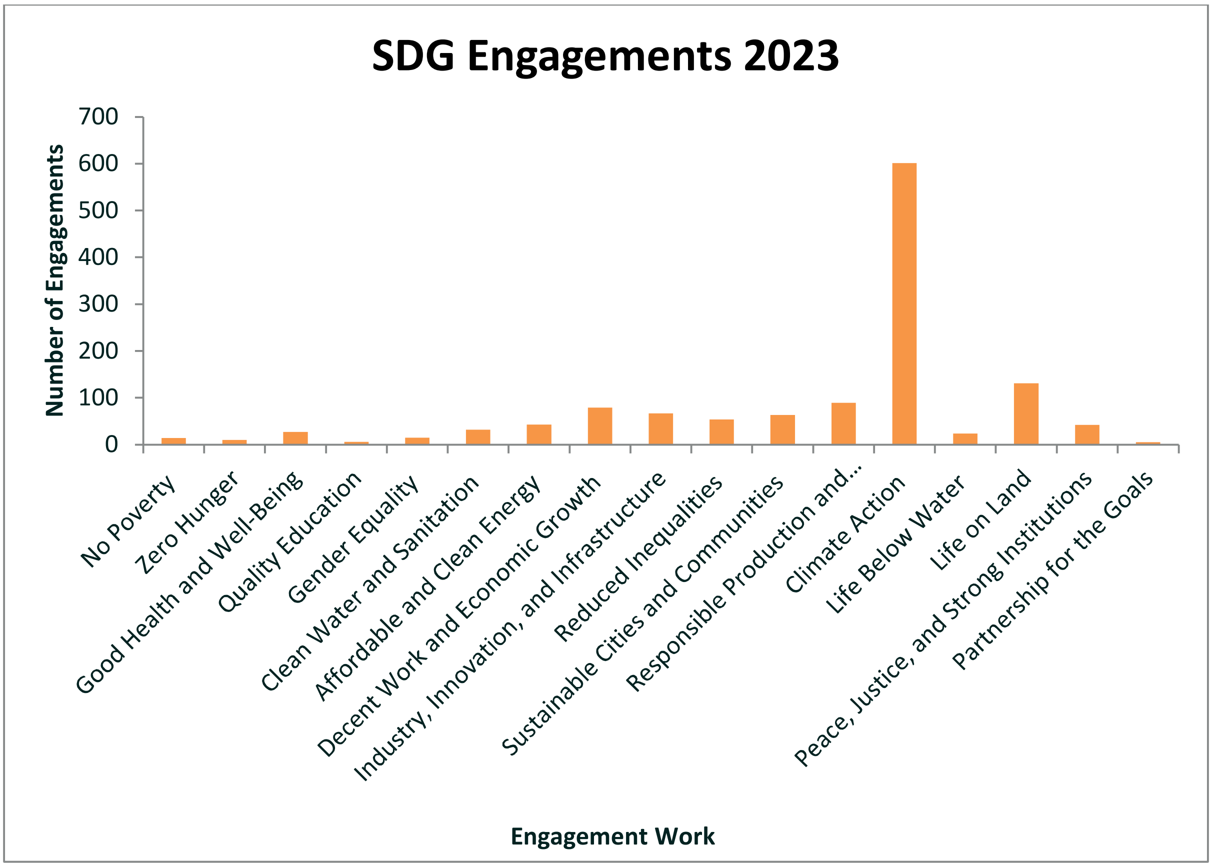
<u>Collaboration</u>

There are limits to what we can achieve as a single investor and believe greater progress can be made through collaboration with other investors. Our main collaboration is with the Local Authority Pension Fund Forum (LAPFF). We also engage with our Fund Managers on a regular basis.

LAPFF brings together a diverse range of Local Authority Pension Funds (87 funds and 6 pools) with combined assets of over £350 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

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

LAPFF engagement work examples are noted below:



Mining and Human Rights

Context – LAPFF has been engaging with major mining companies on human rights for the last five years. This engagement stemmed from tailings dam collapses in Brazil linked to mining companies BHP, Vale and from Rio Tinto's destruction of cultural heritage at Juukan Gorge in Australia.

Activities –LAPFF has undertaken an engagement with Grupo Mexico in relation to a tailings pond leak at one of its operations in Sonora, Mexico. Certain health problems and environmental damage – in particular, water contamination – are linked to this leak. LAPFF has met once with the company and once with affected community members at this stage and will look to progress the engagement in the coming year. Human rights engagements with Rio Tinto and Anglo American are continuing too.

LAPFF also attended the 2024 African Mining Indaba in Cape Town, South Africa in first quarter of 2024.

Outcomes – Positive outcomes for LAPFF members after visiting Brazil is that LAPFF published a report of its findings after thorough engagement with both the affected communities and the companies involved. Translation of the report into Portuguese was also completed.

LAPFF is continuing to work with Rio Tinto to ensure that their relationship with communities affected by their operations globally are improving.

Engagement with Anglo American is taking place primarily through LAPFF's participation in the new Principles for Responsible Investment (PRI) Advance human rights initiative.

LAPFF submitted a response to the United Nations (UN) Working Groups consultation on investors and ESG, which included the submission of its reports and work with affected community members. This focus appears to be of interest at the international level, and LAPFF will continue to work with the UN Working Group and other stakeholders to inform best practice on mining and human rights, while linking the work to financial materiality for investors.

Climate

Context – Drax owns the UK's largest power generation site in Yorkshire. It consists of a coal burning plant converted to burning wood pellets, mainly imported from North America. It meets approximately 7-8% of the UK's electricity demand. Despite the switch from coal, Drax is the UK's largest carbon emitter as stated in research by climate think tank Ember and is government subsidised.

Drax uses the concept of 'dynamic carbon sinks' to justify its claims to carbon neutrality, i.e., forests are harvested and the wood that is burned regrows.

Activities – LAPFF engaged with Drax in first quarter of 2024 as there are questions about the time scale over which new growth of trees will compensate for the >10 Million Tonnes (MT) of CO_2 Drax emits each year. The Forum sought to understand the company's business model, associated risks and sustainability of the supply chain for wood pellets for combustion at Drax Power Station, which are mainly imported.

LAPFF responded to the consultation from the Department of Energy Security and Net Zero on prolonging the subsidy to Drax. LAPFF's response to the consultation covered the evidence that Drax's supplies of wood are not carbon neutral, nor sustainable as a supply source (being dependent on US imports). BBC Panorama had its second exposé of Drax's activities that showed that not only has Drax been cutting and using whole trees, but that the trees cut were from rare forest wood, rather than managed plantations.

LAPFF attended the 2023 AGM and there was significant unease at Drax's activities, with no shareholders speaking positively. There were also representations from people in the southern US states concerned about cutting down primary forest and health affecting emissions from pellet plants.

Outcomes – Achievements have been wholly negative as LAPFF has seen no evidence that the forest stock in the US is growing to offset Drax's emissions. From Drax commissions "catchment area" reports it is apparent that rather than a quantitative test to prove contemporaneous offset, the test in the reports is that forest stock is not shrinking. There is significant concern that Drax is contributing to net increases in atmospheric carbon, in addition to wood being an inefficient source of energy which, per unit of energy obtained, creates more carbon emissions than even coal.

Drax's answer is that things will be clearer once the company is able to capture carbon from its burning by using carbon capture technology. However, that is not proven at scale and is heavily subsidy dependent, on top of an already exceptionally large subsidy required for pellet burning. Drax's activities continue to attract cross party criticism.

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

Fund Managers

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

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

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

Biodiversity on offshore wind farm

Through one of our Infrastructure portfolios the Fund invests in an offshore wind farm in the Dutch part of the North Sea, on the border with Belgium. The biodiversity of the construction site was assessed as the project commenced. The action taken was the release of 2,400 flat oyster tables. The oyster tables were placed on the base of some of the wind turbines in October 2020.

A team of researchers reviewed the oyster tables in 2023. The outcome being they discovered in addition to the survival, presence and growth in oyster larvae they also increase biodiversity. For this they used Environmental DNA traces in the water and an underwater camera, The underwater water videos showed a lot of life around the foundations with a total of the 65 species found. The researchers will return with the hope of seeing the oysters have settled in the shell layer and rock surrounding the wind turbine.

Other ways the Pension Funds collaborate are by being members/signatories of the following ESG initiatives:

- 2022 Global Investor Statement;
- 2022 Non Disclosure Campaign (NDC);
- Bangladesh Accord on Fire and Building Safety (the Accord);
- Climate Action 100;
- Carbon Disclosure Project;
- Principles for Responsible Investment.

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

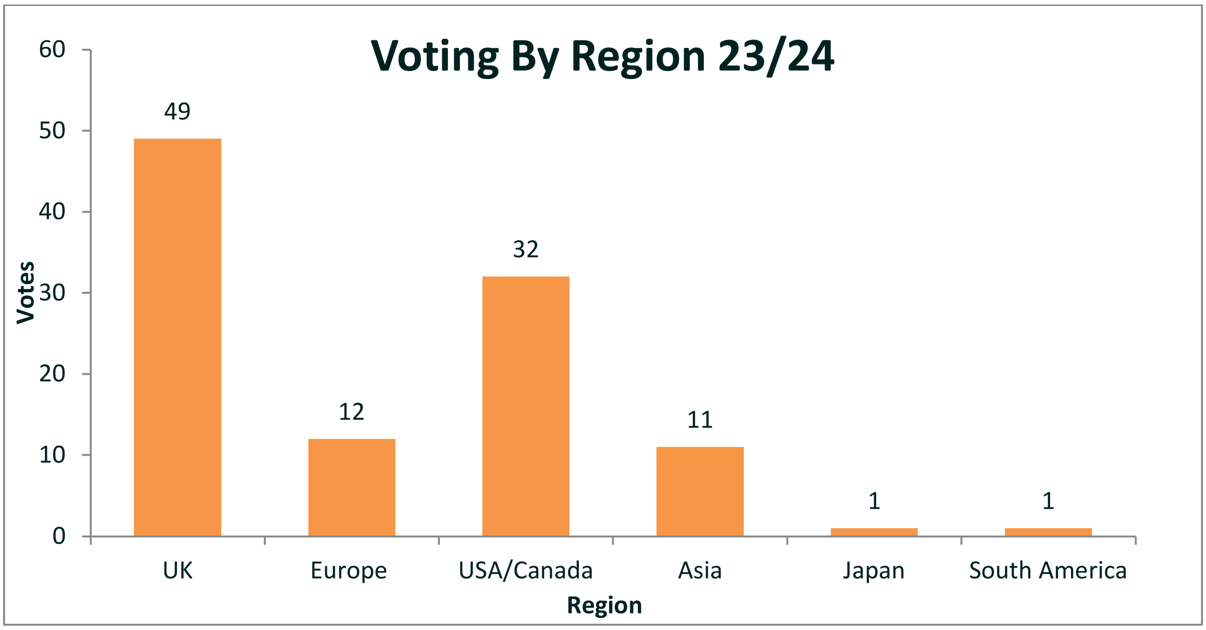
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

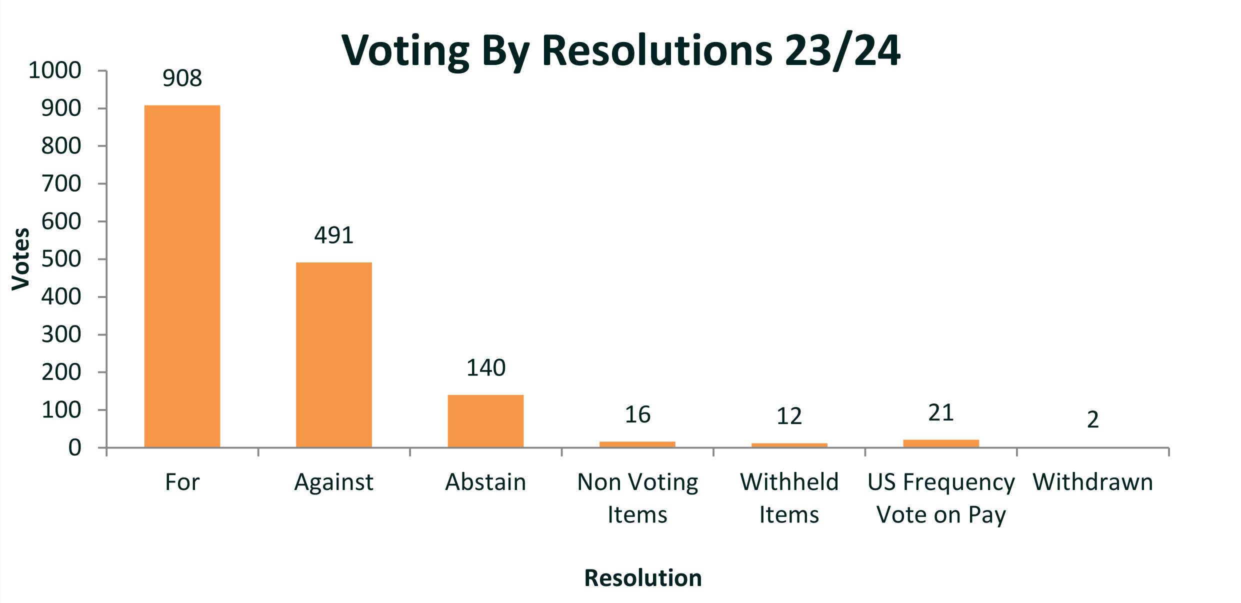
Voting

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

The Fund vote in house on all our active managers holdings and over the last year have voted at 106 Annual General Meetings/Special meetings on 1,554 resolutions. The Fund's voting advice is provided by Pensions & Investments Research Consultants Ltd (PIRC). Additional advice is also received from the Local Authority Pension Fund Forum.

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





During the year to 31 March 2024, the main reasons for casting a vote against a resolution are listed below:

<u>Directors</u>

● Insufficient independent representation on the board.

● Global Diversity and Inclusion efforts of the company.

● Executives who are employees should not be additionally rewarded with bonuses or Long Term Incentive Plans (LTIPs) for duties that are considered part of the job.

● The Chair cannot effectively represent two corporate cultures.

● Company has not disclosed quantified targets for the performance criteria of its variable remuneration policy.

<u>Share Issues/Repurchase</u>

● No clear case as to how this would benefit long term shareholders.

<u>Annual Reports</u>

● Concerns over sustainability policies and practice.

13. Acknowledgement

The production of the Unaudited Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2023/24 Unaudited Annual Report and Accounts.

Angela Scott	**Jonathan Belford, CPFA**	**Councillor John Cooke**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council.

21 June 2024

Statement of Responsibilities

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

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Fund, that officer is the Chief Officer - Finance for Aberdeen City Council.

- Manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far, as is compatible with the legislation, in accordance with proper accounting practices (Section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 21 June 2024.

Signed on behalf of Aberdeen City Council.

Councillor John Cooke
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

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

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Unaudited Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2024.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
21 June 2024

Annual Governance Statement

Scope of Responsibility

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

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

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Fund's affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. In addition, the Fund also has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

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

Purpose of the Governance Framework for North East Scotland Pension Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2023/24 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

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

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

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

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

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

Review of Effectiveness

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

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

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2023/24, no significant areas of weakness were highlighted.

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

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

Assurance from Internal Audit

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

Towards the end of the year, Internal Audit conducted a review of the Pension Fund's Investment Strategy with the outcome reported to the March 2024 Pensions Committee. No major issues or risks were reported.

The Chief Internal Auditor's annual report concluded that in his opinion the NESPF had an effective framework for Governance, Risk Management and Control. The Full Internal Audit report is on the Fund's website: www.nespf.org.uk.

At the Pensions Committee meeting on 22 March 2024, the 2024-27 three year Internal Audit plan was approved. These audits will focus on:

- 2024/25: Pension Fund Payroll
- 2025/26: Key Administrative Processes
- 2026/27: Complaints Handling

External Audit and Other External Scrutiny

The External Auditor, Audit Scotland, reports to the Pensions Committee on the year end financial audit and issues national performance audit reports.

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of the Pensions Committee. In 2023/24, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement is on our website: www.nespf.org.uk/about/policies-and-statements/.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2023/24 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott	**Jonathan Belford, CPFA**	**Councillor John Cooke**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council

21 June 2024

Governance Compliance Statement

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

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

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

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2024

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

	Notes	2022/23	2023/24
		£'000	**£'000**
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	3	37,056	39,651
Employers' Contributions	3	124,477	135,877
Transfer Values	4a	2,656	3,415
Other Income		3	3
Additions		**164,192**	**178,946**
Employers' Surplus Refunds/Exit Payments	5	1,186	24,864
Retirement Pensions	6	140,887	157,148
Retirement Allowances	6	25,257	33,436
Death Gratuities	6	5,845	7,741
Contributions Refunded	7	583	499
Transfer Values	7	3,223	7,804
Withdrawals		**176,981**	**231,492**
Net (Additions)/Withdrawals from dealings with members		**12,789**	**52,546**
Management Expenses	8a	21,468	26,024
Net (Additions)/Withdrawals including Fund Management Expenses		**34,257**	**78,570**
Return on Investment			
Investment Income	9	83,274	87,224
Taxes on Income	9	(552)	(530)
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	10	(425,554)	445,922
Net Return on Investments		**(342,832)**	**532,616**
Transfer In of ACCTF at Market Value	4b	**290,035**	**0**
Revaluation of Insurance Buy In Contract	18c	**(35,062)**	**(20,924)**
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		**(122,116)**	**433,122**
Opening Net Assets of the Fund		**5,925,893**	**5,803,777**
Net Assets of the Fund at the end of the year		**5,803,777**	**6,236,899**

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2024

This statement provides a breakdown of type and value of all Net Assets at the year end.

	Notes	2022/23	2023/24
		£'000	**£'000**
Investment Assets			
Bonds		46,218	0
Equities		2,161,917	2,431,401
Pooled Funds	11	2,230,604	2,516,109
Direct Property	15	367,200	381,000
Private Equity		480,612	500,286
Private Debt		155,026	129,789
Funds held by Investment Managers		74,044	137,659
ACC Loans Fund Deposit	21	145,610	41,150
Investment Income Due		2,024	2,543
Investment Sales Amount Receivable		161	16,520
Total Investment Assets		**5,663,416**	**6,156,457**
Investment Liabilities			
Investment Purchases Amount Payable		0	(27,072)
Net Investment Assets		**5,663,416**	**6,129,385**
Insurance Buy In Contract	20a	158,000	127,000
Life Time Tax Allowance	20a	189	174
Long Term Assets		**158,189**	**127,174**
Current Assets	20b	16,452	16,607
Current Liabilities	20c	(34,280)	(36,267)
Net Current Assets/(Liabilities)		**(17,828)**	**(19,660)**
Net Assets of the Fund at the end of the year		**5,803,777**	**6,236,899**

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
21 June 2024

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Accounting Policies

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

The Annual Accounts summarise the Fund's transactions for the 2023/24 financial year and its position at year end as at 31 March 2024.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £5,618,140 in 2023/24 (£4,586,458 2022/23).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2024 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Fund is assessed on a quarterly basis by the Scheme Actuary and is in accordance with the requirements of International Accounting Standard 19 (IAS 19) and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2) together with the full Statement by the Consulting Actuary is on Appendix 1.

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

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

Additional Voluntary Contributions

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

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2024 was £1,084,758,078 (31 March 2023 £925,701,847).

Actuarial Present Value of Promised Retirement Benefits

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

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

Insurance Buy In Contract

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

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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

- **IFRS 16 Leases** - This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the specific exception criteria. Implementation of this standard is from 1 April 2024.

- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** - The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions. This amendment is not expected to have a significant impact on the Financial Statements.

- **Classification of Liabilities as Current or Non Current (Amendments to IAS 1)** - The amendments are:
  Specify that an entity's right to defer settlement must exist at the end of the reporting period;
  Clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;
  Clarify how lending conditions affect classification; and
  Clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

  This amendment is not expected to have a significant impact on the Financial Statements.

- **Non-current Liabilities with Covenants (Amendments to IAS 1)** - The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.

  This amendment is not expected to have a significant impact on the Financial Statements.

- **International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)** - Pillar Two applies to multinational groups with a minimum level of turnover. The amendments are:
  A temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
  Targeted disclosure requirements for affected entities.

  These amendments are not likely to affect Pension Fund transactions.

- **Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)** - The amendments require an entity to provide additional disclosures about its supplier finance arrangements. The new requirements aim to provide users of financial statements with information that enables them to:
  Assess how supplier finance arrangements affect an entity's liabilities and cash flows; and

Understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available.

This amendment is not expected to have a material impact on the Financial Statements.

Note 2: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2023.

Information from the 2023 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£5,804,000,000
Liabilities	£4,614,000,000
Surplus	£1,190,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	126%

Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 13 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 20.2% (the Primary contribution rate.) By spreading the surplus over 13 years the Secondary contribution rate for the whole Fund is -6.2% meaning that the average employer contribution rate is 14.0% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2023 Actuarial Valuation report. This sets out the contributions for each employer over the 3 year period to 31 March 2027.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2027. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2027 onwards will be revised as part of the next actuarial valuation as at 31 March 2026 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate (Past Service)	4.60% p.a.
Discount Rate (Future Service)	4.10% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long Term	4.10% p.a.
Pension Increases in Payment	2.60% p.a.

The 2023 Actuarial Report and the NESPF Funding Strategy Statement are available from the office of the Executive Director Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £4,706m (2023 £4,598m).

The following factors that have had a key impact on the actuarial gains shown for the year to 31 March 2024:

- A change in financial assumptions including an increase in the discount rate and a slight increase in corporate bond yields has resulted in a small reduction in liabilities;

- The demographic assumptions have been changed to reflect the new data available form the Continuous Mortality Investigation (CMI_2022). This has had the effect of reducing the liabilities;

- Allowances for the impact of the 6.7% pension increase awarded in April 2024 have been made within the calculation. Additionally, CPI since September 2023 has been included. Since current inflation is higher than the long term inflation assumptions this has increased the value of the liabilities;

- Following the completion of the 2023 valuation the actual member experience from the previous valuation in 2020 has fed into the calculation.

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

The full statement by the Scheme Actuary is in Appendix 1.

Note 3: Contributions Receivable

By Category	2022/23	2023/24
	£'000	£'000
Employees' Normal Contributions	**37,056**	**39,651**
Employers' Normal Contributions	121,677	132,815
Employers' Deficit Recovery Contributions	2,800	3,062
Total Employers' Contributions	**124,477**	**135,877**
Total	**161,533**	**175,528**

By Authority	2022/23	2023/24
	£'000	£'000
Administering Authority	42,834	47,980
Scheduled Bodies	102,012	111,570
Admitted Bodies	16,687	15,978
Total	**161,533**	**175,528**

Note 4a: Transfers In from other Pension Funds

	2022/23	2023/24
	£'000	£'000
Individual Transfers	2,656	3,415
Total	**2,656**	**3,415**

Note 4b: Analysis of Transfer Value from Aberdeen City Council Transport Fund

	2022/23	2023/24
	£'000	£'000
Net Investment Assets	85,414	0
Long Term Assets	202,216	0
Bank Accounts	3,230	0
Current Assets	87	0
Current Liabilities	(912)	0
Total	**290,035**	**0**

Note 5: Employers' Surplus Refunds/Exit Payments

	2022/23	2023/24
	£'000	**£'000**
Employers' Surplus Refunds/Exit Payments*	1,186	24,864
Total	**1,186**	**24,864**

*Two employers terminated their admission agreements with the Fund in each of the above years. Surplus refunds/exit payments were calculated by the Scheme Actuary.

Note 6: Benefits Payable

By Category	**2022/23**	**2023/24**
	£'000	**£'000**
Pensions	140,887	157,148
Commutation and Lump Sum Retirement Benefits	25,257	33,436
Lump Sum Death Benefits	5,845	7,741
Total	**171,989**	**198,325**

By Authority	**2022/23**	**2023/24**
	£'000	**£'000**
Administering Authority	45,710	50,137
Scheduled Bodies	102,687	112,004
Admitted Bodies	23,592	36,184
Total	**171,989**	**198,325**

Note 7: Payment to and on Account of Leavers

	2022/23	2023/24
	£'000	**£'000**
Refunds to Members Leaving Service	584	503
Payments for Members Joining State Scheme	(1)	(4)
Individual Transfers	3,223	7,804
Total	**3,806**	**8,303**

Note 8a: Management Expenses

	2022/23	2023/24
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	1,595	1,787
Information Technology	474	556
Supplies & Services	161	192
Accommodation	714	560
Printing and Publications	14	18
Administration Expenses Total	**2,958**	**3,113**
Pension Fund Staffing Costs – Investment	232	262
Pension Fund Committee	2	2
Pension Board	3	4
External Audit Fee	45	51
Internal Audit Fee	11	12
Actuarial Fees	287	330
General Expenses	163	211
Oversight and Governance Expenses Total	**743**	**872**
Investment Management*	11,328	14,395
Performance Fees*	4,586	5,618
Direct Operating Property Expenses	793	761
Transaction Costs	921	1,095
Custody Fees	139	170
Investment Management Expenses Total	**17,767**	**22,039**
Management Expenses Grand Total	**21,468**	**26,024**

*In accordance with CIPFA guidance, the Fund treats those fees deducted from private equity/debt investments as Investment Management or Performance Fees. See the table below for a breakdown by asset class.

Quantifying these costs involves requesting the relevant fund managers for information, not all of which can be independently verified. Sometimes, fee estimates are required and there is a risk that the amount is incorrectly stated. However, as costs are offset by a corresponding adjustment to the change in market value of investments, any inaccuracy in the estimate will not change the Fund's net movement for the year.

Note 8b: Investment Management Expenses by Asset Class

2023/24	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	81				81
Equities	4,804	1,820		1,095	7,719
Pooled Funds	2,264	950			3,214
Property	1,077		761		1,838
Private Equity	3,525	1,767			5,292
Private Debt	2,644	1,081			3,725
Subtotal	**14,395**	**5,618**	**761**	**1,095**	**21,869**
				Custody Fees	170
				Grand Total	**22,039**

2022/23	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	75				75
Equities	4,335	2,034		837	7,206
Pooled Funds	451	1,188		84	1,723
Property	1,222		793		2,015
Private Equity	3,688	417			4,105
Private Debt	1,557	947			2,504
Subtotal	**11,328**	**4,586**	**793**	**921**	**17,628**
				Custody Fees	139
				Grand Total	**17,767**

Note 8c: Analysis of Transaction Costs

Commission £'000	Fees/ Tax £'000	2022/23 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2023/24 Total £'000
324	513	**837**	Equities	384	711	**1,095**
0	84	**84**	Pooled Funds	0	0	**0**
324	**597**	**921**	**Total**	**384**	**711**	**1,095**

Note 9: Investment Income

	2022/23	2023/24
	£'000	**£'000**
Bonds	257	186
Equity Dividends	19,978	24,544
Property Rental Income	18,862	20,333
Interest on Cash Deposit	4,790	8,911
Pooled Funds	21,894	20,704
Private Equity	3,645	585
Private Debt	10,139	12,206
Other (including P/L from Currency & Derivatives)	3,709	(245)
Total	**83,274**	**87,224**
Tax		
Withholding Tax – Equities	(552)	(530)
Total Tax	**(552)**	**(530)**
Net Total	**82,722**	**86,694**

Note 10: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2023	Purchases	Sales	Change in Market Value	Market Value 31 March 2024
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	46,218	0	(41,889)	(4,329)	0
Equities	2,161,917	824,687	(894,245)	339,042	2,431,401
Pooled Funds	2,230,604	169,479	(30,116)	146,142	2,516,109
Property	367,200	40,297	(12,012)	(14,485)	381,000
Private Equity	480,612	75,204	(38,532)	(16,998)	500,286
Private Debt	155,026	(7,581)	(14,206)	(3,450)	129,789
	5,441,577	**1,102,086**	**(1,031,000)**	**445,922**	**5,958,585**
Other					
Cash	219,654				178,809
Investment Income Due	2,024				2,543
Investment Sales Amount Receivable	161				16,520
Investment Purchases Amount Payable	0				(27,072)
Net Investment Assets	**5,663,416**				**6,129,385**

Reconciliation of Movements in Investment and Derivatives (continued):

	Market Value 31 March 2022	**Purchases**	**Sales**	**Change in Market Value**	**Market Value 31 March 2023**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	0	63,010	(0)	(16,792)	46,218
Equities	2,319,608	641,102	(644,885)	(153,908)	2,161,917
Pooled Funds	2,347,495	197,477	(105,094)	(209,274)	2,230,604
Property	427,375	4,742	(3,211)	(61,706)	367,200
Private Equity	518,689	55,748	(106,805)	12,980	480,612
Private Debt	143,106	11,299	(2,525)	3,146	155,026
	5,756,273	**973,378**	**(862,520)**	**(425,554)**	**5,441,577**
Other					
Cash	196,372				219,654
Investment Income Due	2,264				2,024
Investment Sales Amount Receivable	7,155				161
Investment Purchases Amount Payable	(14,395)				0
Net Investment Assets	**5,947,669**				**5,663,416**

Note 11: Analysis of Investments

	2022/23	2023/24
	£'000	**£'000**
Bonds	**46,218**	**0**
Equities - UK	399,957	392,251
Equities - Overseas	1,761,960	2,039,150
Equities	**2,161,917**	**2,431,401**
Pooled Funds Breakdown:		
Bonds	855,510	840,348
Equities	965,698	1,125,612
Infrastructure - Unit Trust	119,333	95,466
Infrastructure - Limited Partnership	290,063	454,683
Pooled Funds	**2,230,604**	**2,516,109**
Direct Property	367,200	381,000
Private Equity	480,612	500,286
Private Debt	155,026	129,789
Other Investments	**1,002,838**	**1,011,075**
Funds held by Investment Managers	74,044	137,659
ACC Loans Fund Deposit	145,610	41,150
Investment Income Due	2,024	2,543
Investment Sales Amount Receivable	161	16,520
Other Balances	**221,839**	**197,872**
Investment Assets Total	**5,663,416**	**6,156,457**
Investment Liabilities		
Investment Purchases Amounts Payable	(0)	(27,072)
Investment Liabilities Total	**(0)**	**(27,072)**
Net Investment Assets	**5,663,416**	**6,129,385**

Note 12: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2024.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2024.

Note 13: Investments Analysed by Fund Manager

	31 March 2023		31 March 2024	
	£'000	**%**	**£'000**	**%**
Investment Assets				
State Street Global Advisors	1,326,129	22.9	1,468,479	23.5
Baillie Gifford	1,189,218	20.5	1,291,963	20.7
BlackRock Asset Management	1,009,413	17.4	1,161,225	18.6
BlackRock Renewable Power III	41,303	0.7	62,552	1.0
Abrdn (Property)	380,057	6.5	391,347	6.3
Abrdn (Property Residential)	29,525	0.5	28,123	0.5
HarbourVest	326,824	5.6	330,500	5.3
ACC Loans Fund Deposit	145,610	2.5	41,150	0.7
Global Custodian	26,416	0.5	97,404	1.5
Partners Group	47,314	0.8	35,815	0.6
Maven Capital	407	0.0	22	0.0
Unigestion	56,938	1.0	81,411	1.3
Russell Multi Asset Credit	105,705	1.8	116,939	1.9
Aviva Infrastructure	119,332	2.1	95,466	1.5
Hermes Infrastructure	96,176	1.7	82,651	1.3
Alcentra	70,757	1.2	62,133	1.0
Hayfin Direct Lending	84,269	1.5	67,656	1.1
Insight Credit	366,558	6.3	380,542	6.1
Allianz Home Equity	19,609	0.3	24,420	0.4
IFM Global Infrastructure	152,707	2.6	309,587	5.0
Schroders	69,149	1.2	0	0.0
	5,663,416	**97.6**	**6,129,385**	**98.3**
Net Long and Current Assets				
Bank Account	938	0.0	10	0.0
Long Term and Current Debtors Less Creditors	139,423	2.4	107,504	1.7
Net Assets	**5,803,777**	**100.0**	**6,236,899**	**100.0**

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

Security	Market Value 31 March 2023	% of Net Investment Assets	Market Value 31 March 2024	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund*	489,120	8.64	611,736	9.98
MPF UK Equity Pooled Fund*	476,578	8.42	513,875	8.38
Insight Investment Mgt Global Funds*	366,558	6.47	380,542	6.21
MPF UK Index Linked Gilts*	360,431	6.36	342,868	5.59
IFM Global Infrastructure	152,692	2.70	308,067	5.03
HarbourVest Tranche L	297,332	5.25	265,487	4.33

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

Note 14: Stock Lending

	31 March 2023	Collateral Percentage	31 March 2024	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	421,438		537,669	
Total Exposure	**421,438**		**537,669**	
Total Collateral	**444,759**	**106%**	**573,243**	**107%**

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

Collateral is held at 107% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 15: Property Holdings

	2022/23	2023/24
	£'000	**£'000**
Opening Balance	**427,375**	**367,200**
Purchases	0	35,150
Construction	4,557	5,092
Subsequent Expenditure	185	55
Disposals	(3,211)	(12,012)
Net Increase in Market Value	(61,706)	(14,485)
Closing Balance	**367,200**	**381,000**

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

The valuation has been prepared against a backdrop where valuations have stabilised and there is a more promising outlook as we move into the rest of 2024. Therefore, the valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

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

	2022/23	2023/24
	£'000	**£'000**
Within One Year	17,846	19,304
Between One Year and Five Years	60,388	60,591
Later than Five Years	80,089	88,631
Total	**158,323**	**168,526**

In accordance with IAS 17, the above table has been presented using the 'break date' of the lease agreements.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2023-24 has seen no adjustment being required for a credit loss allowance.

Note 16: Financial and Non Financial Instruments

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

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

31 March 2023				31 March 2024		
Designated as Fair Value through Profit & Loss	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**		**Designated as Fair Value through Profit & Loss**	**Assets at Amortised Cost**	**Financial Liabilities at Amortised Cost**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**
			Financial Assets			
46,218			Bonds	0		
2,161,917			Equities	2,431,401		
2,230,604			Pooled Funds	2,516,109		
480,612			Private Equity	500,286		
155,026			Private Debt	129,789		
	219,654		Cash		178,809	
	2,185		Other Investment Balances		19,063	
	174,641		Debtors		143,781	
5,074,377	**396,480**		**Subtotal**	**5,577,585**	**341,653**	
			Financial Liabilities			
		(0)	Other Investment Balances			(27,072)
		(34,280)	Creditors			(36,267)
		(34,280)				**(63,339)**
5,074,377	**396,480**	**(34,280)**	**Financial Instruments Total**	**5,577,585**	**341,653**	**(63,339)**
			Non Financial Instruments			
367,200			Property	381,000		
5,441,577	**396,480**	**(34,280)**		**5,958,585**	**341,653**	**(63,339)**
		5,803,777	**Net Assets of the Fund**			**6,236,899**

Note 17: Net Gains and Losses on Financial and Non Financial Instruments

31 March 2023		31 March 2024
£'000	**Financial Assets**	**£'000**
(363,848)	Fair Value through Profit and Loss	460,407
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(363,848)	**Net Gains and Losses on Financial Instruments**	**460,407**
	Non Financial Instruments	
(61,706)	Fair Value through Profit and Loss	(14,485)
(425,554)	**Net Gains and Losses of the Fund**	**445,922**

Note 18: Valuation of Financial and Non Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 18a: Fair Value – Basis of Valuation

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

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

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	4,492,827		1,084,758	**5,577,585**
Non Financial Assets at Fair Value through Profit and Loss		381,000		**381,000**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**4,492,827**	**381,000**	**1,084,758**	**5,958,585**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2023	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	4,148,676		925,701	**5,074,377**
Non Financial Assets at Fair Value through Profit and Loss		367,200		**367,200**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**4,148,676**	**367,200**	**925,701**	**5,441,577**

Note 18b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

Note 18c: Reconciliation of Fair Value Measurements within Level 3

	Market Value 31 March 2023	Purchases during the year & Derivatives Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2024
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Infrastructure – Limited Partnership	290,063	168,479	(3,929)	3,929	(3,859)	454,683
Private Equity	480,612	75,204	(38,532)	22,419	(39,417)	500,286
Private Debt	155,026	(7,581)	(14,206)	3,726	(7,176)	129,789
Total	**925,701**	**236,102**	**(56,667)**	**30,074**	**(50,452)**	**1,084,758**

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

Bulk Annuity Insurance Buy In Contract

The transfer of assets from the ACCTF included a Bulk Annuity Insurance Buy In Contract with Rothesay Life Plc. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities of a specified group of pensioners on the pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension.

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

	Total
	£'000
Transfer from ACCTF of Insurance Buy In on 1 April 2023	**158,000**
Level Pensions Paid by Insurer	(10,076)
Actuarial Revaluation	(20,924)
Closing Market Value as at 31 March 2024	**127,000**

Note 18d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024**.**

	Assessed Valuation Range (+/-)	Value at 31 March 2024	Value on Increase	Value on Decrease
		£'000	**£'000**	**£'000**
Infrastructure – Limited Partnership	26%	454,683	572,901	336,465
Private Equity	26%	500,286	630,360	370,212
Private Debt	26%	129,789	163,534	96,044
Total		**1,084,758**	**1,366,795**	**802,721**

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

		Valuation 31 March 2024	**Valuation Increase**	**Valuation Decrease**
Change in Assumptions	**Adjustment**	**£m**	**£m**	**£m**
Discount Rate Adjustment	(-/+) 0.5%	127	133	122
Life Expectancy Adjustment	(+/-) 1 Year	127	132	122

It is important to note that the above are sensitivities rather than being 'upper or lower bounds' on the value of the policy.

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

Note 19: Risk arising from Financial and Non Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Adviser, the Fund has determined that the following movements in market price risk are possible for the 2023/24 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	26.0%
Private Equity	26.0%
Private Debt	26.0%
Property	13.0%
Cash	1.5%

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

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

Asset Type	Value as at 31 March 2024	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	342,867	7.5	368,582	317,152
Overseas Bonds	497,481	7.5	534,792	460,170
UK Equities	883,998	16.0	1,025,438	742,558
Overseas Equities	2,673,015	20.5	3,220,983	2,125,047
Infrastructure - Other	95,466	13.0	107,877	83,055
Infrastructure - Limited Partnership	454,683	26.0	572,901	336,465
Private Equity	500,286	26.0	630,360	370,212
Private Debt	129,789	26.0	163,534	96,044
Total	**5,577,585**		**6,624,467**	**4,530,703**

Asset Type	Value as at 31 March 2023	% Change	Value on Increase	Value on Decrease
	£'000		**£'000**	**£'000**
UK Bonds	429,465	8.0	463,822	395,108
Overseas Bonds	472,263	8.0	510,044	434,482
UK Equities	876,535	16.3	1,019,410	733,660
Overseas Equities	2,251,080	20.5	2,712,551	1,789,609
Infrastructure - Other	119,333	13.0	134,846	103,820
Infrastructure - Limited Partnership	290,063	26.0	365,479	214,647
Private Equity	480,612	26.0	605,571	355,653
Private Debt	155,026	26.0	195,333	114,719
Total	**5,074,377**		**6,007,056**	**4,141,698**

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2023 and 31 March 2024 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2023	As at 31 March 2024
	£'000	**£'000**
Cash and Cash Equivalents	219,654	178,809
Cash Balances	938	10
Bonds	901,728	840,348
Total	**1,122,320**	**1,019,167**

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	**Asset Values as at 31 March 2024**	**Impact**	
		+ 1%	**- 1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	178,809	180,597	177,021
Cash Balances	10	10	10
Bonds	840,348	848,751	831,945
Total	**1,019,167**	**1,029,358**	**1,008,976**

Exposure to Interest Rate Risk	**Asset Values as at 31 March 2023**	**Impact**	
		+ 1%	**- 1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	219,654	221,851	217,457
Cash Balances	938	947	929
Bonds	901,728	910,745	892,711
Total	**1,122,320**	**1,133,543**	**1,111,097**

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2024 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Asset Value as at 31 March 2024
	£'000	£'000
Overseas Quoted Securities	866,225	966,194
Overseas Unquoted Securities	627,402	640,063
Overseas Unit Trusts	961,383	1,131,346
Total Overseas Assets	**2,455,010**	**2,737,603**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.4%.

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

A 10.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the Net Assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2024	Potential Market Movement	
		+10.4%	-10.4%
	£'000	£'000	£'000
Overseas Quoted Securities	966,194	1,066,678	865,710
Overseas Unquoted Securities	640,063	706,630	573,496
Overseas Unit Trust	1,131,346	1,249,006	1,013,686
Total	**2,737,603**	**3,022,314**	**2,452,892**

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Potential Market Movement	
		+10.1%	-10.1%
	£'000	£'000	£'000
Overseas Quoted Securities	866,225	953,714	778,736
Overseas Unquoted Securities	627,402	690,770	564,034
Overseas Unit Trust	961,383	1,058,483	864,283
Total	**2,455,010**	**2,702,967**	**2,207,053**

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2024 was £178,819,000 (31 March 2023 was £220,592,000). This was held with the following institutions as shown below:

Summary	**Rating**	**Balance as at 31 March 2023**	**Balance as at 31 March 2024**
		£'000	**£'000**
Liquidity Funds			
HSBC Liquidity Funds	AA-	56,247	115,566
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	145,610	41,150
HSBC	AA-	17,797	22,093
Subtotal		**219,654**	**178,809**
Bank Current Accounts			
HSBC Bank	AA-	927	0
Virgin Money*	A-	11	10
		938	**10**
Total		**220,592**	**178,819**

*Clydesdale Bank trading as Virgin Money.

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024 the value of illiquid assets was £1,465,758,078 which represented 23.5% of the Total Net Assets of the Fund (31 March 2023 £1,292,901,847 which represented 22.3% of the Total Net Assets of the Fund).

Note 20a: Long Term Assets

	31 March 2023	31 March 2024
	£'000	£'000
Insurance Buy In Contract	158,000	127,000
Life Time Tax Allowance	189	174
Total Long Term Assets	**158,189**	**127,174**

Note 20b: Current Assets

	31 March 2023	31 March 2024
	£'000	£'000
Employees' Contributions due	3,023	3,215
Employers' Contributions due	8,853	9,526
Sundry Debtors	3,638	3,856
Subtotal	**15,514**	**16,597**
Bank	938	10
Total Current Assets	**16,452**	**16,607**

Note 20c: Current Liabilities

	31 March 2023	31 March 2024
	£'000	£'000
Sundry Creditors	24,862	28,154
Benefits Payable	9,418	8,113
Total Current Liabilities	**34,280**	**36,267**

Note 21: Related Party Transactions

Both the UK and Scottish Governments have a significant influence over the general operations of the Fund. They are responsible for providing the statutory framework within which the Fund operates and prescribes the terms of benefit payments to the Fund's membership. Members' benefit payments are shown in Notes 6 and 7.

The Fund's related party transactions with the Administering Authority, i.e. Aberdeen City Council, are:

	31 March 2023	31 March 2024
	£'000	£'000
Income:		
Contributions Receivable	39,964	43,031
Loans Fund Interest	1,767	5,234
Excess Pensions	2,355	2,522
Strain on Fund	515	2,426
Expenditure:		
Central Support Services	2,045	2,267
Accommodation – 2 Marischal Square	393	387
Debtors:		
Contributions Due	3,430	3,576
Excess Pensions Due	325	347
Creditors:		
Central Support Services Payable	571	635
Cash Balances:		
ACC Loans Fund Deposit	145,610	41,150

Audit Scotland are the appointed External Auditors of the Fund and Aberdeen City Council. They attend the Pensions Committee and Pension Board meetings. Their fee is disclosed in Note 8a.

Note 22: Key Management Personnel

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

		Accrued Pension 2022/23	Accrued Pension 2023/24
		£'000	£'000
Steven Whyte	Director of Resources	52	56
Jonathan Belford	Chief Officer - Finance	45	49

Governance

As at 31 March 2024, 7 members of the Pensions Committee and 8 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

Conflicts of Interest are managed in accordance with the Conflicts of Interest Policy or Codes of Conduct for Councillors or Employees. A list of Declared Interests are disclosed in Appendix 3.

The Fund's related party transactions with those declared interests are:

2023/24	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	686	23	55
Robert Gordon University	7,533	57	619

2022/23	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	647	23	57
Robert Gordon University	6,878	57	640

For the above related parties there were no expenditure transactions and no outstanding creditor balances for both years.

Note 23: Contractual Commitments as at 31 March 2024

As at 31 March 2024 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios. The undrawn commitments are outstanding call payments £430.249m (£589.846m 31 March 2023):

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	607,367	276,975
Partners Group	86,348	19,235
Maven (SLF)	6,308	22
Unigestion	141,065	67,865
AAM Residential Property	30,000	1,249
Hermes Infrastructure	100,000	9,448
Alcentra EDL	85,494	15,398
Hayfin DLF	85,494	15,317
Blackrock Renewable	79,161	24,740
Allianz Home Equity	25,000	0
IFM Global Infrastructure	300,000	0
Total	**1,546,237**	**430,249**

Note 24: Additional Voluntary Contributions (AVC)

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

Members of the North East Scotland Pension Fund are included in the following tables.

The amount of Additional Voluntary Contributions paid by members during the year is shown as income in the table below:

2022/23		Income (AVCs Paid by Members)		2023/24
£'000				£'000
7		Standard Life		9
3,395		Prudential*		4,435

The closing Net Assets values represent the value of the separately invested Additional Voluntary Contributions. These closing values are subject to revaluation.

Market Value		Additional Voluntary Contributions		Market Value
31 March 2023				31 March 2024
£'000				£'000
1,043		Standard Life		983
25,841		Prudential*		27,601

*The Prudential figures for 2023/24 are estimates. The actual figures will be known at the end of July 2024.

Note 25: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently holds one cash bond in respect of the participating employers within the fund. The bond guards against the possibility of being unable to recover pension liabilities from this Admission Body should they terminate their participation of the Scheme. A high level review of the bond requirements for the participating employers within the Fund was undertaken by the Scheme Actuary in 2024 following the completion of the triennial valuation to determine if any bonds needed to be put into place for the protection of the Scheme guarantors and the other participating employers as a whole. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made at this time.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total, the Fund has secured guarantees for 20 Admission Bodies currently participating in the Scheme.

There is an ongoing Class Action regarding potential securities fraud and a court case has been scheduled for July 2024.

Note 26: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2023/24 three admission bodies exited from the Fund. Two of those were a managed exit and one where the employer went into administration. Following these termination events, the assets and liabilities for each employer were assessed by the Scheme Actuary. The Actuary's assessment is to determine the funding level and the deficit or surplus held in accordance with the regulations. The Fund paid exit credits to two of the exiting employers as a surplus was identified upon exit. The liabilities for the third employer was subsumed by the guarantor as at the exit date. Termination certificates, signed by the Scheme Actuary, were issued to the employers to confirm that the liabilities had been discharged.

Note 27: Investment Principles

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

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

Note 28: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial Present Value of Promised Retirement Benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 2.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £500 million. Private Debt £130 million. Pooled Infrastructure (Unquoted) £455 million. There is a risk that these investments may be under or overstated in the accounts.
Insurance Buy In Contract	The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note 18d Sensitivity Analysis.

Note 29: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 21 June 2024. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2024, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 30: Agency Arrangement for Administering Compensatory 'Added' Years

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

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

	2022/23	**2023/24**
	£'000	**£'000**
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,355	2,522
Aberdeenshire Council	1,358	1,442
Moray Council	698	730
Scottish Water	1,297	1,390
Other	280	297
Total	**5,988**	**6,381**

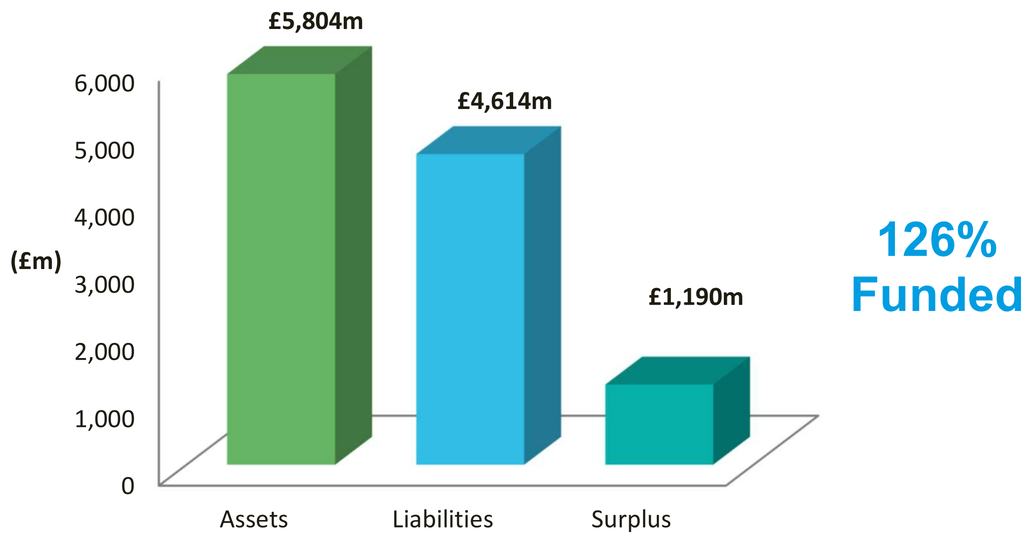
	2022/23	**2023/24**
	£	**£**
Associated Payroll Cost	**4**	**4**

Appendix 1 – Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55(1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2018.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2023 to determine the contribution rates with effect from 1 April 2024 to 31 March 2027.



On the basis of the assumptions adopted, the Fund's assets of £5,804 million represented 126% of the Fund's past service liabilities of £4,614 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £1,190 million.

This position allows for the merger of the Aberdeen City Council Transport Fund into the North East Scotland Pension Fund on 1 April 2022. In particular, the figures include the bulk annuity insurance buy in contract with Rothesay Life Plc in respect of a specified group of pensioners. For the purpose of the actuarial valuation the 31 March 2023 liabilities relating to the insured pensioner members have been assessed on the Fund's ongoing valuation basis and the assets have been taken from the audited Fund accounts.

The valuation also showed that a Primary contribution rate of 20.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the weighted average recovery period adopted is 13 years, and the total initial recovery payment (the “Secondary rate” for 2024/27) is a surplus offset of approximately 6.2% per annum in % terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS).

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2024.

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

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

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.6% per annum	4.1% per annum
Rate of pay increases (long term)	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.6% per annum	2.6% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2026. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2027.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2024 (the 31 March 2023 assumptions are included for comparison):

	31 March 2023	31 March 2024
Rate of return on investments (discount rate)	4.8% per annum	4.9% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	2.7% per annum
Rate of pay increases	4.2% per annum*	4.2% per annum
Increases on pensions (in excess of GMP)/Deferred revaluation	2.8% per annum	2.8% per annum

** the 31 March 2023 assumption includes a corresponding allowance to that made at the 2020 actuarial valuation for short term public sector pay restraint.*

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2020 actuarial valuation assumptions, updated to reflect the initial demographic study carried out as preparation for the 2023 actuarial valuation, CMI_2021 with a long term rate of life expectancy improvement of 1.5% p.a.
- the end of period assumptions are based on the final demographic assumptions adopted for the 2023 actuarial valuation, updated to CMI_2022 with a long term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal report on the actuarial valuation dated March 2024.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	£4,598m
Interest on liabilities	£217m
Net benefits accrued/paid over the period*	(£44m)
Actuarial (gains)/losses (see below)	(£65m)
End of period liabilities	£4,706m

**This includes any increase in liabilities arising as a result of early retirements*

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased slightly over the year, with a corresponding increase in discount rate from 4.8% p.a. to 4.9% p.a. The long term assumed CPI is the same at the end of year as it was at the start of year. In combination, these factors lead to a small reduction in liabilities.
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the new CMI model available. This acts to reduce the liabilities.
- **Pension increases / recent high short-term inflation:** The figures allow for the impact of the April 2024 pension increase of 6.7%, to the extent it wasn't allowed for in the 2023 statement, along with known CPI since September 2023 (which will feed into the 2025 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities.
- **2023 actuarial valuation:** The year end liabilities allow for the final 2023 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2020/23. This will include factors such as the impact of actual pay increases awarded, actual rates of ill health retirement, etc.

Paul Middleman
Fellow of the Institute and
Faculty of Actuaries

Mark Wilson
Fellow of the Institute and
Faculty of Actuaries

Mercer Limited
May 2024

APPENDIX 1a – ADDITIONAL CONSIDERATIONS

The "McCloud judgment": The figures above allow for the impact of the judgment **based** on the proposed remedy.

GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

Covid 19/Ukraine/Gaza conflict: The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2020 to 2023 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long term impact.

High inflation over last two years The period end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period end assumptions then allow for expected (market implied) CPI from that point.

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2023	New Admissions	Ceased	Employers as at 31 March 2024
Scheduled Bodies	10	0	0	**10**
Admission Bodies	34	0	(3)	**31**
Total	**44**	**0**	**(3)**	**41**

Ceased during 2023/24

1. Aberdeen Cyrenians	Admitted
2. First Aberdeen	Admitted
3. St Machar Parent Project	Admitted

Participating Employers as at 31 March 2024

1. Aberdeen City Council	Scheduled
2. Aberdeenshire Council	Scheduled
3. Grampian Valuation Joint Board	Scheduled
4. Moray College	Scheduled
5. Moray Council	Scheduled
6. NESTRANS	Scheduled
7. North East Scotland College	Scheduled
8. Scottish Fire and Rescue Service	Scheduled
9. Scottish Police Authority	Scheduled
10. Scottish Water	Scheduled
11. Aberdeen Endowments Trust	Admitted
12. Aberdeen Foyer	Admitted
13. Aberdeen Heat & Power Ltd	Admitted
14. Aberdeen Performing Arts	Admitted
15. Aberdeen Sports Village	Admitted
16. Alcohol and Drugs Action	Admitted
17. Bon Accord Care Ltd	Admitted
18. Bon Accord Support Services Ltd	Admitted
19. Community Integrated Care (Inspire Legacy Staff)	Admitted
20. Fersands and Fountain Community Project	Admitted
21. Forth and Oban Ltd	Admitted
22. Fraserburgh Harbour Commissioners	Admitted

23. HomeStart Aberdeen	Admitted
24. HomeStart NEA	Admitted
25. Idverde UK	Admitted
26. Mental Health Aberdeen	Admitted
27. North East Sensory Services	Admitted
28. Outdoor Access Trust for Scotland	Admitted
29. Pathways	Admitted
30. Peterhead Port Authority	Admitted
31. Printfield Community Project	Admitted
32. Robert Gordon's College	Admitted
33. Robert Gordon University	Admitted
34. Robertsons Facilities Management (City)	Admitted
35. Robertsons Facilities Management (Shire)	Admitted
36. Sanctuary Scotland Housing Association Ltd	Admitted
37. SCARF	Admitted
38. Scottish Lighthouse Museum	Admitted
39. Sport Aberdeen	Admitted
40. Station House Media Unit	Admitted
41. Xerox (UK) Ltd	Admitted

Appendix 3 – Declared Interests

In 2023/24 Members/Key Management Personnel had disclosed an interest that is included within the following list:

Aberdeen Bulawayo Trust
Aberdeen City Heritage Trust
Aberdeen Civil Service Curling Club
Aberdeen Community Health Care Village Limited
Aberdeen Endowments Trust
Aberdeen Gomel Trust
Aberdeen International Airport Consultative Committee
Aberdeen Lads Club
Aberdeen Outdoor Access Forum
AGHOCO 2175 Limited
Asco Group Ltd
Association of Public Service Excellence
Bonsell Accounting Services
Carbon Reduction Analysts Ltd
Care and Repair Initiative Scotland
Champions Board
Clydesdale Bank
Convention of Scottish Local Authorities (COSLA) Health and Social Care Board
Cruden Bay Golf Club
Etiom Ltd
Fersands Area Forum
First Group Plc
Friends of the Gordon Highlander Museum
GMB Union
Grampian Houston Association
Grampian Racial Equality Council (GREC)
Grampian Valuation Joint Board
Granite City Speakers Club
Historic Scotland
Hub North Scotland Limited
Hub North Scotland (Alford) Limited
Hub North Scotland (FWT) Limited
Institute of Chartered Accountants Scotland (ICAS)
Integration Joint Board
Kellas Midstream Ltd
Lloyds Banking Group
Longhaven District Hall Association
Longhaven Social Club

Mennico Ltd
Modern Money Scotland
North East Agricultural Advisory Committee
North East Scotland Fisheries Development
Printfield Community Project
Punk Anatomist and Scotonomics
Robert Gordon University
Royal National Lifeboat Institution (RNLI)
Rubislaw Field Committee
Saga
Santander
Scotch Malt Whisky Society
Scottish Ambulance Service
Scottish & Southern Electricity (SSE) Plc
Sport Aberdeen
The Gordon Highlanders Advisory Group
The Vestry
UNISON (Public Service Union)
UNITE the Union
University of Aberdeen
University of the Highlands & Islands (UHI) Foundation
Virgin Money
Woodside Neighbourhood Community Planning and Regeneration Network

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Budget / Forecast 2024/25
REPORT NUMBER	PC/JUN24/BUD24-25
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Michael Scroggie
TERMS OF REFERENCE	1.3

1. PURPOSE OF REPORT

1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast 2024/25 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATION

That the Committee:-

2.1 Approve the NESPF Management Expenses Budget/Forecast 2024/25, shown in the main report.

3. CURRENT SITUATION

3.1 BUDGET/FORECAST 2024/25

3.1.1 The main report shows the Council's Budget for 2024/25 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	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.
Data Protection Impact Assessment	Not Required
Other	N/A

10. BACKGROUND PAPERS

10.1 North East Scotland Pension Fund (NESPF) Draft Annual Report & Accounts (2023/24) and Fund Governance Policy Statement.

11. APPENDICES

11.1 None

12. REPORT AUTHOR CONTACT DETAILS

Name	Michael Scroggie
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Budget/Forecast 2024-25

Period 1 April 2024 to 31 March 2025

1. Budget/Forecast 2024-25

Section 2 below shows the NESPF Budget/Forecast 2024-25. The budget/forecast 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/Forecast 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. Budget/Forecast 2024-25

	Notes	ACC Full Year Budget/Forecast 2024-25	Additional Budget/Forecast 2024-25	NESPF Full Year Budget/Forecast 2024-25
		£'000	£'000	£'000
Administrative Staff Costs*		2,037	91	2,128
Information Technology		37	538	575
Supplies & Services		80	69	149
Accommodation		0	573	573
Printing & Publications		0	20	20
Administration Expenses Total		**2,154**	**1,291**	**3,445**
Investment Staff Costs*		256	27	283
Pension Fund Committee		2	2	4
Pension Board		1	5	6
External Audit Fee		0	52	52
Internal Audit Fee		12	0	12
Actuarial Fees		0	338	338
General Expenses		0	220	220
Oversight & Governance Expenses Total		**271**	**644**	**915**
Investment Management Fees		0	15,316	15,316
Performance Fees		0	5,977	5,977
Direct Operating Property Expenses		0	779	779
Transaction Costs		0	1,120	1,120
Custody Fees		0	174	174
Investment Management Expenses Total**		**0**	**23,366**	**23,366**
Management Expenses Grand Total		**2,425**	**25,301**	**27,726**

Note:

* The Aberdeen City Council (ACC) Staffing Budget for the Pension Fund in past years was done on a ‘roll forward’ basis. This created anomalies between the budgeting approach taken by the Council and that of the Fund. To help address this issue and close the gap, a ‘hard reset’ was done for 2024-25 to bring the Council’s budget into closer alignment with that of the Fund. However, it is important to note that there will still be costs paid for directly by the NESPF, as shown in the ‘Additional’ column. Therefore, the budgets will never be the same. Regardless of any difference, all staff costs processed by the Council are recharged by the Council to the Fund, i.e. it is cost neutral from a Council perspective.

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

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Investment Strategy Review 2024
REPORT NUMBER	PC/JUN24/REVIEW
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Graham Buntain and Laura Colliss
TERMS OF REFERENCE	1.1 and 4.1

1. PURPOSE OF REPORT

1.1 This report details the outcome of the investment strategy review which has been prepared by officers following the outcome of the 2023 Actuarial Valuation. This report sets out the details of the Fund's current investment strategy and makes a number of recommendations on taking the strategy forward.

2. RECOMMENDATION

That the Committee:-

2.1 Approve the proposed investment strategy as set out in the main report.

3. CURRENT SITUATION

3.1 See main report.

4. FINANCIAL IMPLICATIONS

4.1 The performance of the Fund over the long term impacts on the Fund's 'funding level' and therefore the ability to meet its long term liabilities.

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	Risk	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	• Insufficient assets to meet the Funds long term liabilities • Failure to monitor investment managers and assets	• 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.	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	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.

Data Protection Impact Assessment	Not required
Other	N/A

9. BACKGROUND PAPERS

9.1 None

10. APPENDICES

10.1 None

11. REPORT AUTHOR CONTACT DETAILS

Name	Laura Colliss Graham Buntain
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Investment Strategy Review

June 2024

Actuarial Valuation 2023 & Funding Strategy Statement

Valuation Date	31 March 2017 £'s	31 March 2020 £'s	31 March 2023 £'s
Asset Value	3,815 m	4,367 m	5,804 m
Liabilities	3,576 m	4,254 m	4,614 m
Surplus/(Deficit)	239 m	113 m	1,190 m
Funding Level	**107%**	**103%**	**126%**

Actuarial Valuation

As shown in the above table, the Fund has a strong funding level, outperforming the target funding level of 100%. Having reached this position it is now very important that the Fund implements a balanced investment strategy that locks in this funding level and protects this position going forward; whilst recognising the Fund is still an open Fund.

Funding Strategy Statement

The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) (the '2018 Regulations') and the Local Government Pension Scheme (Transitional Provisions and Savings) (Scotland) Regulations 2014 (the '2014 Transitional Regulations') (collectively 'the Regulations') provide the statutory framework from which the administering authority is required to prepare a Funding Strategy Statement (FSS).

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the administering authority, acting on the professional advice provided by the scheme actuary.

The administering authority's long term objective is for the Fund to maintain a 100% solvency level over a reasonable time period and then sufficiently manage assets in order for it to pay all benefits arising as they fall due.

The purpose of the Funding Strategy Statement (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'; and

- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

The intention is for this strategy to be both cohesive and comprehensive for the Fund as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the administering authority to implement and maintain.

Delivery of the Funding Strategy is through a combination of scheme contributions (both member and employer) and the Fund's investment Strategy.

This report sets out the Fund's current investment strategy and proposal for its development over the next valuation period.

Investment Strategy

Despite the time spent by Pension Funds on the appointment, review and selection of fund managers, investment strategy and the development of the strategic benchmark (Alpha) accounts for around 80 - 90% of the performance of a pension fund's assets.

Investment strategy should be determined in order to meet the Fund's particular requirements, with specific reference to the funding position and liability profile, and to the Fund objectives. It need not reflect a standard 'mould' or 'model'; rather it should be based on sound rationale specific to the Fund's own circumstances. In theory every fund should have a different asset allocation policy.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which more closely matches the liabilities and represents the minimum risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts.

Investment of the Schemes' assets in line with the minimum risk portfolio would minimise fluctuations in the Schemes' ongoing funding level between successive actuarial valuations.

Departure from a minimum risk investment strategy, in particular to include equity investments, gives the prospect that out-performance by the assets will stabilise the contribution requirements and move towards/maintain the funding target (100%). The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current FSS incorporated the following global strategy asset allocation as appropriate to meet the long term objective of maintaining 100% funding:

<u>Growth Assets 55.0% (range +/- 5%)</u>
Global Equities 50.0%
Limited Partnerships 5.0%

Income/Protection Assets 45.0% (range +/- 5%)
Bonds/Credit 22.5%
Direct Property 10.0%
Infrastructure 10.0%
Other 2.5%

2023 Investment Strategy Review

During the 2023 Investment Strategy review a number of topics were considered including:

a) Re-balancing the Equity profile and overweight
b) The role of each mandate as a contribution towards Investment Strategy
c) Potential to add more Credit opportunities and Index Linked Gilts
d) Income requirements and cashflow negativity
e) Environmental, Social & Governance issues

Changes made since the last review of the Fund include;

a) Further investments in Direct Lending, Credit and Infrastructure.

Investment Strategy 2024

Having taken all the above into consideration, which importantly includes the current funding position of 126%, the Fund should look to achieve its rebalancing target and lock in recent gains.

To achieve this, the Fund needs to reduce its growth asset allocation and increase its income/protection allocation. This can be done by reducing Global Equities and increasing Bonds/Credit assets.

The proposed move between Growth and Income/Protection will be phased over time taking into account trigger points and market conditions. In terms of the top line Investment Strategy, Officers recommend that this can remain the same:

Current Strategic Benchmark	Proposed Strategic Benchmark
Growth Assets 55.0% (+/- 5%)	**Growth Assets 55.0% (+/- 5%)**
Global Equities 50%	Global Equities 50%
Limited Partnerships 5%	Limited Partnerships 5%

Income/Protection Assets 45.0% (+/- 5%)	Income/Protection Assets 45.0% (+/- 5%)
Bonds/Credit 22.5%	Bonds/Credit 22.5%
Property 10%	Property 10%
Infrastructure 10%	Infrastructure 10%
Other 2.5%	Other 2.5%

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Agenda Item 10.2

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/JUN24/STRAT
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	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 Approve the updates to the Fund policy documents as set out in 6.2 of the main report; and

2.2 Note the remainder of the report for reassurance.

3. CURRENT SITUATION

3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

4.1 The performance of the Fund over the long term can impact on the Fund's funding level and therefore the ability to meet its long-term liabilities.

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

Appendix I, Copy of Risk Register (May 2024)

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	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (May 2024)
Appendix II, PAS Report Q4
Appendix III, NESPF Valuation Report 2023
Appendix IV, NESPF Funding Strategy Statement 2023

12. REPORT AUTHOR CONTACT DETAILS

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Strategy Report

Quarterly Reporting June 2024

1. Background

1.1 Quarterly Report to June 2024

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 Review Report
Investment Strategy Update Report

Separate reports, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

3. Accounting

3.1 Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund) Annual Report & Accounts (draft) Budget/Forecast 2024/25

Separate reports, provided

4. Benefit Administration

4.1 2020 HM Treasury Cost Control Mechanism Results

On 19 April 2024, the Government Actuary's Department released the results of the 2020 HM Treasury cost control.

The results showed that the core cost was 12.4 per cent of pensionable pay. This is 2.8 per cent below the employer cost cap of 15.2 per cent. As this lies within 3 per cent of the cost cap corridor, there is no breach of the cost control mechanism. Therefore, there is no requirement for Scottish Ministers to consult on changes to the scheme.

5. Systems

5.1 Performance Reporting

The quarterly update covering the period to March 2024 is attached to this report. Revised PAS reporting will be taken to the September meeting.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

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

6.2 Document Updates

- NESPF Cyber Incident Response Plan (**NEW**)
- Record Keeping Policy (removed references to the Transport Fund and replaced Code of Practice 14 with General Code following implementation)
- Training Policy (minor amendments for improved clarity, added CIPFA Framework for Board members)
- Pension Board Appointment Process (update from CoP14 to General Code)
- Statement of Investment Principles (addition of Exclusion Policy and enhanced Climate Statement, also added details on biodiversity and provided examples)
- Investment Policy (minor amendments to reference ESG, responsible investment, risk classes)
- Corporate Governance and SRI Policy (minor amendments in reference to ESG and responsible investment to provide further clarity on approach)

6.3 Breaches of Law

A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 17 breaches of law recorded in the NESPF breaches register during 2023/24. The majority were scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions. The remainders were personal data breaches resulting mostly from human error.

The Pension Fund will continue to engage with scheme employers during 2024/25 and build on the training and support already provided. Officers complete mandatory information governance training annually and receive further training and reminders to reinforce this throughout the year.

Following assessment none of the above breaches were deemed to be of material significance to require reporting to the Pensions Regulator.

In line with the UK data protection legislation certain data breaches must be reported to the Information Commissioners' Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 2023/24.

6.4 Pensions Committee and Board Training

Separate report, provided

6.5 LAPFF Executive Committee

Separate report, provided

6.6 Pensions Dashboards

Separate report, provided

6.7 Operating Model Review

Aberdeen City Council in its role as the Administering Authority has a duty to deliver a pension service to all stakeholders. Hymans Robertson have recently been appointed via the Norfolk Local Government Pension Scheme (LGPS) Framework to deliver a full Operating Model Review of the Pension Fund.

The Operating Model Review will look at the current structure and provision of critical services, with the aim to ultimately deliver financial and service efficiencies. The delivery of an efficient Pension Fund is critical to the 41 employers and 70,000 plus members of the scheme including local taxpayers. The review and following outcomes will future proof the Fund, ensuring the delivery of this critical service for generations to come. Further updates will be provided.

7. Employer Relationship

7.1 2023 Actuarial Valuation

Following the Funding Strategy Statement consultation with the Pensions Committee and participating employers in December 2023 the triennial valuation was completed by the Scheme Actuary in March 2024. The Valuation Report confirms that the funding level for the NESPF as at 31 March 2023 was 126% with a calculated surplus of £1,190m.

The Valuation Report also includes the Rates and Adjustments Certificate which details the individual employer contribution rate requirements for the three years from 2024/25 to 2026/27. All participating employers within the NESPF have seen a reduction to their rate from the previous valuation in 2020. Some employers have seen more significant reductions than others depending on the individual employer funding level and the membership profile held.

The NESPF and the Scheme actuary have delivered a balanced valuation ensuring that employers are benefiting from the surplus position which has been maintained over the last three valuations whilst also putting in the appropriate levels of prudency to achieve contribution sustainability over the longer term.

The final versions of the NESPF Valuation Report 2023 and the NESPF Funding Strategy Statement 2023 are attached for your information and outlines the valuation methodology and the assumptions used.

Appendix III, NESPF Valuation Report 2023
Appendix IV, NESPF Funding Strategy Statement 2023

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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)

Last Update: May 2024

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 taken to December 2023 meeting. ACC Scheme of Governance annual review to Council Summer/Autumn 2024	**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 Sept'24 meeting.	**Ongoing**

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk: Impact	Current Risk: Likelihood	Current Risk: Score	Current Risk: Movement	Approach	Additional Actions/Latest Notes	Owner & Timescale
	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 • Monthly Hymans Progress Report	3	3	9	↔	**TREAT**	Pension Board Annual Report to Jun'24 meeting. High turnover of Committee members in previous years. Currently 2 long term vacancies on Committee. Hymans Knowledge Progress Assessment completed in 2023.	**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 ongoing.	**Ongoing**
NESPF006	**Risk:** Failure to recruit, retain and develop staff **Causes:** Limited pool of resources/competition with	• All staff have individual development plans	3	2	6	↔	**TREAT**	Modern Apprentice placements completed successfully	**Laura Colliss, ongoing**

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	private sector, lack of training/development opportunities, resource drain from wider priorities **Potential Impact:** Loss of service delivery, risk to succession planning	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						resulting in 2 new permanent staff members. Recruitment process ongoing for any outstanding posts.	
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 PFaroe) • Tri-ennial valuation • Individual employer contribution rates	3	4	12	↔	**TOLERATE**	Short term inflation continues to be impactful, directly affecting liabilities and pensions paid but starting to reduce. 2023 valuation sets inflation assumption higher than in 2020 based on current environment but also reflects national long term forecast for lower inflation.	**Ongoing**
NESPF008	**Risk:** Over reliance on services provided by the		3	3	9	↔	**TOLERATE**	Risk remains static due to ongoing	**Ongoing**

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						issues being experienced. Review to be carried out by Hymans and completed by Aug'24.	
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 to Mar'24 committee meeting. Six monthly compliance review due June 2024.	**Ongoing**
NESPF010	**Risk:** Failure to comply with FOI or SAR requests		3	1	3	↔	**TREAT**		**Ongoing**

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 • Enhanced Admin to Pay and Arrears Modules to provide calculation checks • Participation in National Fraud Initiative exercise • Overseas pensioner existence checking	2	3	6	↔	**TREAT**		**Ongoing**

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North East Scotland Pension Fund

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	1	4	↓	**TREAT**	Tri-ennial valuation process completed, Fund in very healthy position (126% funded) and valuation approach continues to ensure high level of prudency, therefore risk reduced. Investment strategy review to June 2024 meeting.	**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**		**Ongoing**
NESPF015	**Risk:** Failure of world stock markets **Causes:** Systemic	• Diversification of Scheme assets	4	2	8	↔	**TOLERATE**	Tri-ennial valuation completed, investment	**Ongoing**

Last Update: May 2024

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 Jun'24 meeting.	
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**

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North East Scotland Pension Fund

Last Update: May 2024

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**	Draft Annual Report & Accounts to June 2024 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 complete annual information governance refresher training and further training to be carried out over 2024.	**Ongoing**

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
		• Secure physical storage measures • Admin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc							
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. Cyber Incident Response Plan now in place.	**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**	New mortality tracing has been in place, data uploaded and checked against national death records and automatically creates cases on	**Ongoing**

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North East Scotland Pension Fund

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
								Altair administration database with output dashboard with lower priority matches. Review of new process ongoing.	
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**	Increasing budget constraints are leading more employers to redundancy/early retirement exercises. Employers are aware of cost implications. Strain on Fund factors reviewed by scheme actuary in 2023.	**Ongoing**

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
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	1	6	6	↓	**TREAT**	Risk reduced due to new flexibilities, guarantors in place, new Termination Policy and current funding position.	**Ongoing**
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**	Demographic assessment carried out by the scheme actuary in 2022/23 which was fed into 2023 valuation.	**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. New employer contribution rates put in place following 2023 valuation. All employer contribution requirements	**Ongoing**

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
								reduced for inter-valuation period 2024-27.	
NESPF028	**Risk:** Failure to maintain member records; data incomplete or inaccurate **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	2	2	4	↔	**TREAT**		**Ongoing**
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	2	4	↓	**TREAT**	Now “Live” with McCloud. Majority of historic recalculations completed. Risk reduced.	**Ongoing**

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North East Scotland Pension Fund

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Pension Administration Strategy

Quarterly Reporting 31st March 2024

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

1.1 Key administration tasks

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

		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	44	39	**88.6%**	95.5%	97.7%	97.7%	1	1	**86.7%**
Notification of retirement estimate	10 days	480	478	**99.6%**	99.6%	99.8%	99.8%	1	16	**96.4%**
Notification of retirement benefits	10 days	1730	1596	**92.3%**	93.6%	96.6%	98.6%	24	8	**91.8%**
Notification of deferred benefits	10 days	1971	1875	**95.1%**	95.6%	96.6%	99.4%	11	9	**94.7%**
Notification of refund	10 days	1165	1157	**99.3%**	99.6%	99.7%	99.7%	3	13	**98.2%**
Notification of transfer in value	10 days	171	122	**71.3%**	71.9%	73.7%	77.8%	38	5	**69.3%**
Notification of transfer out value	10 days	536	303	**56.5%**	57.5%	59.7%	66.6%	179	8	**55.7%**
		6097	5570	91.4%				257	60	90.5%

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:

- *Transfer processing had to be paused for (i) SCAPE rate change announced in March with new factors delivered in July 2023 and (ii) McCloud regulations coming into force from October with SPPA guidance received in March 2024.*

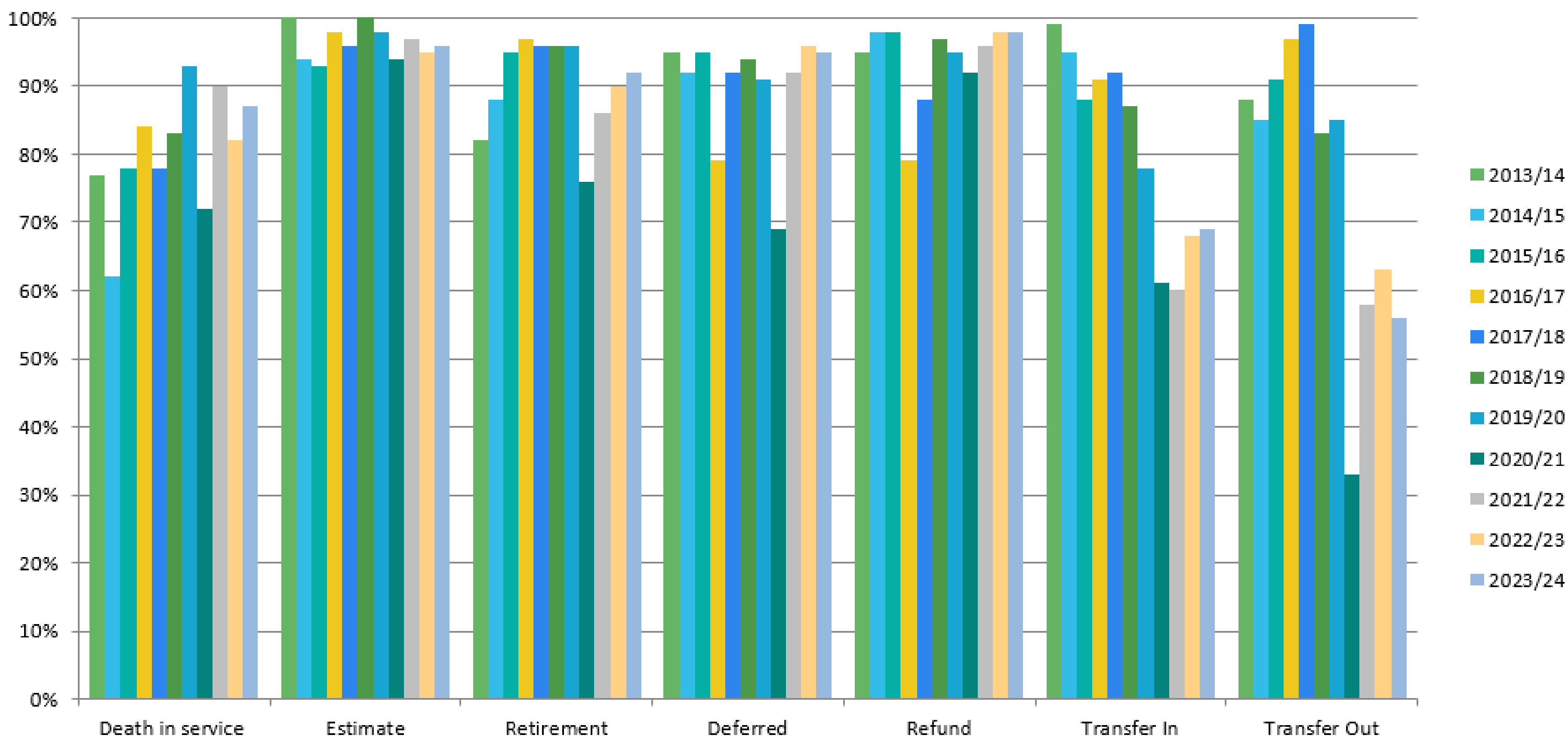
Additional targets for completed during reporting period - reporting output is based on adding 5/10/20 days to the 5 and 10 day targets built into workflow cases for processing administration tasks:

- *Transfers that were paused 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 60 compared to 205 in 2022/23.*

1.2 Previous years comparison



1.3 McCloud remedy

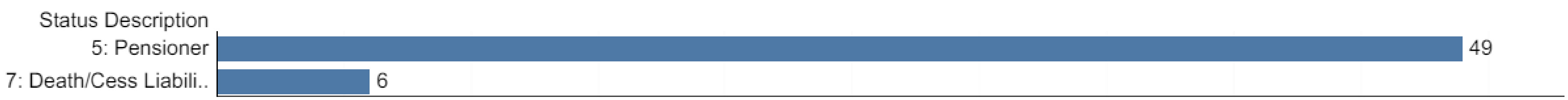
In December 2018 the Court of Appeal ruled in McCloud v Ministry of Justice that “transitional protection” offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across 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 Local Government Pension Scheme (Remediable Service) (Scotland) Regulations 2023.

Before calculating the underpin we must first calculate the assumed benefits which is the Care benefits that will be compared against the Final Salary benefits to determine whether revised protection applies. Where protection applies this will be known as the Final Guaranteed Amount.

Eligible member processing

Members with Final Guaranteed Amounts

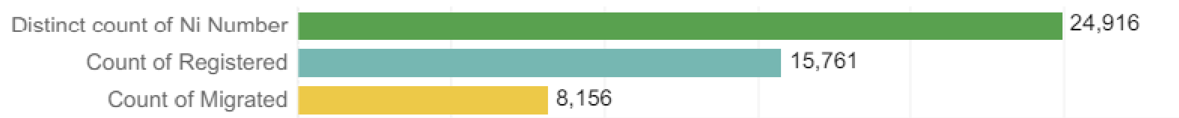


Cost of Final Guaranteed Amounts

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.

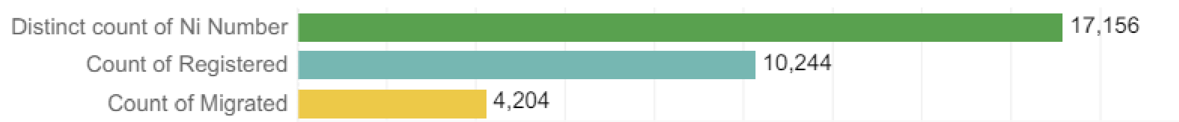
Actives



Percentages

Registered members	63.3%
Migrated members	51.7%

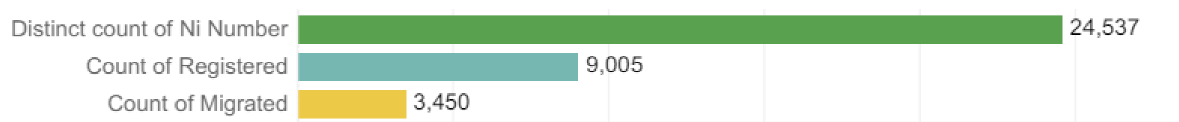
Deferreds



Percentages

Registered members	59.7%
Migrated members	41.0%

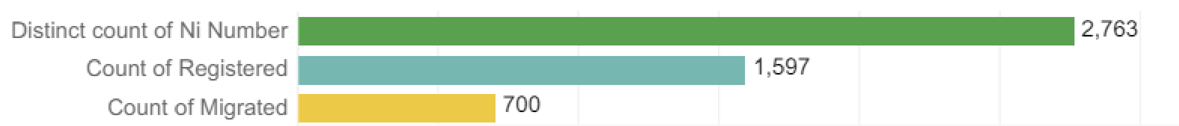
Pensioners & Dependants



Percentages

Registered members	36.7%
Migrated members	38.3%

Undecided Leavers



Percentages

Registered members	57.8%
Migrated members	43.8%

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Report on the actuarial valuation as at 31 March 2023

North East Scotland Pension Fund

15 March 2024

A business of Marsh McLennan

Contents

Section 1
Introduction

This report is addressed to the Administering Authority of the North East Scotland Pension Fund ("the Administering Authority") and is provided to meet the requirements of Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) ("the Regulations"). It describes the factors considered by the Administering Authority when carrying out the actuarial valuation as at 31 March 2023 and the decisions reached as a result.

The purpose of the actuarial valuation is for the Administering Authority to determine:

1. The expected cost of providing the benefits built up by members at the valuation date (the "liabilities"), and compare this against the funds held by the Fund (the "assets").

2. The contributions needed to cover the cost of the benefits that active members will build up in the future and other costs incurred in running the Fund (the 'Primary Contribution Rate').

3. An appropriate plan for achieving a 100% solvency funding level if the Fund has more/less assets than liabilities. This plan will cover the amounts which will need to be paid (the 'Secondary Contribution Rate') and the timeframe over which they will be paid ('the Recovery Period').

Signature		
Name	Paul Middleman	Laura Evans
Qualification	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date	15 March 2024	

This report uses various technical terms. These are explained in more detail in the explanatory boxes which appear throughout this report, and in the Glossary in Appendix I.

This report has been prepared in accordance with Technical Actuarial Standards 100 General Actuarial Standards (TAS 100 v2) and TAS 300: Pensions which are issued by the Financial Reporting Council. The calculations referred to in the report use methods and assumptions appropriate for reviewing the financial position of the Fund and determining a contribution rate for the future. Mercer does not accept liability to any third party in respect of this report; nor do we accept liability to the Administering Authority if the information provided in this report is used for any purpose other than that stated. The report may be disclosed to members and others who have a statutory right to see it. It may also be disclosed to any participating employer and, if the Administering Authority and Mercer consent, it may be disclosed to other third parties.

Section 2

Funding Strategy – Key Elements

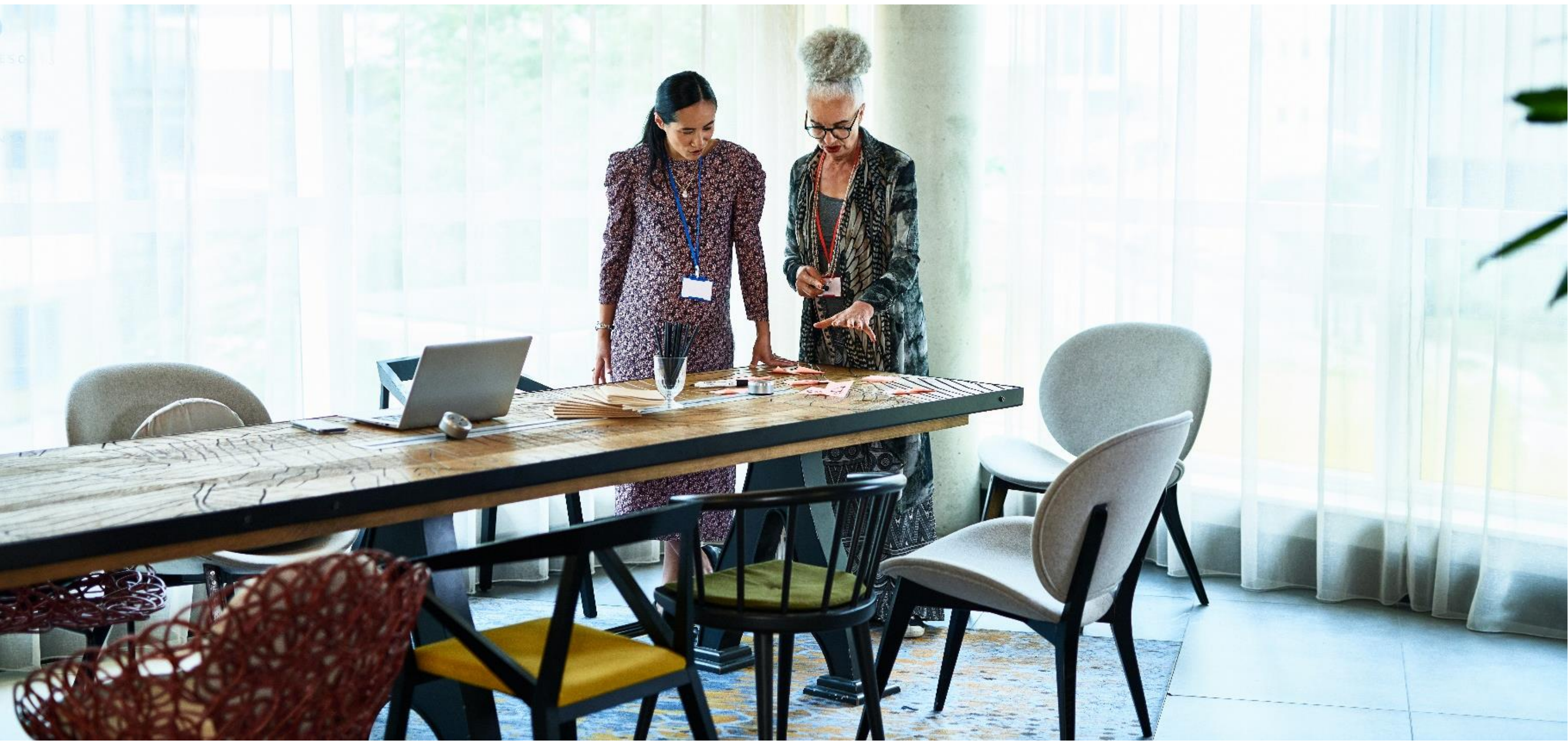
Fundamental to the valuation results is the funding strategy adopted by the Fund. This funding strategy is set out in a specific document (the Funding Strategy Statement or FSS for short) which is one of the Administering Authority's key governance documents for the Fund. In essence, the FSS sets out an overview of the approach to be used for the actuarial valuation. Amongst other things it outlines the assumptions, both economic and demographic, to be used in calculating the value of the liabilities built up, the contributions required to correct any funding shortfall or surplus, and the contribution rate required to fund the benefits for future service. It also sets out the strategy for making good any funding shortfall, in particular how any shortfall is expected to be financed in terms of the balance between future contributions and future investment returns, and the period over which any surplus or shortfall is expected to be recovered.

> The FSS is the Administering Authority's key governance document in relation to the actuarial valuation. It sets out the funding policies adopted, the actuarial assumptions used, and the timescales over which deficits will be paid off. Employers are consulted about the FSS as part of the actuarial valuation process.

The principal elements of the funding strategy adopted for this actuarial valuation are as follows:

- **The McCloud Judgment** (see Appendix D for details) – we have carried out a stand-alone estimate of the cost of the McCloud Judgment, and the results of this at whole Fund level are shown in Section 3 of this report. The past service liabilities at the valuation date include an allowance for the proposed McCloud remedy. As the remedy ended on 31 March 2022, the Primary Contribution Rate does not include an allowance for McCloud.
- **Assumed rate of future long term average CPI inflation** – 2.6% p.a., based on the yields available on gilts and index-linked gilts of appropriate duration less an adjustment of 0.8% p.a. (reflecting an average RPI/CPI structural gap and an inflation risk premium).
- **Real investment returns over and above CPI for past service** – 2.0% p.a., based on the anticipated real returns achievable on the Fund's expected long term investment strategy with a suitable margin for prudence.
- **Real investment returns over and above CPI for future service** – 1.5% p.a., based on the anticipated real returns achievable on future invested contributions.
- **Future pay growth** – 1.5% p.a. over and above CPI.
- **Baseline life expectancy** based on a scheme-specific mortality study.
- **Future mortality improvements** based on the CMI 2022 model with a long term improvement trend of 1.75% p.a.
- **Allowance for known observed CPI inflation** between 1 September 2022 and 31 March 2023 to refine the estimate of the 2024 pension increase order and liability cash flows.

- **Introduction of a funding buffer** of generally 115% of liabilities to reflect current economic uncertainty and aid future contribution stability. Only surplus above the funding level buffer can be refunded to employers through future surplus offsets
- An average spread period of 13 years for correcting any imbalance between the existing assets and past service liabilities (subject to the funding buffer). The FSS sets out the circumstances in which this might vary from one employer to another.



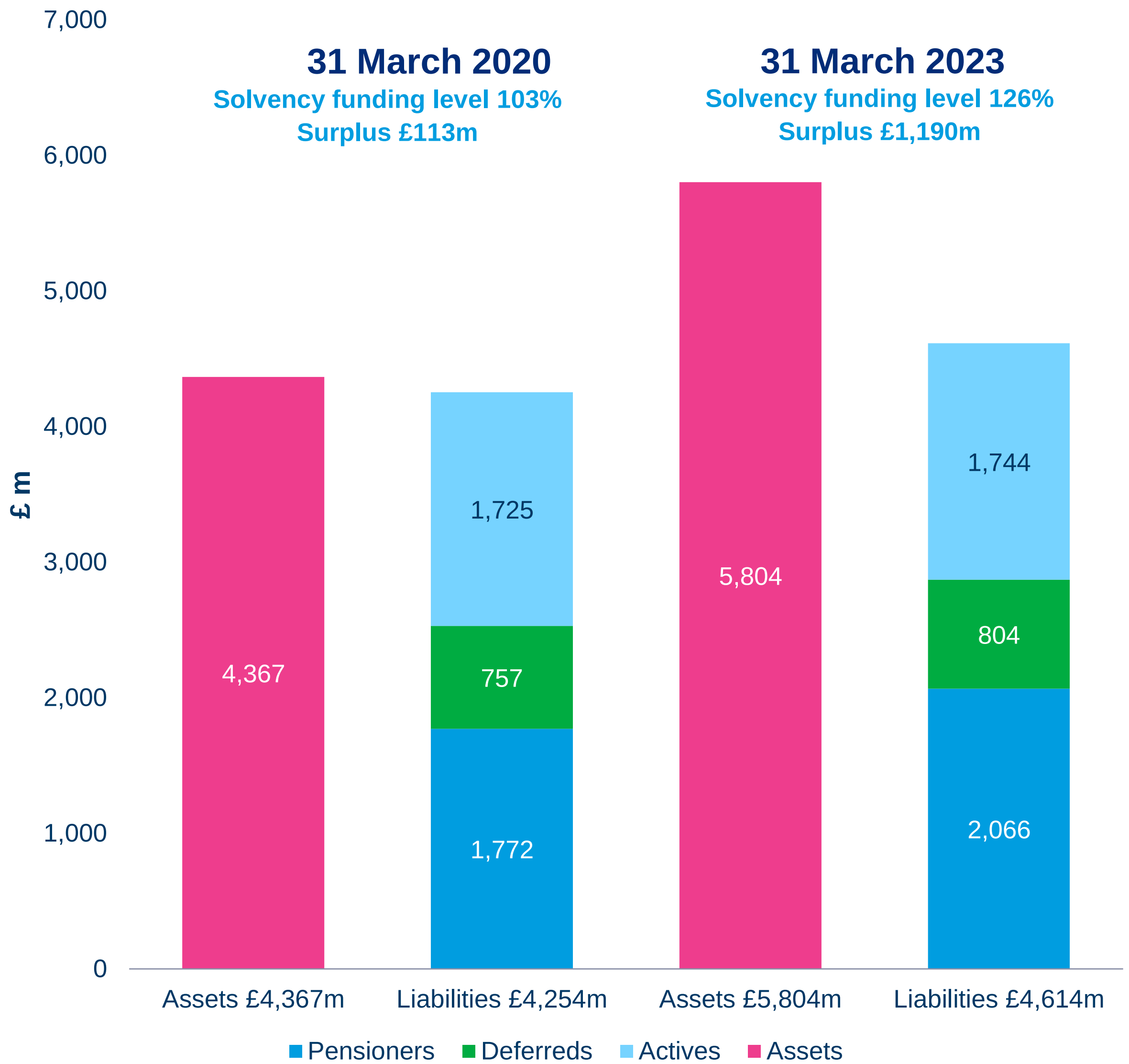
Section 3

Key results of the funding assessment

Solvency funding position

The table below compares the assets and liabilities of the Fund at 31 March 2023. Figures are also shown for the last valuation as at 31 March 2020 for comparison.

On 1 April 2022, the Aberdeen City Council Transport Fund ("ACCTF") merged with the North East Scotland Pension Fund ("NESPF"). The 31 March 2023 valuation results were calculated following this merger and include the former ACCTF assets and liabilities. In particular, the 31 March 2023 figures below include the Bulk Annuity Insurance Buy in Contract with Rothesay Life Plc in respect of a specified group of pensioners. For the purpose of the actuarial valuation the 31 March 2023 liabilities relating to the insured pensioner members have been assessed on the Fund's ongoing valuation basis and the assets have been taken from the audited Fund accounts.



The LGPS Regulations require the contributions to be set so as to secure the Fund's solvency and long term cost efficiency. In this context solvency means being able to meet the liabilities as and when they arise, with long term cost efficiency meaning that contribution levels should not be set so as to give rise to additional costs at a later date. In practice, contribution levels have been set so as to target a solvency funding level of 100%, based on the funding parameters outlined in Section 2 above.

The liability value at 31 March 2023 shown in the chart above is known as the Fund's **"solvency funding target"**. The solvency funding target is calculated using assumptions that the Administering Authority has determined are appropriate having consulted with the Actuary, and are also set out in the FSS.

The chart shows that **at 31 March 2023 there was a surplus of £1,190m** against the Fund's solvency funding target. An alternative way of expressing the position is that **the Fund's assets were sufficient to cover 126% of its liabilities** – this percentage is known as the solvency funding level of the Fund.

At the previous valuation at 31 March 2020 the surplus was £113m, equivalent to a solvency funding level of 103%. The key reasons for the changes between the two valuations are considered in Section 4.

Further details of the way in which the solvency funding target has been calculated are set out in Appendix A.

Primary Contribution Rate

The valuation looks at the normal employer contribution rate required to cover the cost of the benefits (including death benefits and expenses) that will be built up over the year after the valuation date (the "Primary Contribution Rate"). A summary of the assumptions used is provided in Appendix A.

The table below gives a breakdown of the Primary Contribution Rate at 31 March 2023 and also shows the corresponding rate at 31 March 2020 for comparison. In calculating the average Primary Contribution Rate we have not made any allowance for future members to opt for the 50:50 scheme.

The "Primary rate" of the employers' contribution is the contribution rate required to meet the cost of the future accrual of benefits including ancillary, death in service and ill health benefits together with administration costs.

Active members pay contributions to the Fund as a condition of membership in line with the rates required under the governing Regulations (see Appendix D).

Primary Contribution Rate	% of Pensionable Pay	
	31 March 2020	31 March 2023**
Normal Contribution rate for retirement and death benefits	27.4	25.8
Allowance for administrative expenses	0.4	0.4
Total normal contribution rate	27.8	26.2
Average member contribution rate	6.1	6.0
Primary contribution rate*	21.7	20.2

** In line with CIPFA guidance, the Primary Contribution Rate is the weighted average of the individual employer Primary Contribution Rates as derived based on their individual circumstances (e.g. whether or not they are closed to new entrants).*

***For consistency these contributions exclude the active members of the former ACCTF.*

Correcting the imbalance – Secondary Contribution Rate

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

> The "Secondary rate" of an individual employer's contribution is an adjustment to the Primary Contribution Rate to reflect any past service deficit or surplus, to arrive at the rate the employers are required to pay.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average weighted period adopted is 13 years (subject to the funding buffer). The total initial surplus offset (the "Secondary rate" for 2023/24) is an offset of approximately 6.2% per annum (which allows for the funding buffer based on the contribution plans which have been set for individual employers under the provisions of the FSS).

The McCloud Judgment

As described in Section 2 of this report, we have carried out a stand-alone estimate of the cost of the McCloud Judgment. We have included an estimate of the cost in the past service liabilities at the valuation date of £19 million. This represents 0.4% of total past service liabilities at 2023 and is included in the 2023 liability figures above. The equivalent estimate included in the 2020 liability figures was £34 million (0.7%). Provision for these estimated McCloud costs has been included within the Secondary Contribution Rate shown above and in the corresponding Secondary Contribution Rate for each individual employer.

> The "McCloud Judgment" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. This is likely to result in increased costs for some employers. Regulations took effect from October 2023, with a retrospective effect back to April 2015 and a remedy end date of 31 March 2022.

Section 4

Experience since last valuation

Summary of key inter-valuation experience

The last actuarial valuation was carried out with an effective date of 31 March 2020.

The average Pensionable Salary increase for the Fund members who were in service for the whole of the inter-valuation period was 4.7% per annum.

Pensions in payment (in excess of Guaranteed Minimum Pensions (GMPs) were increased as guaranteed under the Fund as follows:

April 2021 0.5%

April 2022 3.1%

April 2023 10.1%

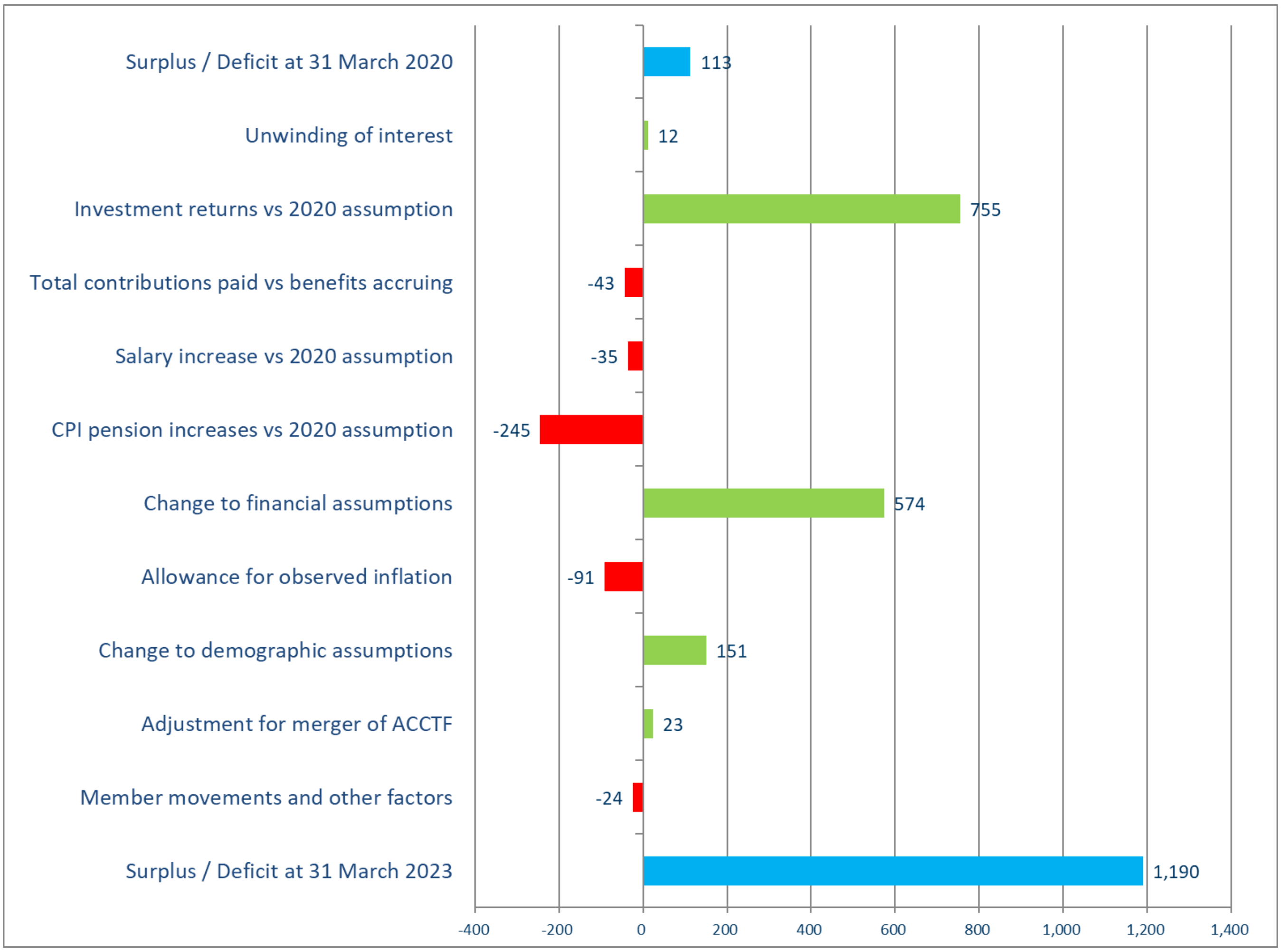
The outcomes from the valuation are determined both by the assumptions adopted for the future, and the Fund's historic experience relative to assumptions made in the past. In this section we consider the effect of the Fund's experience over the last three years.

Over the inter-valuation period, benefit inflation has averaged 4.5% p.a.. Over the three years to 31 March 2023 the gross investment return on the Fund's assets has averaged 9.1% p.a., meaning that the average real return over CPI inflation has been about 4.6%p.a.

In addition to the published pension increase orders, we have made allowance for known observed CPI inflation over the period 1 September 2022 to 31 March 2023 as this will be reflected in the April 2024 pension increase order.

Reasons for the change in funding position since the last actuarial valuation

The surplus at the last valuation date, including the McCloud reserve was £113m. The chart below sets out the main reasons for the change in the surplus between 31 March 2020 and 31 March 2023 (figures shown in £m).



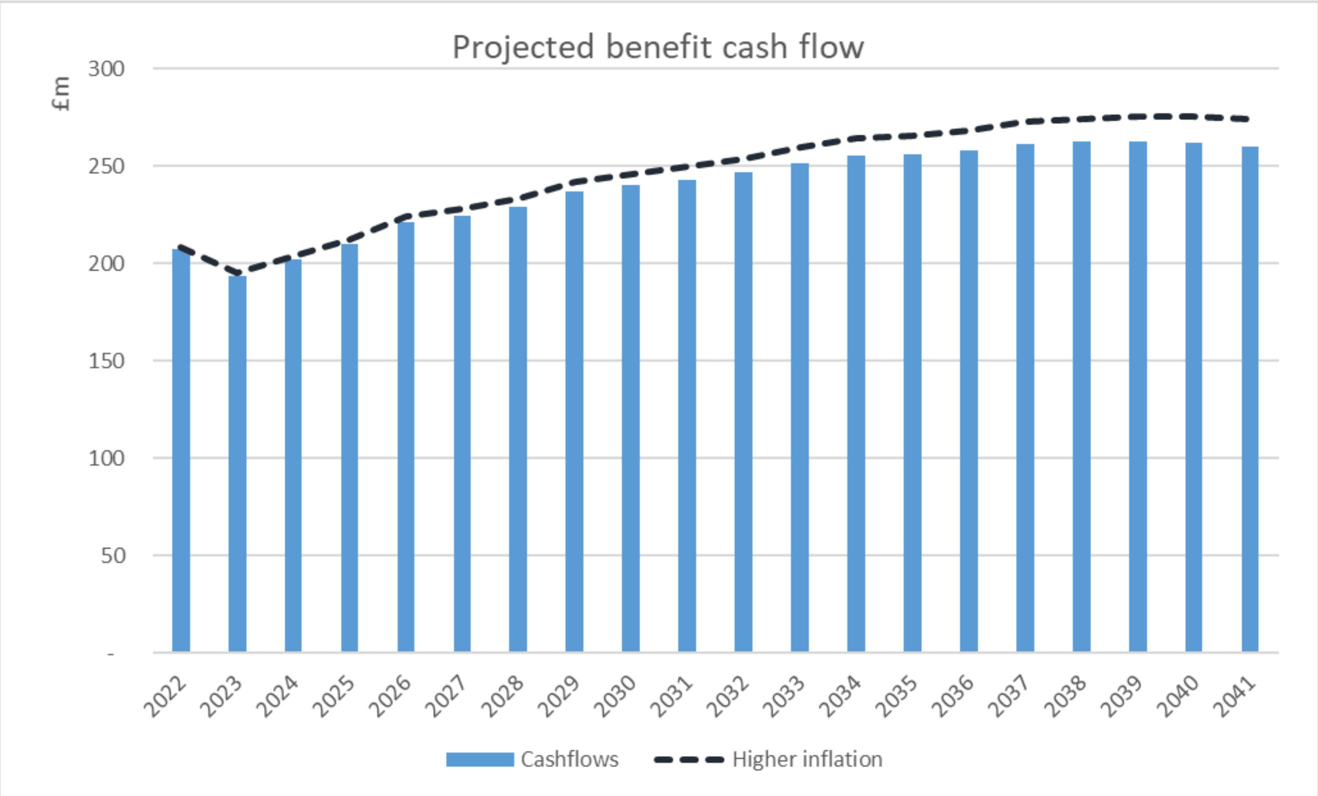
Section 5

Cash flows, risks and alternative funding positions

Benefit cash flows

The projected benefit cash flows which result from applying the assumptions as set out in Section 2 are shown in the chart below. These exclude the insured members whose benefits are matched by the buy-in policy. The additional trendline sets out how those total projected benefit cash flows would change if we were to assume inflation of 0.25% p.a. higher than the assumption of 2.6% p.a. used for the actuarial valuation. Over the 20 years following the valuation date, the extra benefit payments which would result from the extra 0.25% p.a. inflation assumption are projected to be c£140m.

> The actuarial valuation process is principally concerned with projecting all the expected benefit cash flows into the future, and then converting them into present day values by discounting them to allow for assumed future investment returns. The chart shows those projected cash flows, and also illustrates how sensitive they are to the future inflation assumption.



Projected funding position at next actuarial valuation

As part of this valuation, the Administering Authority has set an average spread period of approximately 13 years. The next actuarial valuation will take place with an effective date of 31 March 2026. If experience up to that date were to be in line with the assumptions made for this current actuarial valuation and contributions are paid at the agreed rates or amounts, there would be a surplus at 31 March 2026 of £1,467m, equivalent to a funding level of 127%.

Material risks faced by the Fund

The Fund is subject to some potentially material risks that are, to an extent, outside the Administering Authority's control, but could affect the funding level and ultimately the employer contribution requirements. Any material worsening of the funding level will mean more contributions are needed (either at an increased rate or at the same rate over a longer period) to be able to provide the benefits built up in the Fund – unless experience acts in other ways to improve the funding level. Examples of such risks, and how the Administering Authority manages them, are:

> Funding a defined benefit pension scheme such as the LGPS which is open to new members is by its nature uncertain, and involves some level of risk. The principal funding risks are investment (e.g. whether the Fund earns the desired level of long term real returns) and demographic (e.g. whether longevity of members is longer or shorter than anticipated). In practice, the key is whether such risks can be managed and mitigated.

- If an Employer becomes unable to pay contributions or to make good deficits in the future, the Fund's assets will be lower than expected and the funding level will be worse than expected. The Administering Authority regularly monitors the financial strength of the employers so that actions can be taken to mitigate (but not fully remove) the risk.
- If future investment returns on assets are lower than assumed in the valuation, the Fund's assets will be lower, and the funding level worse, than expected. The Administering Authority has a process in place to monitor investment performance quarterly, and it reviews the Fund's investment strategy alongside each actuarial valuation.
- If CPI inflation is greater than assumed over a prolonged period this means that the benefit payments and therefore Fund liabilities will be greater than expected leading to potentially higher employer contributions at future valuations. The Fund invests in assets which have some correlation to inflation so to some degree the impact will be mitigated and the Administering Authority keeps this under review on an ongoing basis.
- If improvements in life expectancy are greater than assumed, the cost of benefits will increase because members are living longer than expected. This will mean the funding level will be worse than expected. The Administering Authority regularly reviews the Fund's experience and ensures that the assumptions it makes about members' life expectancy take the most recent information available into account.
- If members make decisions about their options which increase the Fund's liabilities, the funding level will be worse than expected. An example would be if members commute less pension for cash than is being assumed. The Administering Authority reviews the Fund's experience at each valuation to ensure that their treatment of member options remains appropriate.

Recognising this uncertainty and the desire for sustainability of contributions, the Administering Authority has introduced a Funding Buffer of generally 115% of liabilities (or as separately agreed with the Administering Authority if appropriate) to reflect current economic uncertainty and aid future contribution stability. Only surplus above the funding level buffer can be refunded to employers through future surplus offsets.

Sensitivity of funding position to changes in key assumptions

The value placed on the Fund's liabilities is critically dependent on the assumptions used to carry out the calculations. If future experience differs from the assumptions the Administering Authority has used after consulting with the employers, then the projected future funding level will be different from the level described above.

To illustrate how sensitive the funding level is to experience being different from assumed, the table below shows how the valuation results at 31 March 2023 would have differed given small changes in the key assumptions.

Assumption change	Reduction (increase) in surplus at 31 March 2023 (£m)	Resultant surplus (deficit) at 31 March 2023 (£m)
Original solvency funding position	-	1,190
Real investment return e.g. return above inflation 0.25% lower than assumed	178	1,012
Pensionable Salary growth 0.25% lower than assumed	(16)	1,206
Long term improvement rate in life expectancy increased by 0.50% per annum	59	1,131
Assets fall by 25%	1,451	(261)

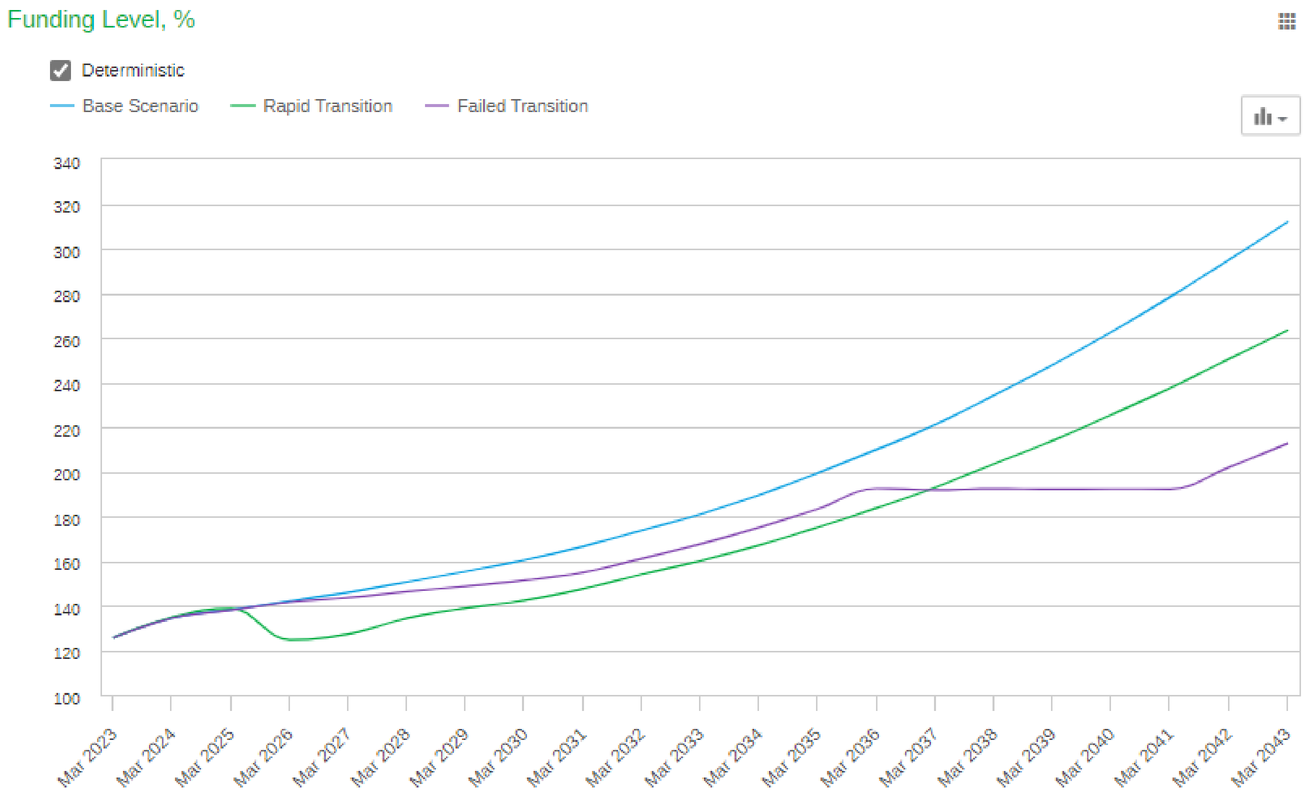
The figures above consider each impact in isolation. In practice the Fund's risk management framework will mitigate the financial risks to varying degrees.

Climate change

Climate change has the potential to be a material financial risk to the Fund – whether that be the costs of moving to a low carbon economy, the cost of physical damages caused as a result of climate change or even as a result of litigation/regulation to address past practices. Climate change is expected to affect most if not all of the risks highlighted above, however, the extent of and interaction between these impacts are uncertain. As part of the valuation we and the Administering Authority has considered the impact on projected funding level of the following simplified climate change scenarios and a summary of the output is set out below (the key assumptions underpinning these scenarios is included in Appendix A). These risks will continue to be monitored by the Administering Authority.

The scenarios shown are **not** meant to be predictors of the impact of climate change but are meant to illustrate the risks associated with the transition risks (short term) and physical risks (long term) of two different example climate change scenarios over a period of 20 years. The potential risks associated with climate change have been considered when setting the assumptions in this report. The two scenarios considered are as follows:

- Rapid transition - Policy and technology developments come together to deliver the rapid reduction in emissions to limit heating to below 1.5°C. There are material transition costs associated with this that reduce returns.
- Failed transition - Transition is limited and not co-ordinated. Emissions continue to rise. Transition risks are very small but significant physical risks come in to play.



Mercer supports limiting warming to 1.5 degrees Celsius but recognises that given the current warming trajectory, based on existing policies and actions, this pathway may represent a short term shock to investment portfolios. Investors should position their portfolios in line with their objectives whilst also understanding the potential impact of transition risks and physical damages.

Minimum risk funding position

In assessing the value of the Fund's liabilities (the solvency funding target), allowance has been made for investment returns as described in Appendix A, taking into account the investment strategy adopted by the Fund, as set out in the Fund's Statement of Investment Principles (SIP).

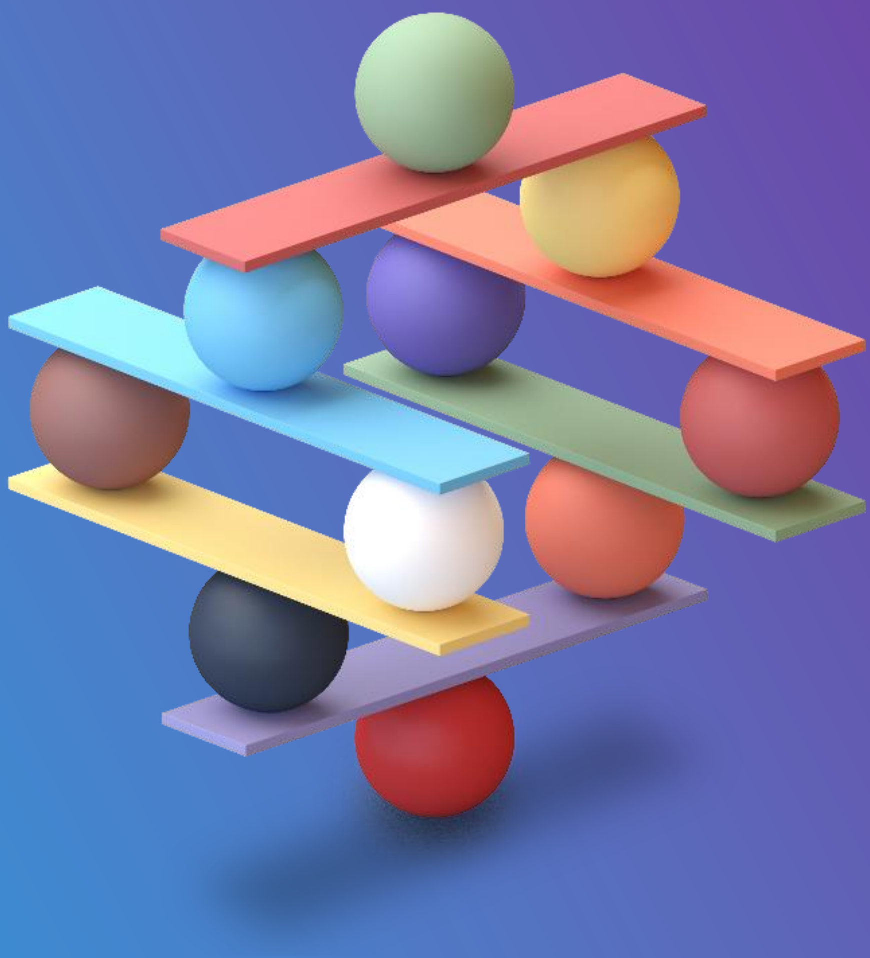
It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which attempts closely to match the liabilities and provide a high level of certainty in future investment returns above CPI inflation. This represents a "minimum risk" investment position. Such a portfolio would consist mainly of a mixture of long term index-linked and fixed interest gilts. Investment of the Fund's assets in line with the minimum risk portfolio would minimise fluctuations in the Fund's minimum risk funding level between successive actuarial valuations but would result in much higher employer contributions (all other things equal).

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out the valuation it would not be appropriate to make any allowance for out-performance of the Fund investments. In this event the value of the Fund liabilities would have increased substantially, to £5,803m, and the funding level would have reduced correspondingly to 100%. If the actuarial assumptions are borne out in practice and contributions are paid in line with the Rates and Adjustment Certificate for all employers, the projected funding level on this basis at the next actuarial valuation would be slightly higher at 102%.

The value of the liabilities on the ongoing solvency funding target assumptions was £4,614m, which is £1,189m less than the value on the minimum risk basis. The funding plan is therefore making a prudent allowance for future investment returns of £1,189m over and above those available from the notional minimum risk investment portfolio to support the funding of member benefits along with contributions payable. This is an indication of the expected return built into the funding strategy for the Fund as a whole.

Managing investment risk and other risks e.g. employer covenant is a key objective for the Administering Authority. The policies to manage these risks are set out in the Funding Strategy and Statement of Investment Principles.

Appendices



Appendix A
Assumptions

How the benefits are valued

In order to calculate the liabilities, there is a need to make assumptions about various factors that affect the cost of the benefits provided by the Fund – for example, how long members will live, or the future level of inflation. The table below explains the key assumptions being made in the valuation.

Assumption	Why it is important and how it impacts on the liabilities
Discount rate	The majority of benefits in a pension fund are paid many years in the future. In the period before the benefits are paid, the Administering Authority invests the funds held by the Fund with the aim of achieving a return on those funds. When calculating how much money is needed now to make these benefit payments, it is appropriate to make allowance for the investment return that is expected to be earned on these funds. This is known as "discounting". The higher the investment return achieved, the less money needs to be set aside now to pay for benefits. The calculation reflects this by placing a lower value on the liabilities if the "discount rate" is higher.
Inflation	Pensions in payment increase in line with Consumer Price Inflation (CPI). Salary growth is also normally linked to price inflation in the long term. A higher inflation assumption will, all other things being equal, lead to a higher value being placed on the liabilities.
Pensionable Salary growth	Benefits earned prior to 1 April 2015 for active members are based on their salaries immediately before retirement, so it is necessary to make an assumption about future Pensionable Salary growth. The higher this assumption, the higher the value placed on the liabilities for active members. Equally, pay growth will impact on the potential liabilities in relation to the McCloud Judgment as the assumption affects the value of the final salary underpin.
Life expectancy	Pensions are paid while the member (and potentially their spouse or partner) is alive. The longer people live, the greater is the cost of providing a pension. Allowing for longer life expectancy therefore increases the liabilities.

The liabilities of the Fund are calculated by projecting forward all of the future benefit cash flows and discounting them back to the effective date of the valuation, using these assumptions. For example, the liability for a single pensioner is calculated by estimating the amount of each pension payment they will receive in the future, multiplying by the probability that the member will still be alive by the date of each payment, and then discounting each payment back to the effective date of the valuation using the appropriate discount rate, and then summing up all of these discounted amounts. The liabilities for the whole Fund are calculated by summing the liabilities for each of the individual members.

Financial assumptions used to calculate the solvency funding target

The table below summarises the key financial assumptions used in the calculation of the solvency funding target at whole Fund level and those used for the 31 March 2020 actuarial valuation. Section 2 of this report sets out how these assumptions might vary from one employer to another.

Financial assumptions	31 March 2020	31 March 2023
Discount rate		
Past Service	3.35% p.a.	4.60% p.a.
Future Service	3.60% p.a.	4.10% p.a.
Price inflation (CPI)	2.10% p.a.	2.60% p.a.
Salary increases (long term)	3.60% p.a.*	4.10% p.a.
Pension increases in payment:	2.10% p.a.	2.60% p.a.

**at the 2020 valuation employers also selected from one of the following in relation to a short term pay allowance – no allowance/1% p.a. for 3 years or 2% p.a. for 3 years*.

The key financial assumption is the expected long term investment return above CPI inflation as this is usually the principal factor which determines the long term cost to employers via their contributions. In determining this we consider first the long term real returns (i.e. returns above CPI) which the Fund's investment strategy can be expected to deliver based on market outlook at the valuation date taking into account the projected cash flow position of the Fund. This analysis then helps us recommend and agree with the Administering Authority on a suitably prudent assumption for the valuation discount rate based on the investment strategy, any risk management framework in place, and reasonably allowing for the likely changes in investment strategy as the Fund matures.

Our analysis of expected future real investment returns uses a Monte Carlo simulation (stochastic) model, based on 4,000 simulations. Within the overall analysis we specify and calibrate a range of economic and asset class models. Our analysis uses an asset correlation matrix to help generate each stochastic simulation. The model includes estimates for long term expected returns and inflation along with volatilities each asset class and inflation.

In order to consider the level of prudence we look at the likelihood of the expected real return from the Fund's assets exceeding the assumption made. We measure this by considering the percentile expected return from the analysis. A return assumption higher than the 50th percentile return from the analysis can be deemed to be prudent and retain margins to provide some protection against increases in contributions at future valuations.

At this actuarial valuation the real discount rate which we have used is 2.0% p.a., which is the 83rd percentile return from our analysis. At the previous valuation the real discount rate used was 1.25% p.a., which at the time was the 58th percentile. It should be noted that there is considerable uncertainty in market and inflation outlook at the 2023 valuation which has been taken into account when setting the assumptions and contribution plans for employers.

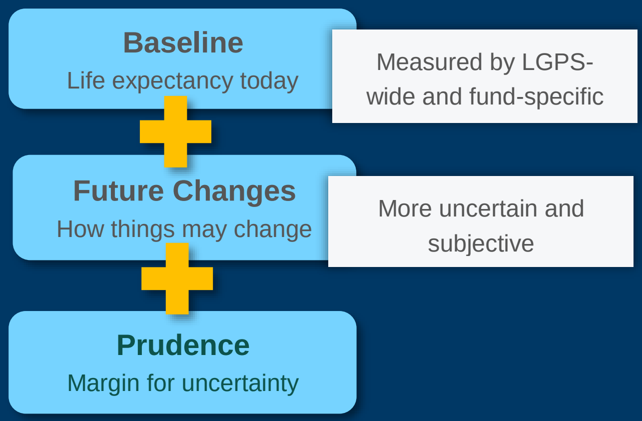
Demographic assumptions used

Post-retirement Mortality

Mortality (or life expectancy) tables are typically made up of three elements: a baseline table (equivalent to the expected current mortality), an allowance for future improvements, and a margin for prudence. Very few pension funds are large enough for them to be able to determine a bespoke set of baseline assumptions based purely on the fund's own membership experience. Typically, the life expectancy assumptions are set by benchmarking a fund's membership profile and mortality experience against larger external datasets.

There are two separate decisions on mortality assumptions:

- The baseline table for the current rates of mortality; and
- The allowance for future improvements.



For this actuarial valuation, we have benchmarked the Fund's membership profile and experience against the "S tables" published by the CMI. We have applied weightings and age ratings as appropriate to adjust the standard tables so as to arrive at assumptions which are appropriate for the Fund. This has been based on our detailed study using Longevitas which considers a range of lifestyle factors to derive the weightings. Full details are set out in our separate report.

As for the 2020 valuation, we have generally used the S3PA tables ("middle" tables for females), other than for female dependants where the S3DA tables have been used and for members retiring in ill health, where the S3IA tables have been used.

The weightings and age ratings applied to the above are set out in the table below.

Current Status	Retirement Type	2020 weighting/age rating	2023 weighting/age rating
Annuitant	Normal Health	114% males, 101% females	114% males, 108% females
	Dependant	150% males, 104% females	142% males, 126% females
	Ill Health	136% males, 144% females	164% males, 207% females
	Future Dependant	146% males, 121% females	142% males, 126% females
Active	Normal Health	121% males, 101% females	118% males, 108% females
	Ill Health	134% males, 151% females	263% males, 349% females
Deferred	All	144% males, 116% females	125% males, 113% females
Active/ deferred	Future Dependant	153% males, 128% females	134% males, 125% females

A weighting applied to an actuarial table has the effect of increasing or reducing the chance of survival at each age, which increases or reduces the corresponding life expectancy. Similarly, an age rating applied to an actuarial table has the effect of assuming that beneficiaries have a life expectancy equal to those older (or younger) than their actual age.

Future improvements are assumed to follow the CMI 2022 model with a 1.75% p.a. long term improvements trend (Smoothing Parameter (Sκ) of 7, with all other parameters core, i.e. zero initial improvements parameter and no allowance for 2020 or 2021 data).

At the 2020 actuarial valuation the CMI 2019 model with 1.75% p.a. long term trend (and Sκ=7.5) was used.

The mortality assumptions used for the 31 March 2023 valuation result in the following life expectancies.

	Years
Life expectancy for a male aged 65 now	21.1
Life expectancy at 65 for an active male aged 45 now	22.8
Life expectancy for a female aged 65 now	23.4
Life expectancy at 65 for an active female aged 45 now	25.5

Pre-retirement Mortality

The following mortality tables (together with any appropriate weightings and age ratings) have been adopted for mortality rates in the period up to retirement.

	31 March 2020	31 March 2023
Base Table	DxL08 tables with adjustments of 80% (male) 50% (female) to reflect the Fund's membership profile	DxL08 tables with adjustments of 80% (male) 70% (female) to reflect the Fund's membership profile
Allowance for Future Improvements	CMI_2015 [1.5%]	CMI_2022 [1.75%]

Commutation

Members have the option to commute part of their pension at retirement in return for a lump sum at a rate of £12 cash for each £1 per annum of pension given up. Following an analysis of the take-up rates, it has been assumed that, on average, retiring members will take 75% of the maximum tax-free cash available at retirement. This is slightly lower than the assumption at the 2020 actuarial valuation, which was equivalent to members taking about 80-85% of the maximum tax-free cash available depending on profile.

> Retirement lump sums are less costly for the Fund to provide than the alternative pension, as members receive only £12 of each £1 p.a. of pension given up. If members take the cash sum option at a higher rate than has been assumed then this will normally lead to an improvement in the funding level.

Early retirement

> If members take early retirement to a greater extent than has been assumed then this will typically lead to a worsening of the funding level. This is because many members are able to take substantial parts of their benefits from age 60 without them being reduced for early payment.

Some members are entitled to receive their benefits (or part of their benefits) unreduced from an age prior to the Fund's normal pension age under the "Rule of 85" provisions of the Regulations. This age will be at some point between ages 60 and 65, depending on the length of a member's pensionable service. The calculations in respect of the relevant service to which these terms apply (basically pre April 2008 service but with transitional protections for certain members) allow for members to retire at this age.

For post April 2008 service (other than protected service) the situation is different since the "Rule of 85" has been removed (and for post December 2006 service for new entrants to the Scheme from that date). For this service we have assumed the earliest age at which unreduced benefits become an entitlement is 65, except for those members who have protected status under the transitional provisions.

For post April 2015 service, early retirement factors are applied where the retirement age described above is below the member's eligible retirement age for unreduced benefits for post April 2015 service. Factors are in line with the standard scheme factors produced by the Government Actuary's Department. No allowance has been made for non-ill health early retirements prior to the ages specified above. Additional capital contributions will be paid by employers in respect of the cost of these retirements.

However, for those members who are entitled to receive their accrued benefits (or part of those benefits) prior to the retirement age described above and who are over this age but under 65, a proportion of the active membership is assumed to retire in normal health prior to age 65, as set out below:

Age	% retiring per annum	
	Males	Females
60	10	20
61	8	15
62	8	15
63	8	15
64	8	15
65	100	100

These are the same assumptions as the 2020 valuation.

The appropriate early retirement factors are applied to the relevant tranche of benefits in line with the Government Actuary's Department (GAD) guidance.

Ill health retirement

A small proportion of the active membership has been assumed to retire owing to ill health. As an example of the rates assumed, the following is an extract from the decrement table used:

The level of ill health retirement benefit provided for a member falls into one of three “tiers”, depending on whether and when the member might be expected to resume gainful employment. Tier 1, for example, is on the basis that the member is unlikely to be able to do so before Normal Pension Age. Full details are set out in the LGPS (Scotland) Regulations and associated guidance.

Age	% retiring per annum	
	Males	Females
35	0.03	0.03
45	0.09	0.09
55	0.41	0.36

These are the same assumptions as the 2020 valuation.

The proportion of ill health early retirements falling into each tier category, split by males and females, has been assumed to be as set out below (which is the same assumption as used in the 2020 valuation):

Tier 1	Tier 2
86%	14%

Withdrawal

This assumption relates to those members who leave the Fund with an entitlement to a deferred pension or transfer value. It has been assumed that active members will leave the Fund at the following sample rates:

Age	% leaving per annum	
	Males	Females
25	20.25	22.38
35	5.09	6.27
45	2.54	3.89

In relation to pre 2015 benefits, deferred benefits tend to be less costly for the Fund to provide than if the member had remained in the Fund until retirement. If the number of members leaving the Fund is greater than expected then this will typically lead to a slight improvement in the funding level.

These are the same assumptions as the 2020 valuation.

Partners’ and Dependants’ Proportions

It has been assumed that the proportions of members below will on death give rise to a dependant’s pension (spouse’s and partner’s), and that spouses/partners of female (male) members are three years older (younger), on average than the member.

Age	% spouse/partner	
	Males	Females
25	43	51
35	69	68
45	72	68
55	74	68
65	76	62

If more members than assumed have partners then this will lead to an increase in the number of dependants pensions coming into payment over and above that expected. This would lead to a worsening of the funding level.

The assumption has been changed since the last valuation. The 2020 valuation assumption is set out in our 2020 valuation report.

Assumptions used to calculate the Primary Contribution Rate

The cost of future accrual (the Primary Contribution Rate) has been calculated using the same actuarial assumptions as used to calculate the solvency funding target and recovery plan as set out above except that the financial assumptions adopted are as described below.

The financial assumptions for assessing the future service contribution rate should take account of the fact that contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date.

The financial assumptions in relation to future service (i.e. the Primary Contribution Rate) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 1.5% per annum taking account the desire for overall contribution stability/sustainability and the uncertainty in future market returns and inflation. With a long term average assumption for price inflation of 2.60% per annum, this gives rise to an overall discount rate of 4.1% p.a. (the corresponding discount rate at the 2020 actuarial valuation was 3.60% p.a.).

The real discount rate of 1.50% p.a. represents the 87th percentile return from our analysis of future return expectations based on the strategic investment strategy. At the previous valuation the real discount rate used was also 1.50% p.a., which at the time was at the 55th percentile.

Climate change modelling

The ongoing funding level includes implicit allowance for climate change to the extent that this is expected and priced into markets. We have illustrated how other climate change scenarios (on a simplified basis) could impact on the projection of funding level in section 5. These assumptions are not mean to be predictors of the impact of climate change and represent two scenarios out of many possible outcomes.

Modelling Assumptions

	Rapid Transition		Failed Transition
	Year 3 shock	Cumulative impact over 20 years	Cumulative impact over 20 years
UK Yield impact	0.09% p.a.	0.04% p.a.	-0.07% p.a.
Inflation expectations	-0.10% p.a.	0.00% p.a.	-0.01% p.a.
Equity market shock	Global Equities: -14.1% Emerging markets: -14.8% Small Cap: -14.1%	Global Equities: -9.4% Emerging markets: -8.1% Small Cap: -9.4%	Global Equities: -30.4% Emerging markets: -40.5% Small Cap: -30.4%
High yield Debt (HYD) and Multi-Asset Credit (MAC) shock	HYD: -8.7% MAC: -8.3%	HYD: -6.6% MAC: -5.0%	HYD: 0.9% MAC: 0.3%
Emerging Market Debt (EMD) shock	-5.7%	1.2%	-3.6%
Diversified Growth Fund shock	-9.8%	-5.6%	-16.6%
Hedge fund shock	-0.1%	2.9%	-2.9%
UK life expectancy	Any changes in life expectancy due to climate change, such as deaths due to extreme heat vs improved mortality due to milder winters, are expected to be largely offsetting in the UK over the next 20 years.		

These assumptions are relative to the Mercer base case scenario which uses Mercer's economic growth models. At the end of the projection period all assumptions return to the Mercer base case assumptions.

Appendix B
Summary Membership Data

The membership data is summarised in the table, with figures at the previous valuation shown for comparison.

Data in relation to members of the Fund were supplied by the Fund's administrator on behalf of the Administering Authority. The accuracy of the data provided has been relied on. While reasonableness checks on the data have been carried out, they do not guarantee the completeness or the accuracy of the data. Consequently, Mercer does not accept any liability in respect of its advice where it has relied on data that is incomplete or inaccurate.

NESPF (combined figures for ACCTF merger)	31 March 2020	31 March 2023
Active members		
Number	26,037	27,638
Total Pensionable Salaries (£000s p.a.)	507,151	609,021
Average Pensionable Salary (£ p.a.)	19,478	22,036
Average age (pension weighted)	51.2	51.6
Deferred pensioners (including undecideds)		
Number	22,347	25,790
Total deferred pensions revalued to valuation date (£000s p.a.)	39,006	48,923
Average deferred pension (£ p.a.)	1,745	1,897
Average age (pension weighted)	49.9	50.3
Pensioners (including dependants) – combined insured and non-insured		
Number	23,464	26,192
Total pensions payable (£000s p.a.)	120,025	134,909
Average pension (£ p.a.)	5,115	5,151
Average age (pension weighted)	70.7	71.6

Appendix C
Assets

The market value of the Fund's assets was £5,803,777,000 on the valuation date. This includes the assets in relation to the Former Aberdeen City Council Transport Fund. In particular, the Bulk Annuity Insurance Buy in Contract with Rothesay Life Plc in respect of a specified group of former ACCTF pensioners.

The Administering Authority's investment strategy is to proportion the Fund's assets by asset class as shown in the table below. The actual distribution of assets will vary over time due to changes in financial markets. The table also shows the distribution of assets at the valuation date.

	Investment strategy	Actual market value of assets at 31 March 2023	
	%	£000s	%
Bonds	22.5	901,728	15.5
Equities	50	3,127,615	53.9
Infrastructure	10	409,396	7.1
Direct Property	10	367,200	6.3
Private Equity	5	480,612	8.3
Private Debt		155,026	2.7
Cash / other	2.5	222,028	3.8
Value of insurance buy-in with Rothesay		158,000	2.7
Current Assets / Liabilities		(17,828)	-0.3
Total	**100**	**5,803,777**	**100**

The Administering Authority also holds additional voluntary contributions (AVCs) which are separately invested. These assets have been excluded from the market value shown as they exactly match the value of the benefits they cover.

The details of the assets at the valuation date and the financial transactions during the inter-valuation period have been obtained from the audited accounts for the Fund.

Appendix D
Benefit Summary

The benefits valued within our calculations are those in force at the effective date of the valuation. Full details of these can be found in the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended). The principal details are as follows:

Scheme Regulations

The Local Government Pension Scheme (Scotland) Regulations 2018 (https://www.legislation.gov.uk/ssi/2018/141/contents)

The Local Government Pension Scheme (Transitional Provisions, Savings) (Scotland) Regulations 2014 (https://www.legislation.gov.uk/ssi/2014/233/contents/made)

Compensatory Added Years (CAY)

The Fund is also responsible for paying and, where appropriate, recharging to employers the benefits arising from the award of compensatory added years (CAY) of service on premature retirement. Unless these CAY benefits have been converted into "funded" benefits, they are normally recharged to the relevant employer (together with associated pension increases), and so are excluded from the valuation.

Additional Voluntary Contributions (AVCs)

The benefits that will emerge from money purchase AVCs paid by members, and SCAVCs paid by employers, and the corresponding invested assets in respect of these AVCs and SCAVCs, have been excluded from the valuation.

GMP Equalisation / Indexation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" Judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Following the Lloyds Bank case in 2018, Treasury issued a consultation on equalising and indexation of GMPs in all the public service pension schemes, including the LGPS, and this was concluded on 23 March 2021 (23.03.2021_Response_to_GMP_consultation_final__002_.pdf (publishing.service.gov.uk)).

The outcome is that all members whose State Pension Age is after 5 April 2016 will receive full CPI indexation on the GMP elements of their benefits resulting in their total pension increasing in line with CPI inflation which will address the equalisation issues identified in the view of the Government.

Directions made by the Treasury under Section 59A of the Social Security Pensions Act 1975 (https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/761639/Treasury_Direction_under_section_59A_Social_Security_Pensions_Act_1975.pdf).

This has been allowed for in this valuation when assessing the liabilities and this is consistent with the approach applied at the 2020 actuarial valuation.

Consideration is being given to whether any adjustment needs to be made in relation to a small number of exceptional cases (as set out in the consultation response) along with historic transfer payments made to members leaving the Fund and all parties are awaiting further guidance from the Government. No explicit allowance has been made in this valuation for these potential liabilities and this will be considered once the guidance and data is available. We would not expect it to be material in the context of the total Fund liabilities but this can only be considered once the full details are available.

The McCloud Judgment

The McCloud Judgment in the LGPS refers to the legal decisions (initially by the Employment Appeal Tribunal and then ratified by the Court of Appeal) in the Sargeant/McCloud cases for the Fire and Judiciary pension arrangements. The Court ruled that transitional protections afforded to older members when these schemes were amended constituted unlawful age discrimination. Remedial action, in the form of benefit changes for these schemes, is therefore required as announced by the Government.

Although the above cases did not relate directly to the LGPS, the LGPS also put in place protections for older members as part of the reforms which came into effect from 2014/2015. For the LGPS these took the form of an underpin, where older members would get the better of the benefits payable under the new and old schemes.

The Government published a consultation in July 2020 including a proposed remedy for the LGPS. This is likely to result in increased costs for some employers. Remedial regulations took effect from October 2023, with a retrospective effect back to April 2015 in Scotland, and a remedy end date of 31 March 2022.

Following discussions with the Administering Authority, in order to consider a reasonable provision for the potential costs in employer contributions we have assumed that the eventual remedy will be that the underpin which applies to older members will also be extended to apply to younger members who joined the Fund before 1 April 2012 (the cut-off date for the protections to apply). More specifically we have been instructed to:

- Estimate the underpin benefits for active members for service after 31 March 2015 (when the new scheme took effect) up to 31 March 2022.
- Compare this to the actual post 31 March 2015 benefits accrued up to 31 March 2022.
- Calculate the cost for each member as the value of the underpin benefits less the value of the actual benefits (ignoring members where the value of the actual benefits is higher).
- Sum these costs across all active members to give the impact of the underpin for each employer.

We have calculated this cost across all benefits (including deferred benefits for active members who are assumed to leave the scheme before retirement in the future).

At this stage, as the data was not readily available for the valuation we have not calculated any costs for members who had already left service or retired as at 31 March 2023. Given the nature of the underpin we expect any costs for this group of members to be immaterial at whole Fund. We also believe the approach applied to active members and the assumptions underlying the actuarial valuation contain prudential margins which are sufficient to cover the vast majority of such costs for the affected employers.

The position will be reassessed at the 2026 valuation (or earlier contribution review if required for some employers) when we expect the final remedy to have been implemented and to be reflected in the underlying data we will receive.

Appendix E

Analysis of membership experience

The analysis below compares the actual experience over the 3 year period with the assumptions used for the 2023 valuation.

	Actual	Expected	%
Ill Health Retirements	252	260	97
Withdrawals	6,617	3,679	180
Pensioner Deaths	2,349	2,245	105

Note that actual withdrawals can include members moving to another LGPS Fund, bulk transfers and also transfers under the special transfer club terms.

Appendix F

Valuation Dashboard

2023 Past service funding position - local funding basis	
Funding level (assets/liabilities)	126%
Funding level (change since last valuation)	+23%
Asset value used at the valuation (£m)	5,804
Value of liabilities (£m)	4,614
Surplus (deficit) (£m)	1,190
Discount rate – past service	4.60% p.a.
Discount rate – future service	4.10% p.a.
Assumed pension increases (CPI)	2.60% p.a.
Method of derivation of discount rate, plus any changes since previous valuation	See Appendix A
Assumed life expectancies at age 65	
Average life expectancy for current pensioners - men currently age 65	21.1
Average life expectancy for current pensioners - women currently age 65	23.4
Average life expectancy for future pensioners - men currently age 45	22.8
Average life expectancy for future pensioners - women currently age 45	25.5

The basis for the purposes of the LGPS Scheme Advisory Board funding position (the "LGPS SAB basis") is a set of assumptions determined by the 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. We are happy to supply further details of the LGPS SAB basis as requested.

Past service funding position LGPS SAB basis (for comparison purposes only)		
Market value of assets	5,804	
Value of liabilities	4,425	
Funding level on LGPS SAB basis (assets/liabilities)	131%	
Funding level on LGPS SAB basis (change since last valuation)	+6%	
Contribution rates payable:	2023 valuation	2020 valuation
Primary contribution rate	20.2%	21.7%
Secondary contributions:		
Secondary contributions - 1st year of rates and adjustment certificate (£m)	-40.8	-13.7
Secondary contributions – 2nd year of rates and adjustment certificate (£m)	-42.5	-16.1
Secondary contributions – 3rd year of rates and adjustment certificate (£m)	-44.2	-14.9
Giving total expected contributions:		
Total expected contributions - 1st year of rates and adjustment certificate (£m figure based on assumed payroll)	92.1	104.0
Total expected contributions – 2nd year of rates and adjustment certificate (£m figure based on assumed payroll)	95.9	106.0
Total expected contributions – 3rd year of rates and adjustment certificate (£m figure based on assumed payroll)	99.8	111.8
Assumed payroll (cash amounts in each year):		
Total assumed payroll - 1st year of rates and adjustment certificate (£m)	658	543
Total assumed payroll – 2nd year of rates and adjustment certificate (£m)	685	563

Total assumed payroll – 3rd year of rates and adjustment certificate (£m)	713	584
3-year average total employer contribution rate	14.0%	19.1%
Average employee contribution rate (% of pay)	6.0%	6.1%
Employee contributions (£m p.a. based on assumed 1st year payroll)	39.5	33.1
<u>Deficit recovery and surplus spreading plan:</u>	2023 valuation	2020 valuation
Latest deficit recovery period end date	n/a	2040
Earliest surplus spreading period end date	2027 (2037 based on average recovery period)	2024
The time horizon end date (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
The funding plan's likelihood of success (where this methodology is used by the fund's actuarial advisor)	n/a	n/a
Percentage of liabilities relating to employers with deficit recovery periods of longer than 20 years	0%	0%
<u>Additional information:</u>		
Percentage of total liabilities that are in respect of Tier 3 employers	8%	
Included climate change analysis/comments in the 2023 valuation report	Yes	
Value of McCloud liability in the 2023 valuation report (on local funding basis)	£19m	

Appendix G

Rates and Adjustments Certificate issued in accordance with Regulation 60

Name of fund	North East Scotland Pension Fund

Primary Contribution Rate

We hereby certify that, in my opinion, the primary rate of the employers' contribution for the whole Fund for each of the three years beginning 1 April 2024 is 20.2% of pensionable pay. The primary rate of contribution for each employer for the three year period beginning 1 April 2024 is set out in the attached schedule.

Secondary Contribution Rate

We hereby certify that, in my opinion, the secondary rate of the employer's contribution for the whole Fund for each of the three years beginning 1 April 2024 is an **offset** of the following:

2024/25 6.2% of pensionable pay

2025/26 6.2% of pensionable pay

2026/27 6.2% of pensionable pay

The secondary rate of contribution for each employer for each of the three years beginning 1 April 2024 is set out in the attached schedule. The above secondary rates, and the secondary rates for each employer.

Contribution amounts payable

The total contribution payable for each employer is the total of the primary and secondary rates as detailed in the attached schedule. Contributions will be paid monthly in arrears with each payment normally being due by the 19th of the following month (or the 22nd if paid electronically or at intervals agreed with the Administering Authority) unless otherwise noted in the schedule.

Further adjustments

A further individual adjustment shall be applied in respect of each non-ill health early retirement occurring in the period of three years covered by this certificate. This further individual adjustment will be calculated in accordance with methods agreed from time to time between the Fund's Actuary and the Administering Authority.

The contributions set out in the attached schedule represent the minimum contribution which may be paid by each employer in total over the three years covered by the certificate. Additional contributions or a different pattern of contributions may be paid if requested by the employer concerned at the sole discretion of the Administering Authority as agreed with the Actuary. The total contributions payable by each employer will be subject to a minimum of nil% of pay.

The individual employer contributions may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of the McCloud Judgment remedy as set out in this report and/or any benefit costs being insured with a third party or parties including where the third party or parties participate in the Fund.

In cases where an element of an existing Scheme employer's surplus or deficit is transferred to a new employer on its inception, the Scheme employer's secondary contributions, as shown on the schedule to this Certificate in Appendix H, may be reallocated between the Scheme employer and the new employer to reflect this, on the advice of the Actuary and as agreed with the Administering Authority so that the total payments remain the same overall.

The Administering Authority and employer with advice from the Fund's Actuary can agree that contributions payable under this certificate can be sourced under an alternative financing arrangement which provides the Fund with equivalent cash contributions.

Regulation 60(8)

In order to maintain solvency of the Fund, and in accordance with Regulation 60(8) of the regulations, we have calculated the contributions that should be paid into the fund over the period 1 April 2024 to 31 March 2027 in order to maintain the solvency of the Fund.

The assumptions underpinning the calculation of the contribution rates included in this certificate are set out in the Funding Strategy Statement and summarised in Appendix A of the Fund Actuary's report on the 31 March 2023 Actuarial Valuation. These assumptions determine our estimate of the number of members (and associated pensions and liabilities) who will become entitled to a pension under the provisions on the LGPS.

No allowance for non-ill health early retirements has been made in determining the results of the valuation, on the basis that the costs arising will be met by additional contributions. Allowance for ill health retirements has been included in each employer's contribution rate, on the basis of the method and assumptions set out in the report.

Signature:		
Name:	Paul Middleman	Laura Evans
Qualification:	Fellow of the Institute and Faculty of Actuaries	Fellow of the Institute and Faculty of Actuaries
Date of signing:	15 March 2024	

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Appendix H

Schedule to the Rates and Adjustments Certificate dated 15 March 2024

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Scheme Employers								
Aberdeen City Council		19.6%	-9.1%	-9.1%	-9.1%	10.5%	10.5%	10.5%
Aberdeenshire Council		20.3%	-4.3%	-4.3%	-4.3%	16.0%	16.0%	16.0%
The Moray Council		20.6%	-6.3%	-6.3%	-6.3%	14.3%	14.3%	14.3%
Grampian Valuation Joint Board		20.3%	-10.2%	-10.2%	-10.2%	10.1%	10.1%	10.1%
Moray College		20.5%	-3.1%	-3.1%	-3.1%	17.4%	17.4%	17.4%
NESTRANS		19.6%	-0.6%	-0.6%	-0.6%	19.0%	19.0%	19.0%
North East Scotland College		20.6%	-8.0%	-8.0%	-8.0%	12.6%	12.6%	12.6%
Scottish Fire and Rescue Service		20.7%	-3.6%	-3.6%	-3.6%	17.1%	17.1%	17.1%
Scottish Police Authority (Combined)		19.7%	-2.7%	-2.7%	-2.7%	17.0%	17.0%	17.0%
Scottish Water		20.1%	-5.8%	-5.8%	-5.8%	14.3%	14.3%	14.3%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Community Admission Bodies								
Aberdeen Endowments Trust		24.2%	-1.8%	-1.8%	-1.8%	22.4%	22.4%	22.4%
Aberdeen Foyer		24.3%	-17.7%	-17.7%	-17.7%	6.6%	6.6%	6.6%
Aberdeen Heat and Power		21.4%	0.0%	0.0%	0.0%	21.4%	21.4%	21.4%
Aberdeen Performing Arts		22.5%	-11.1%	-11.1%	-11.1%	11.4%	11.4%	11.4%
Aberdeen Sports Village		22.4%	-4.9%	-4.9%	-4.9%	17.5%	17.5%	17.5%
CIC (Community Integrated Care) [Formerly Inspire]		23.9%	-17.8%	-17.8%	-17.8%	6.1%	6.1%	6.1%
Fersands and Fountain		24.1%	-2.0%	-2.0%	-2.0%	22.1%	22.1%	22.1%
Fraserburgh Harbour		23.1%	-23.1%	-23.1%	-23.1%	0.0%	0.0%	0.0%
Home Start Aberdeen		34.5%	-15.6%	-15.6%	-15.6%	18.9%	18.9%	18.9%
Homestart NEA		26.7%	-0.6%	-0.6%	-0.6%	26.1%	26.1%	26.1%
Mental Health Aberdeen		25.3%	-5.9%	-5.9%	-5.9%	19.4%	19.4%	19.4%
North East Sensory Services		23.8%	-4.3%	-4.3%	-4.3%	19.5%	19.5%	19.5%
Outdoor Access Trust Scotland		21.8%	-2.1%	-2.1%	-2.1%	19.7%	19.7%	19.7%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Pathways		22.5%	-3.8%	-3.8%	-3.8%	18.7%	18.7%	18.7%
Peterhead Port Authority		18.1%	-1.6%	-1.6%	-1.6%	16.5%	16.5%	16.5%
Printfield Community Project		26.2%	-6.4%	-6.4%	-6.4%	19.8%	19.8%	19.8%
Robert Gordon's College		23.0%	0.0%	0.0%	0.0%	23.0%	23.0%	23.0%
Sanctuary Scotland		23.6%	-17.0%	-17.0%	-17.0%	6.6%	6.6%	6.6%
Save Cash and Reduce Fuel		22.5%	-22.5%	-9.0%	-9.0%	0.0%	13.5%	13.5%
Scotland's Lighthouse Museum		21.2%	-10.0%	-10.0%	-10.0%	11.2%	11.2%	11.2%
Sport Aberdeen		20.5%	-11.3%	-11.3%	-11.3%	9.2%	9.2%	9.2%
Station House Media Unit		22.4%	-22.4%	-22.4%	-22.4%	0.0%	0.0%	0.0%
The Robert Gordon University		21.2%	-8.2%	-8.2%	-8.2%	13.0%	13.0%	13.0%
Transferee Admission Bodies								
Alcohol and Drugs Action		23.5%	-6.2%	-6.2%	-6.2%	17.3%	17.3%	17.3%
Bon Accord Care and Bon Accord Support (combined)		20.3%	-3.9%	-3.9%	-3.9%	16.4%	16.4%	16.4%
Forth and Oban		26.1%	-2.6%	-2.6%	-2.6%	23.5%	23.5%	23.5%
idVerde		22.4%	-10.0%	-10.0%	-10.0%	12.4%	12.4%	12.4%

Employer	Notes	Primary rate 2024/25 to 2026/27	Secondary rates			Total Contribution rates		
			2024/25	2025/26	2026/27	2024/25	2025/26	2026/27
Robertsons City		23.5%	-2.7%	-2.7%	-2.7%	20.8%	20.8%	20.8%
Robertsons Shire		22.0%	-1.8%	-1.8%	-1.8%	20.2%	20.2%	20.2%

The following employers exited the Fund during 2023/24. Termination assessments will be completed and any additional contributions or exit credits required will be notified separately:

Employer
Aberdeen Cyrenians
First Aberdeen
Xerox UK Ltd

Important notes to the Certificate:

1. The percentages shown are percentages of pensionable pay and apply in respect of all members, including those who are members under the 50:50 option under the LGPS.

2. With the agreement of the Administering Authority employers may opt to pay any element of their employer contributions in advance instead of monthly amounts, with either all three years being paid in April 2024 or payment being made earlier than due in the year in question. The cash amounts payable will be reduced in return for this early payment as follows:

   - 2025/26 payments made in April 2024 will be reduced by 6.52% (i.e. the above amounts will be multiplied by 0.9348)
   - 2026/27 payments made in April 2024 will be reduced by 10.63% (i.e. the above amounts will be multiplied by 0.8937)
   - Payments made annually in advance will be reduced by 2.22% (i.e. the above amounts will be multiplied by 0.9778)

At the absolute discretion of the Administering Authority employers may be able to prepay at different dates and the discount factors applied will be adjusted accordingly in line with the approach above.

3. Where % contributions are being paid in advance, for these cases the employer will need to estimate in advance the pensionable pay for the entire period (subject to an agreed adjustment with the Administering Authority) and a balancing adjustment to reflect the actual pensionable pay over the period would be made at the end of the period (no later than 30th April as appropriate following the year-end). Consideration will be required for employers in surplus as at 31 March 2023, where any surplus offset would be made up front before any reduction for early payment is applied. Further information on the policy for prepayments can be provided by the Fund upon request. It should be noted that only certain employers will be able to pay their primary rate in advance due to the operational complexity.

4. Employers will not be allowed to prepay any member contributions and these must be paid in line with the Regulations.

5. Where the secondary rate is a £ deduction to the primary rate due to an employer being in surplus, the total annual contributions payable by each employer will be subject to a minimum of nil% of pay i.e. no monies can be refunded to an employer whilst they participate in the Fund.

6. The above secondary contributions include provision for the estimated effect of the McCloud Judgment based on the proposed remedy. Whilst it is possible that the Fund may require additional contributions from employers at that point in time if the McCloud remedy is substantially different from that currently anticipated, based on the Administering Authority's current knowledge and understanding of the likely outcome it believes that requiring such additional contributions is an unlikely outcome. In the event that additional contributions are required, this certificate will then be updated to reflect these changes. Any contribution changes will take effect from a date to be determined by the Administering Authority.

Appendix I

Glossary

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement.

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

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

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

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

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 differs from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

CPIH: An alternative measure of CPI which includes owner occupiers’ housing costs and Council Tax (which are excluded from CPI).

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s 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.

Employer Covenant: the degree to which an employer participating in an occupational pension scheme is willing and able to meet the funding requirements of the scheme.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses. It is normally the same as an employer’s Primary Contribution Rate under the Regulations.

Employer's Primary Contribution 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.

Employer's Secondary Contribution Rate: 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 may be expressed as a percentage adjustment to the Primary Rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following 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. 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.

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

Funding Buffer: Requires part of the surplus to be held back to act as a cushion against future adverse experience (reflecting the current market uncertainty). Aids with future stability for long term employers.

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 (FSS): This is a key governance document that outlines how the administering authority will manage employer's contributions to the Fund.

Guaranteed Minimum Pension (GMP): This part of a member's pension which was earned between 6 April 1978 and 5 April 1997 and which replaces part of that member's State Scheme benefits in respect of that period.

Investment Strategy: the long term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

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.

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.

Past Service Liabilities: this is the present value of the benefits accrued by members up to the valuation date. It is assessed based on a set of assumptions agreed between the Administering Authority and the Actuary.

Percentile: A method of ranking a series of outcomes. For example, a 10th percentile outcome means that only 10% of results would be expected to be as good as or better than the 10th percentile and 90% of results would be expected to be worse.

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

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

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 overall to be prudent.

Real Return or Real Discount Rate: a rate of return or discount rate net of CPI inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time (“the recovery period”, as set out in the Funding Strategy Statement.

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. As an example, the real discount rate over and above CPI used in the SAB Basis as at 31 March 2023was 2.4% p.a., so it can be substantially different from the actuarial assumptions used to calculated the Fund’s solvency funding position and contribution outcomes for employers.

Solvency/Funding Level: the ratio of the value of the Fund’s assets and the value of the Fund’s liabilities expressed as a percentage.

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 past service liabilities assessed on the ongoing concern basis.

Spread Period: a strategy by which the Fund will remove a funding surplus via contribution adjustments over a specified period of time (“the spread period”), as set out in the Funding Strategy Statement.

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

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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.

March 2024

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

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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/surplus spread periods plus any funding buffers) 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

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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.

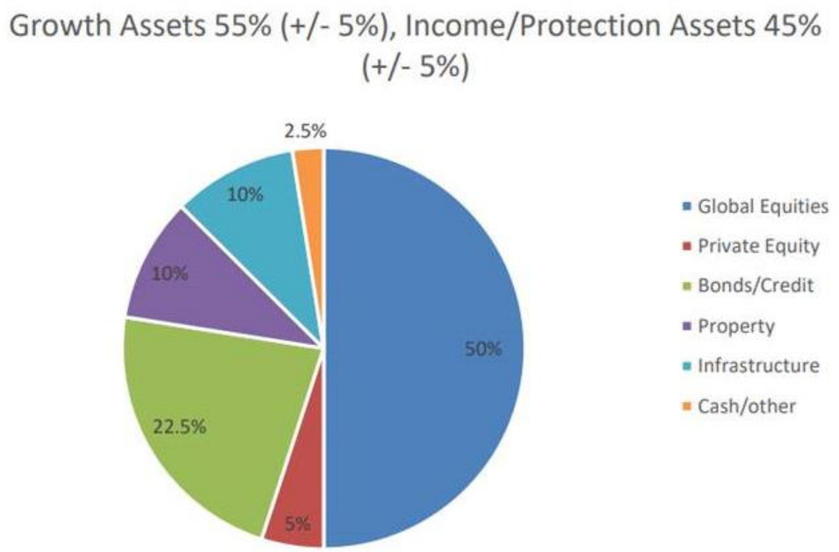
Each employer's contributions are set at such a level to achieve long-term cost efficiency and full solvency in a reasonable timeframe.

Link to Investment Policy

The results of the 2023 valuation show the liabilities to be 126% covered by the assets, with a funding surplus of £1.19bn.

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.

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Appendix A – Actuarial method and assumptions

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 assumed inflation hedging inherent in the 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 upon request.

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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 funding 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% or as agreed by the Administering Authority), 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

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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 may also 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. It should be noted that the contributions paid will normally be subject to a minimum of the contributions due on the ongoing assumptions.

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 at the sole discretion of the Administering Authority) based on the advice of the actuary to provide less volatility in the termination funding position.

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

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. We will also allow for observed inflation from the preceding September to the termination date when calculating the termination 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	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

	Employers with no guarantor in the Fund / only a guarantee of last resort	Employers with a guarantor
	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.	and 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.

In all relevant cases, unless agreed otherwise by the Administering Authority, if the minimum risk termination basis liabilities are assessed be lower than equivalent liabilities on the ongoing funding assumptions then the liabilities assessed on an ongoing funding basis will be used for the purpose of determining the funding position at cessation.

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

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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 would not typically apply to public sector employers where it is a statutory obligation to pay pension Fund contributions. 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.

Appendix F – Covenant Assessment and Monitoring Policy

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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.

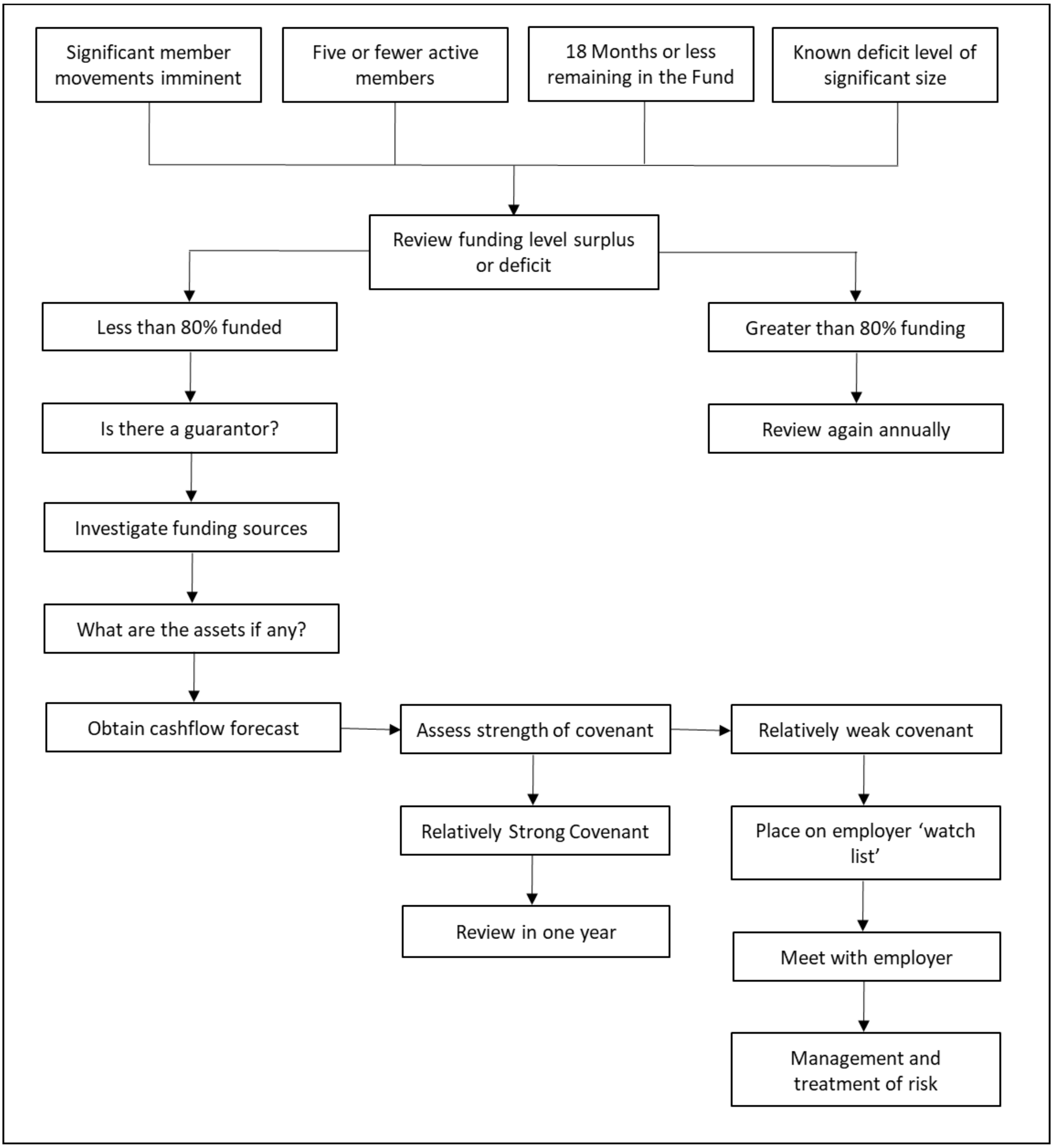
In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately.

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

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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 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.

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 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	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	LAPFF Nomination
REPORT NUMBER	PC/JUN24/LAPFF
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	6

1. PURPOSE OF REPORT

1.1 To seek approval for nomination of an Elected Member or Fund Officer representative to the Local Authority Pension Fund Forum (LAPFF) on behalf of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

2.1 agree whether to nominate a Member of the Committee or a Fund Officer to the LAPFF Executive; and

2.1.1 that if a nomination is to be made, consider those nominated and agree a nominee; and

2.1.2 if the nominee is accepted by LAPFF, approve the detailed travel costs associated with the membership of the Executive.

3. CURRENT SITUATION

3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

4.1 There will be financial costs for travel costs associated with membership of the LAPFF Executive as set out in the main report. Necessary costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

5.1 Aberdeen City Council has a range of statutory responsibilities in respect of its role as administering authority for the North East Scotland Pension Fund. There are no direct legal implications arising from the recommendations in this report.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

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	There will be travel costs associated with LAPFF participation.	These costs will be included within the Pension Fund budget.	L	Yes
Reputational	Failure to nominate an Executive member could have a negative impact on the reputation of the Pension Fund.	The Pension Fund will seek to agree a nomination before the deadline set by LAPFF in future.	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	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 None

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund
nespf

LAPFF Executive Nomination

June 2024

1. Background

1.1 Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries and to maximise their influence as stakeholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990 LAPFF brings together a diverse range of 87 Local Authority Pension Funds and seven pools in the UK with combined assets of over £350 billion.

For LAPFF and its members, corporate responsibility and long-term shareholder value are two sides of the same coin. LAPFF's members have investments in many of the largest global companies. Working together with the majority of the UK's local authority pension funds and pool companies, LAPFF leads the way on issues such as executive pay, reliable accounting and a just transition to a net zero economy, along with significant and tangible improvements in the practices of some of the world's biggest corporations.

Each year the Forum engages with hundreds of companies, many directly with company chairs. This is made possible by building trust and having a two-way dialogue about corporate responsibility. LAPFF's focus is on improving the policies and practices of companies, which they believe is best achieved by having constructive but robust conversations. This approach is not always successful and progress can be too slow. When this happens the LAPFF escalate their engagements. This may include providing voting recommendations to members for company AGM proposals directly to effect change. To leverage engagement outcomes, LAPFF often work with other asset owners and managers.

The Forum participates in several multi-trillion pound collaborations to amplify their voice and accelerate change. LAPFF's understanding of problems facing companies and ability to voice concerns is enhanced by also engaging with company stakeholders.

For LAPFF's responsible investment objectives to be relevant in a rapidly changing economy they have to stay ahead of emerging trends, which alongside the provision of training supports members in their own responsible investment activities.

2. LAPFF Executive

LAPFF protects member pension funds by promoting the highest standards of corporate governance. Being part of the executive enables members to play a prominent role in delivering that mission. Executive membership provides the opportunity to shape the strategic direction of LAPFF as an organisation and to participate in engagements with companies on issues ranging from climate change to employment standards and human rights to executive pay.

Executive members oversee and contribute to the work of LAPFF through quarterly executive meetings, participating in meetings with company chairs and attending AGMs, and more generally supporting initiatives undertaken by LAPFF. The work of the executive is supported by LAPFF's research and engagement partner who provides executive members with materials to give information and insights into responsible investment and engagement issues and to reduce the time pressures on the executive.

The executive committee is a management body compromised of members, including councillors and other pension committee members, officers from funds and pool representatives. The executive sets the strategic priorities for LAPFF, promotes and protects LAPFF's reputation, and provides oversight of LAPFF's work.

The executive discusses and agrees materials, including on engagement priorities, before they go to the membership at business meetings. It also has the power to make decisions on behalf of the Forum that do not need to go to wider membership, including regarding approval of AGM voting alerts. The executive's role also includes ensuring that LAPFF activities are delivering the agreed workplan within the budget.

LAPFF is marked out as an investor organisation because it is led by its member funds. Rather than third parties engaging companies on its behalf, LAPFF does the engagement work itself as asset owners. That way, LAPFF can manage and lead engagements according to its priorities. Being part of the executive provides members with the opportunity to represent the Forum in engagement meetings with investee companies. Following these meetings executive members have the opportunity to give feedback to the membership at business meetings.

The executive meets at least four times a year and there are a further four business meetings and an AGM with the wider membership. Those elected to the executive are expected to attend the majority of those meetings. Executive members are expected to maintain appropriate skills in responsible investment and stewardship and abide by the Forum's conflicts of interest policy. Members are also encouraged, depending on individual's availability, to participate in LAPFF initiatives and company engagements. The LAPFF Business meetings are currently held in a hybrid manner.

Executive members are supported by the LAPFF's research and engagement partner, PIRC. The PIRC team provides members with reports for the executive meetings, which cover policy issues (engagement themes and sectors), updates on engagement activity and progress against the workplan. Executive members undertaking policy-related or company engagement meetings will be provided with a briefing document and supported by a members of the PIRC team in the meeting. For a new executive member's first engagement meeting, another member of the LAPFF executive will lead the meeting and provide advice. For a collaborative meeting with other investors, support will be provided by the lead investor or organiser, as well as by PIRC staff.

Executive Committee Member Role Specification

1. **Role of the Executive Committee**

- Set LAPFF's strategic goals and ensure the necessary financial and human resources are in place to meet LAPFF's objectives.
- Make recommendations and provide advice to the Business Meeting regarding work priorities and manage the annual research and engagement work programme.
- Coordinate the work of all contractors undertaking work for LAPFF.
- Promote the work of LAPFF among colleagues in the pensions, investment and local authority communities, where appropriate.
- Oversee the governance of LAPFF. For more information on the governance aspects of LAPFF and the Executive Committee, please consult the LAPFF Constitution.

2. **Role of Executive Members**

- Allocate sufficient time to read and reflect on meeting papers and attend Executive Committee and Business meetings.
- Contribute to Executive Committee discussions and decisions regarding LAPFF strategy, the annual work plan and budget, recommendations in papers for discussion and responses to consultations.
- Consider and suggest new ideas and strategies for engagement. Participate in appropriate training sessions as required.
- Monitor and identify key risks or trends that may affect LAPFF's work, brand or reputation.
- Represent LAPFF in company engagement meetings, at annual general meetings, or external events, where practicable.
- Assist the Forum Officer with recruitment and retention of LAPFF members.
- Protect and enhance LAPFF's brand and reputation as the leading collaborative shareholder engagement group in the UK.
- Be familiar with LAPFF's policies with regard to environmental, social and corporate governance issues and make efforts to promote these policies where appropriate.
- Declare any conflicts of interest.
- Agree that all LAPFF Executive Committee and Business meeting documents and papers, as well as all company correspondence (letters and meeting notes) remain strictly confidential, unless otherwise agreed by the Executive Committee.

3. **Composition of the Executive**

There shall be elected at each AGM from the organisations in the Forum membership the following Office-holders, each of whom shall become members of the Executive:

a. a Chair of the Forum (Councillor on a LGPS Pension Fund Committee/Panel or trustee equivalent candidate);

b. two Vice Chairs of the Forum (Councillor on a LGPS Pension Fund Committee/Panel or trustee equivalent, or non-executive member of a Publicly Accountable Body); and

c. an Honorary Treasurer of the Forum (Officer working for a local authority or Publicly Accountable Body).

At each AGM there shall also be elected to the Executive:

a. six Authorised Representatives of LAPFF member funds, who are Councillors or trustee equivalent, of whom at least two shall be women.;

b. three Authorised Representatives of LAPFF member funds, of whom at least one shall be a woman, who are Officers of a LAPFF member fund.

c. two authorised pool representatives;

i. one Authorised Representative who is a Councillor, or trustee equivalent, or non-executive member of a Publicly Accountable Body;

ii. one Authorised Representative who is an officer of a LAPFF member fund or executive officer of a Publicly Accountable Body.

3. Recommendation

The LAPFF are seeking a nomination to the Executive and we are seeking this in advance of their deadline.

We now ask for members to:

- approve putting forward a representative to the Executive, as per Term of Reference 6;

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

- agree the nominated individual to put forward to the Executive, giving consideration to the composition of the Executive as set out in item 2 above; and

- approve detailed travel costs associated with the membership

Each of the roles on the Executive will be up for election when the LAPFF issues nomination forms to the membership in mid August.

As stated earlier, Executive meetings are currently being held virtually and Business meetings being held in a hybrid manner. There will be travel costs associated with membership for travel to London and Bournemouth for the AGM. These costs will be met in full by the Pension Fund.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	21 June 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Training
REPORT NUMBER	PC/JUN24/TRA
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	4.1 and 4.2

1. PURPOSE OF REPORT

1.1 To provide details of the training plan (2024/25) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

2.1 Approve the travel of members to attend external training opportunities, as set out in the attached report;

2.2 Approve the revised Training Policy (as per Appendix I); and

2.3 Note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

3. CURRENT SITUATION

3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

4.1 Training costs (train, accommodation and any training attendance fees) will be met by the Pension Fund. Officers liaise with ACC Travel to ensure best value for money when arranging travel for members.

5. LEGAL IMPLICATIONS

5.1 Failing to ensure the Committee and Board members have sufficient training, as detailed in the Fund's Training Policy, could result in the Fund being in breach of the Pensions Regulators' General Code and the Public Service Pensions Act 2013 which set out knowledge and understanding requirements.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

7.1 The risks associated with failure to ensure appropriate training are managed through the Pension Fund's Risk Management Policy and Risk Register, which is updated and reported to the Committee on quarterly basis.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to acquire and retain adequate levels of knowledge and understanding would result in non-compliance with tPR General Code and PSPA 2013	Committee and Board meet at the same time, and consider the same agenda. Governance review carried out annually.	M	Yes
Operational	Poor governance, inability of Pensions Committee and Board effectively	Committee and Board meet at the same time, and consider the same agenda. Governance review carried out annually.	M	Yes
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	Fund's reputation may be negatively affected by	Issues will be identified through governance	L	Yes

	breach of regulatory duties and tPR action.	review and rectified.		
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	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 10th June 2024.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I, Training Policy

12. REPORT AUTHOR CONTACT DETAILS

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Training Report

Annual Report June 2024

1. Current Situation

1.1 Background

There is a requirement under the Pensions Regulator (tPR) and CIPFA/Myners guidance that members sitting on Local Government Pension Scheme Committees and Boards hold a certain level of knowledge and understanding.

The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the functions of a member of the Pensions Committee or Board.

1.2 Training Delivery and Content

Officers propose to deliver training over the coming period that will address various topics across the Fund and in response to specific areas identified through the Hymans Knowledge Progress Assessment carried out towards the end of 2023.

Additional training opportunities, including externally delivered training, will also be highlighted to both Pensions Committee and Pension Board members as and when available but it should be noted that these additional opportunities are not mandatory. A variety of training opportunities is simply presented to provide members with flexibility to attend those best suited to their requirements and availability.

At present the below additional external training is available:

- **LGC Investment Seminar Scotland**
  31 October/1 November, Edinburgh
  (https://investmentseminarscotland.lgcplus.com)

Given the requirements under the Pensions Regulator, CIPFA/Myners and generally good practice enabling the delivery of members fiduciary duty falls to ensuring member training across the Fund.

1.3 Mandatory Training for Committee & Board Members

The Pensions Regulator Toolkit

The Pensions Regulator (tPR) has an e-learning toolkit for those involved in the governance and administration of a public service pension scheme, specifically aimed at local pension board members. This Toolkit is due to be refreshed following introduction of tPR's General Code in March 2024, however an exact date for this refresh is not yet known. The Pensions Regulator Toolkit can be found at the following link:

http://www.thepensionsregulator.gov.uk/public-service-scheme.aspx

Pensions Committee and Board members previously agreed to complete tPR's online toolkit as part of their individual training plans (PC/JUN19/TRA) and provide evidence of this to the Governance Manager to record on the training register.

At the time of writing this report, the training register shows three members of the Pension Board (and one substitute member) and four members of the Pensions Committee have completed the training. Committee and Board members who have not already done so or who are new to their role are required to complete this training requirement as soon as possible as part of their personal training plans for 2024/25. There are currently seven short modules to complete and an optional module covering pensions scams.

Hymans Online Learning Academy

The Fund procured licenses for Hymans Local Government Pension Scheme (LGPS) Online Learning Academy (LOLA) for Pensions Committee and Board members, following approval by the Pensions Committee in December 2021 (PC/DEC21/PRO).

The online portal covers a range of modules, with over 5 hours of training video material available. At the Pensions Committee and Pension Board meeting in June 2022 (PC/JUN22/TRA), members agreed to have completed their Hymans training by March 2023. Six members of the Committee and five members of the Board successfully completed all modules within Version 1 of LOLA during 2022/23.

LOLA Version 2.0 was rolled out from 24th April 2023 with updated modules, training materials and other useful features.

The recommendation for Committee and Board in June 2023 (PC/JUN23/TRA) stated "Note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy". New appointees are required, as per the Training Policy, to complete LOLA version 2.0 within 12 months of their appointment, with module 1 being completed prior to their first meeting.

As at March 2024, three Pension Board members and two Pensions Committee members have fully completed LOLA version 2.0.

1.4 Training Record

Training attendance is reported in the annual Committee Effectiveness Report and respectively for members of the Board, in the Pension Board Annual Report, as well as to both internal and external audit.

Recent years have seen increased opportunities for external training across the pensions industry, although significantly more training is now advertised and promoted to the Pensions Committee and Board, it should be noted that attendance at these events is at the members discretion.

The latest version of the Training Policy for the Pensions Committee and Board is attached in Appendix I. It is recommended that members approve the updated Policy which aims to provide greater clarity to both Committee and Board members as well as now incorporating the CIPFA Framework for Board members.

Training Policy

April 2024

Contents

Document	**Training Policy**
Review Date	April 2024
Approval Date	June 2024
Author & Team	M Suttie, Governance
Review Date	April 2025

Purpose Statement

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

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

Application & Scope

Expectations

The role of Pensions Committee or Pension Board member is an important one and there are certain expectations placed upon members, including:

- A commitment to attend and participate in training events and to adhere to the principles of this Training Policy;
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others;
- Judge the information provided in a fair and open-minded way that avoids pre-determining outcomes; and
- Operate within the Terms of Reference for the Pensions Committee and the elected member Code of Conduct or the Terms of Reference for the Pension Board.

All Pension Fund Committee and Board members (including substitutes) to whom this policy applies are expected to continually demonstrate their own personal commitment to training to ensure they have the necessary skills required to support them in their decision-making role.

Induction Process

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

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

The induction will provide an overview of the structure and operation of the Fund and insight into the responsibilities of their respective role.

Policy documentation is available to Committee and Board members via the Pension Fund website at www.nespf.org.uk and members should familiarise themselves with the information held on the site.

As part of the induction process:

1) Members of the Pensions Committee and Pension Board **must** complete, by their first meeting or within the first three months of their appointment, whichever is earlier, the online training course provided by The Pensions Regulator in their Public Service Toolkit.

2) Members of the Pensions Committee and Pension Board **must** complete, within the first twelve months of their appointment, the online training courses available on the Hymans Online Learning Academy (LOLA), with the first introductory module being completed before their first meeting.

Training Plan

Myners Principles

As per the Myners Principles, administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

CIPFA Knowledge and Skills Framework

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

The CIPFA framework sets out the following key areas:

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

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

Markets in Financial Instruments Directive (MiFID II) Requirements

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

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

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

Pension Board Specific Requirements

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

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

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

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

CIPFA have published a separate Technical Knowledge and Skills Framework for Local Pension Board members.

Training Arrangements

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

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

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions
- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training including use of the Hymans Online Learning Academy (LOLA)
- seminars and training events offered by the Fund's investment managers and advisors

- use of the secure ‘trustee’ area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

Training is provided to members of the Pensions Committee and Pension Board through the above range of opportunities in respect of the following topics;

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

Hymans LOLA

Hymans Online Learning Academy (LOLA) consists of 8 core modules, mirroring their LGPS National Knowledge Assessment topics, and covers all key areas needed to successfully manage the running of a Pension Fund:

- Module 1 – Committee Role and Pensions Legislation
- Module 2 – Pensions Governance
- Module 3 – Pensions Administration
- Module 4 – Pensions Accounting and Audit Standards
- Module 5 – Procurement and Relationship Management
- Module 6 – Investment Performance and Risk Management
- Module 7 – Financial Markets and Product Knowledge
- Module 8 – Actuarial methods, Standards and Practices

There is also a “current issues” module which is regularly updated.

The Pensions Regulator’s E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand governance and administration requirements. There are eight short modules covering:

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

- Reporting Breaches of Law
- Pensions Scams (optional)

TPR's Toolkit is due to be refreshed during 2024, following implementation of their General Code and therefore the modules set out above are subject to change.

Policy Performance

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

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

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

Supporting Procedures & Documentation

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

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

Responsibilities

All training costs are met directly by the Pension Fund.

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

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

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

Resources Email: governance@nespf.org.uk

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CIPFA Knowledge and Skills Framework

This framework identifies the level of knowledge required **by Pensions Committee members** to ensure that they can carry out effective decision making in respect of the Fund. A separate Framework is in place in respect of the Pension Board.

Level of knowledge required

For committee members:

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

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

<table>
<tr><td></td><td>An awareness of:

LGPS discretions and how the formulation of the discretionary policies impacts on the Fund, employers and scheme members
the latest changes to the scheme rules and current proposals or potential changes to the scheme (regularly updated)

<u>Guidance</u>

A general understanding of:

the requirements of statutory guidance from the Responsible Authority, Scottish Government
the requirements of tPR’s Code of Practice

An awareness of:

the requirements of guidance from the Scheme Advisory Board
the requirements of guidance from the Government Actuary’s Department
other guidance relevant to the LGPS, such as from CIPFA
</td></tr>
<tr><td>Pensions Governance</td><td>An awareness of:

the main features and requirements of the LGPS regulations relating to pension scheme governance.
statutory and other guidance relating to pension scheme governance including statutory governance guidance, tPR Code of Practice, CIPFA/SOLACE, Scheme Advisory Board guidance and the Myners Principles.

<u>Pension regulators, Scheme Advisory Board and other bodies</u>

A general understanding of:

how the roles and powers of the Scottish Government, tPR, the Money and Pensions Service and the Pensions Ombudsman relate to the workings of the scheme
the role of the Scheme Advisory Board and how it interacts with other bodies

<u>General constitutional framework</u>

A general understanding of:</td></tr>
</table>

	• the role of the administering authority in relation to the LGPS • the role of the pension committees in relation to the Fund, administering authority, employing authorities, scheme members and taxpayers An **awareness** of: • the role and statutory responsibilities of the Chief Financial Officer (CFO) and monitoring officer <u>Fund specific governance</u> A **strong understanding** of: • the terms of reference and delegated responsibilities of the Pensions Committee (including any sub-committees), the Pension Board and any other delegated responsibilities to senior officers • how breaches of law are recorded and managed, and if necessary reported to tPR, including each individual's personal responsibility in relation to breaches A **general understanding** of: • the stakeholders of the Fund and the nature of their interests • who the key officers responsible for the management of the Fund are, how the pension team is structured and how services are delivered • the Fund's strategies, policies and other key documents • how risk is monitored and managed, and the Fund's current key risks • how conflicts of interest are identified and managed • the Fund's knowledge and skills policy and associated training requirements • how the effectiveness of the Fund's governance is reviewed An **awareness** of: • the Fund's process for dealing with complaints, including its Internal Dispute Resolution Procedure <u>Service Delivery</u> A **general understanding** of: • the required budget and resources needed to manage and administer the Fund

	• the annual business planning cycle and budget setting • the Fund's key performance indicators and other performance measures • the Fund's business continuity policy and cyber security policy
Funding strategy and actuarial methods	An **awareness** of: • the LGPS regulations main features and requirements relating to funding strategy and the setting of employer contributions including associated guidance A **general understanding** of: • the role of the Fund actuary • the funding strategy statement and the expected delivery of the funding objectives • the key risks to the Fund relating to the funding strategy <u>Valuations</u> A **general understanding** of: • the valuation process, including developing the funding strategy in conjunction with the Fund actuary, and inter-valuation monitoring • the importance of employer covenant, the relative strengths of the covenant across the Fund's employers, and how this impacts the funding strategy statement adopted • any legislative and/or benefit uncertainty and the impact of this on the funding strategy • the Scheme valuation and other work carried out by the Government Actuary's Department and the impact this has on the valuation process (i.e. cost management process/Section 13 report) An **awareness** of: • the costs to the employer including employer contributions and early retirement strain costs • the different types of employers that participate in the Fund <u>New employer and exits</u> A **general understanding** of: • the implications of including new employers into the Fund and of the exits of existing employers

	• the relevant considerations in relation to the different types of new employer, e.g. outsourcings, alternative delivery models and also the considerations in relation to bulk transfers

Pensions administration and communications	An **awareness** of:
	• the LGPS regulations main features and requirements relating to:
	    ○ Administration and communications strategies;
	    ○ Entitlement to and calculation of pension benefits;
	    ○ Transfers in and out of the scheme;
	    ○ Employee contributions; and
	    ○ The delivery of administration and communications.
	
	Including associated guidance.
	
	A **general understanding** of:
	• the Fund's Pensions Administration Strategy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes
	• the Fund's communications policy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes
	• best practice in pensions administration, e.g. performance and cost measures
	• the Fund's processes and procedures relating to:
	    ○ Member data maintenance and record-keeping including data improvement plans and relationships with employers for data transmission
	    ○ Contributions collection
	
	An **awareness** of:
	• how the Fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances
	
	A **general understanding** of additional voluntary contribution (AVC) arrangements including:
	• The AVC arrangements that exist
	• The choice of investments to be offered to members
	• The provider's investment and fund performance

	• The payment of contributions to the provider • The benefits that can be received by scheme members • How and when the AVC arrangements, including the investment choices, are reviewed.
Pensions financial strategy, management, accounting, report and audit standards	A **general understanding** of: • the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the Fund’s accounts and annual report • the various elements of income and expenditure to the Fund, including the operational budget • the cashflows of the Fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings • the role of both internal and external audit in the governance and assurance process
Investment strategy, asset allocation, pooling, performance and risk management	An **awareness** of: • the main features and requirements of the LGPS Regulations relating to investment strategy, asset allocation, the pooling of investments and responsible investments including associated guidance <u>Investment strategy</u> A **general understanding** of: • the key risks that the Fund is exposed to and how a Fund’s investment strategy should be considered in conjunction with these risks • the risk and return characteristics of the main asset classes (equities, bonds, property), and the need to balance risk versus reward when determining the investment strategy • the role of these asset classes in long-term pension fund investing • the Fund’s cashflow requirements and how this impacts on the types of investments considered <u>Total Fund</u> A **general understanding** of: • the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks

<table>
<tr><td></td><td><u>Performance of the Committee</u>

An awareness of:
the Myners principles and the need to set targets for the committee and to report against them
the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime
<u>Responsible investment</u>

An awareness of:
the latest developments and requirements in the area of responsible investment
the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the Fund is signatory to these
A general understanding of:
the Fund’s approach to responsible investment including how views on Environmental, Social and Governance issues are incorporated into the Fund’s investment strategy
<u>Risk Management</u>

A general understanding of:
how to manage and reduce risk and lessen impact of risk on assets when it arises</td></tr>
<tr><td>Financial markets and products knowledge</td><td><u>Financial Markets</u>

A general understanding of:
the primary importance of the investment strategy decision
the workings of the financial markets and of the investment vehicles available to the Pension Fund and the nature of associated risks
An awareness of:</td></tr>
</table>

	• the restrictions placed by legislation on the investment activities of LGPS Funds <u>MiFID II</u> A **general understanding** of: • MiFID II requirements relating to the knowledge of decision makers

Pensions services procurement, contract management and relationship management	<u>Understanding public procurement</u>
	
	An **awareness** of:
	• the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS
	
	<u>Fund suppliers</u>
	
	An **awareness** of:
	• the key decision makers in relation to the Fund's procurements
	• how the Fund's suppliers are monitored, including:
	    ○ The Myners Principles, and
	    ○ The need for strategic objectives for investment consultants
	
	A **general understanding** of:
	• the Fund's suppliers and providers, and their roles in the management of the Fund
	
	<u>Supplier risk management</u>
	
	A **general understanding** of:
	• the nature and scope of risks for the Pension Fund and of the importance of considering risk factors when selecting external suppliers and providers
	• how the Pension Fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk

Local Pension Boards: A Technical Knowledge and Skills Framework	
Pensions Legislation	A **general understanding** of the pensions legislative framework in the UK. An **overall understanding** of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment. An **appreciation** of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers. A **regularly updated appreciation** of the latest changes to the scheme rules.
Pensions Governance	**Knowledge** of the role of the administering authority in relation to the LGPS. An **understanding** of how the roles and powers of the DCLG, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme. **Knowledge** of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure. **Broad understanding** of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers. **Awareness** of the role and statutory responsibilities of the treasurer and monitoring officer. **Knowledge** of the Myners principles and associated CIPFA and SOLACE guidance. A **detailed knowledge** of the duties and responsibilities of pension board members. **Knowledge** of the stakeholders of the pension fund and the nature of their interests. **Knowledge** of consultation, communication and involvement options relevant to the stakeholders.

	Knowledge of how pension fund management risk is monitored and managed. **Understanding** of how conflicts of interest are identified and managed. **Understanding** of how breaches in law are reported.
Pension Administration	An **understanding** of best practice in pensions administration, e.g. performance and cost measures. **Understanding** of the required and adopted scheme policies and procedures relating to: • members data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communications and materials **Knowledge** of how discretionary powers operate. **Knowledge** of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes). An **understanding** of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration. An **understanding** of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the c of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.
Pensions Accounting and Auditing Standards	**Understanding** of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice. **Understanding** of the role of both internal and external audit in the governance and assurance process. An **understanding** of the role played by third party assurance providers.

Pensions services procurement and relationship management	**Understanding** of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations. A **general understanding** of the main public procurement requirements of UK and EU legislation. **Understanding** of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties. An **understanding** of how the pension fund monitors and manages the performance of their outsources providers.
Investment performance and risk management	**Understanding** of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks. **Awareness** of the Myners principles of performance management and the approach adopted by the administering authority. **Awareness** of the range of support services, who supplies them and the nature of the performance monitoring regime.
Financial markets and products knowledge	**Understanding** of the risk and return characteristics of the main asset classes (equities, bonds, property). **Understanding** of the role of these asset classes in long-term pension fund investing. **Understanding** of the primary importance of the investment strategy decision. A **broad understanding** of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks. An **understanding** of the limits placed by regulation on the investment activities of local government pension funds. An **understanding** of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.
Actuarial methods, standards and practices	A **general understanding** of the role of the fund actuary.

	Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring. **Awareness** of the importance of monitoring early and ill health retirement strain costs. A **broad understanding** of the implications of including new employers into the fund and of the cessation of existing employers. A **general understanding** of the relevant considerations in relation to outsourcings and bulk transfers. A **general understanding** of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.

Role Profile for Convener of the Pensions Committee

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

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

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

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

2. And to monitor:

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

3. And to approve:

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

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

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

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

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR CONVENER

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

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

Compliance with the Job Description

1. Pensions Legislative and Governance context

1.1 The pension's landscape is characterised by a complex legislative framework. In addition to the legislation of individual schemes, there are industry-wide statutes that apply in whole or in part to public sector schemes, including the way in which schemes interact with state pensions etc.

1.2 Also of key importance is a knowledge of the governance frameworks that apply within the pensions industry (such as the Myners principles); within individual schemes (such as the LGPS governance statement requirements); and within the organisations that administer the schemes (for example the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*).

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

2. Pensions accounting and auditing standards

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

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

3. **Investment performance and risk management**

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

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

4. **Financial markets and product knowledge**

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

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA Investment Conference, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight into future legislation that may impact on the companies in which we invest. Forthcoming conferences are reporting to the Pensions Committee regularly.

5. **Actuarial methods, standards and practices**

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

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

Exempt information as described in paragraph(s) 8 of Schedule 7A of the Local Government (Scotland) Act 1973.

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of the Local Government (Scotland) Act 1973.

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