



North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting June 2023

1. Background

1.1 Quarterly Report to June 2023

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

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

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

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

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

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

2. Investment

2.1 Asset & Investment Manager Performance Report

Separate report, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

3. Accounting

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

Separate report, provided

4. Benefit Administration

4.1 Regulatory Updates

As background, the McCloud judgement relates to a ruling by the Court of Appeal in 2018 which found that younger members of the judicial and firefighters pension schemes had been unlawfully discriminated against because the transitional protections, which the Government introduced as part of reforms to public service pension schemes in 2014/15, did not apply to them. As a result of this ruling, changes known as the “McCloud Remedy” will now be made across all public service pension schemes that provided transitional protection, including the Local Government Pension Scheme, to remove the age discrimination.

The McCloud LGPS Remedy Regulations are now expected in October 2023. In the interim, the Fund continues its preparatory work and progress will be reported through the dashboard in the quarterly PAS reporting.

4.2 SCAPE Discount Rate

At the end of March 2023, the Chief Secretary to the Treasury issued a written ministerial statement that announced that the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate had been reduced to a real rate of 1.7% per annum above CPI, from the previous real rate of 2.4% per annum. Going forward, the SCAPE rate will continue to be based on long term gross domestic product (GDP) growth figures.

The main impact of this news was felt by the unfunded public sector pension schemes. In the Local Government Pension Scheme (LGPS) contribution rates are not linked to the SCAPE rate, as the LGPS is funded, the discount rate is based on future expected returns from each fund’s assets.

However, there are some secondary impacts for LGPS Funds given the SCAPE rate is used by GAD (Government Actuary’s Department) to set actuarial factors, these factors being used daily to administer the LGPS. This will impact on early retirements and transfers in and out of the Fund. Funds were also required to suspend member calculations (primarily transfers)

while the factors are being reviewing which has had administrative implications for the Fund. Other member calculations were allowed to continue using current factors.

5. Systems

5.1 Performance Reporting

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

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

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

6.2 Document Update

The following documents have been updated and are available in the secure trustee area of the NESPF website or from the Governance Team on request:

- Training Policy (Clarification on training expectations)
- Governance Policy (Update to Delegated Powers Appendix)
- Overpayment of Pension Policy (Minor grammatical amendments)
- Risk Management Policy (Development of section on Risk Appetite as per audit recommendations)
- Myners Principles (Minor design and grammatical amendments)
- Appointment Process for Local Pension Board (Minor design and grammatical amendments)
- Data Protection Policy (Minor grammatical amendments)
- Communications Policy (Minor procedural updates)
- Systems Access Policy (Minor edit to password requirements)

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 32 breaches of law recorded in the NESPF breaches register during 2022/23. The majority were scheme employers failing to meet their statutory obligations e.g. late payment

of pensions contributions. The remainders were personal data breaches resulting mostly from human error.

The Pension Fund will continue to engage with scheme employers during 23/24 and build on the training and support already provided.

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 2022/23.

6.4 Pensions Committee and Board Training

Separate report, provided

7. Employer Relationship

7.1 Employer Update

Two further participating employers have exited the Fund over the last quarter. One transferee admission body exited as a result of their last active member exiting the scheme. As there was a guarantor in place for this admission agreement the liabilities upon exit were calculated on the ongoing basis with all liabilities being subsumed by the guarantor following completion of the termination process.

A termination event was triggered for the second employer as a result of the charity filing for bankruptcy. The Fund are currently prioritising the calculation of the benefits for the members of staff that were made redundant but will also be working with the Administrators around the termination process and any sums due in respect of the liabilities. The scheme guarantor for this admission will subsume the liabilities following the exit therefore ensuring that there is no risk for the other remaining participating employers.