

# Public Document Pack



To: **Pensions Committee**:- Councillor Malik, Convener; Councillor Reynolds, Vice Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Bell, Cooke, Delaney, Donnelly, Flynn and MacGregor.

**Pension Board**:- Councillor McKelvie, Chair; Mrs M Lawrence, Vice Chair; Councillors Allan and Cowe; and Mr I Black, Mr L Knox, Mr N Stirling and Mr A Walker.

Town House,  
ABERDEEN, 6 June 2019

## **PENSIONS COMMITTEE AND PENSION BOARD**

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 14 JUNE 2019 at 10.30 am.**

**Please note that the Pension Board Annual Meeting will take place directly after the Committee and Board meeting.**

FRASER BELL  
CHIEF OFFICER - GOVERNANCE

### **B U S I N E S S**

#### **NOTIFICATION OF URGENT BUSINESS**

- 1 There are no items of urgent business at this time

#### **DETERMINATION OF EXEMPT BUSINESS**

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

## **DECLARATIONS OF INTEREST**

- 3 Members are requested to intimate any declarations of interest (Pages 5 - 6)

## **MINUTES OF PREVIOUS MEETINGS**

- 4 Minute of Previous Meeting of 15 March 2019 (Pages 7 - 14)

## **COMMITTEE BUSINESS PLANNER**

- 5 Business Planner (Pages 15 - 16)

## **RISK MANAGEMENT**

- 6.1 Strategy (Pages 17 - 64)
- 6.2 Revised Training Policy (Pages 65 - 80)

## **INTERNAL AND EXTERNAL AUDIT**

- 7.1 Pension Governance - Internal Audit (Pages 81 - 92)
- 7.2 Internal Audit Annual Report (Pages 93 - 98)

## **ANNUAL REPORT AND ACCOUNTS**

- 8.1 Committee Effectiveness Annual Report (Pages 99 - 116)
- 8.2 Draft NESPF Annual Report and Accounts (Pages 117 - 242)

## **EXEMPT BUSINESS - NOT FOR PUBLICATION**

- 9.1 Asset and Investment Manager Performance Report (Pages 243 - 272)
- 9.2 Procurement of I-Connect Software (Pages 273 - 276)
- 9.3 Merger of the Aberdeen City Council Transport Fund with the Strathclyde No 3 Fund (Pages 277 - 310)

9.4 North East Scotland Pension Fund - Office Accommodation (Pages 311 - 318)

Should you require any further information about this agenda, please contact Stephanie Dunsmuir, tel 01224 522503 or email [sdunsmuir@aberdeencity.gov.uk](mailto:sdunsmuir@aberdeencity.gov.uk)

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## DECLARATIONS OF INTEREST

You must consider at the earliest stage possible whether you have an interest to declare in relation to any matter which is to be considered. You should consider whether reports for meetings raise any issue of declaration of interest. Your declaration of interest must be made under the standing item on the agenda, however if you do identify the need for a declaration of interest only when a particular matter is being discussed then you must declare the interest as soon as you realise it is necessary. The following wording may be helpful for you in making your declaration.

I declare an interest in item (x) for the following reasons .....

*For example, I know the applicant / I am a member of the Board of X / I am employed by...* and I will therefore withdraw from the meeting room during any discussion and voting on that item.

### **OR**

I have considered whether I require to declare an interest in item (x) for the following reasons ..... however, having applied the objective test, I consider that my interest is so remote / insignificant that it does not require me to remove myself from consideration of the item.

### **OR**

I declare an interest in item (x) for the following reasons ..... however I consider that a specific exclusion applies as my interest is as a member of xxxx, which is

- (a) a devolved public body as defined in Schedule 3 to the Act;
- (b) a public body established by enactment or in pursuance of statutory powers or by the authority of statute or a statutory scheme;
- (c) a body with whom there is in force an agreement which has been made in pursuance of Section 19 of the Enterprise and New Towns (Scotland) Act 1990 by Scottish Enterprise or Highlands and Islands Enterprise for the discharge by that body of any of the functions of Scottish Enterprise or, as the case may be, Highlands and Islands Enterprise; or
- (d) a body being a company:-
  - i. established wholly or mainly for the purpose of providing services to the Councillor's local authority; and
  - ii. which has entered into a contractual arrangement with that local authority for the supply of goods and/or services to that local authority.

### **OR**

I declare an interest in item (x) for the following reasons.....and although the body is covered by a specific exclusion, the matter before the Committee is one that is quasi-judicial / regulatory in nature where the body I am a member of:

- is applying for a licence, a consent or an approval
- is making an objection or representation
- has a material interest concerning a licence consent or approval
- is the subject of a statutory order of a regulatory nature made or proposed to be made by the local authority.... and I will therefore withdraw from the meeting room during any discussion and voting on that item.

## PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 15 March 2019. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; and Councillors Allard, Bell, Cooke, Delaney, Donnelly, Laing (as substitute for Councillor Barney Crockett, the Lord Provost) and MacGregor (Pensions Committee); and Councillor McKelvie, Chairperson; Mrs M Lawrence, Vice Chairperson; Councillors Allan and Cowe; and Mr I Black, Mr L Knox and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager; David Hughes, Chief Internal Auditor, Internal Audit; and Gillian Woolman, Assistant Director, 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 item of business which contained exempt information as described in Schedule 7(A) of the Local Government (Scotland) Act 1973, be taken in private – item 16 (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 item 11 so as to avoid disclosure of exempt information of the class described in paragraph 6.

**The Board resolved:-**

to note the decision of the Committee.

### DECLARATIONS OF INTEREST

2. There were no declarations of interest.

### MINUTE OF PREVIOUS MEETING

3. The Committee had before it the minute of its previous meeting of 30 November 2018.

**The Committee resolved:-**

to approve the minute as a correct record.

**PENSIONS COMMITTEE AND PENSION BOARD**  
15 March 2019

**The Board resolved:-**

to note the decision of the Committee.

**BUSINESS PLANNER**

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

**The Committee resolved:-**

to note the planner.

**The Board resolved:-**

to note the decision of the Committee.

**INTERNAL AUDIT PLAN 2019/20 - IA/19/004**

5. The Committee had before it a report by Internal Audit which sought approval of the Internal Audit plan for 2019/20.

The report advised that there was one area recommended for audit in 2019/20, namely the Investment Strategy and Investment Performance Management with the objective of providing assurance in respect of compliance with the pension fund investment strategy and arrangements in place to monitor the performance of investment managers.

The report recommended that Committee approve the attached Internal Audit Plan for 2019/20.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**EXTERNAL AUDIT ANNUAL AUDIT PLAN**

6. The Committee had before it a report by External Audit which set out the North East Scotland Pension Fund Annual Audit Plan 2018/19. The Committee heard from Ms Gillian Woolman, External Audit, on the main points from the report.

The report highlighted key audit risks and the planned audit work in respect of these, and set out the 2018/19 reporting arrangements to the Committee.



**PENSIONS COMMITTEE AND PENSION BOARD**

15 March 2019

**The Committee resolved:-**

- (i) to thank Ms Woolman for her informative presentation of the report; and
- (ii) to otherwise note the report.

**The Board resolved:-**

to note the decision of the Committee.

**LOCAL GOVERNMENT IN SCOTLAND: FINANCIAL OVERVIEW 2017/18 - LOCAL GOVERNMENT PENSION FUNDS SUPPLEMENT**

7. The Committee had before it the Local Government in Scotland: Financial Overview 2017/18 - Local Government Pension Funds Supplement for information. Ms Woolman advised that the document was produced by a central team and that she hoped it was helpful for Members to show the context for the NESPF.

**The Committee resolved:-**

to note the document.

**The Board resolved:-**

to note the decision of the Committee.

**STRATEGY - PC/MAR19/STRAT**

8. With reference to article 9 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided an update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies.

The report provided an update on the Pension Fund staffing situation and the staff structure review, noting that a number of areas had been identified as requiring minor adjustments and some additional resources to address the stress being levied on services and to future proof the Fund, providing further succession planning, increased governance assurance, and the delivery of efficiencies in the long-term. As a result, the Fund was seeking to add four additional posts.

The report also advised that officers were in discussion with Facilities Management at Aberdeen City Council in respect of any opportunity to relocate the Fund to more suitable accommodation, internally or externally to the Council. It was noted that due to increasing numbers of staff and the requirement for a more secure environment, there was unfortunately no suitable internal space and therefore a report would be presented to a future meeting of the Committee to set out any alternative suitable opportunities.

## PENSIONS COMMITTEE AND PENSION BOARD

15 March 2019

The NESPF Data Quality Improvement Plan was also appended for approval.

The report also provided updates in respect of the Government consultation on a Pensions Dashboard online service and the Firstbus proposal which had been discussed at the previous Committee meeting in November.

**The report recommended:-**

that Committee -

- (a) approve the additional posts of 3 x Senior Pensions Officer and 1 x Assistant Pensions Officer (as set out in section 3.9.3 of the report);
- (b) consider and approve the NESPF Data Quality Improvement Plan; and
- (c) note the updates to Scheme policy documents as part of the annual review.

**The Committee resolved:-**

to approve the recommendations.

**The Board resolved:-**

to note the decision of the Committee.

### **STRATEGIC INFRASTRUCTURE PRIORITIES AND THE SCOTTISH LOCAL GOVERNMENT PENSION SCHEME - PC/MAR19/INFRA**

9. With reference to article 1 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which addressed the earlier instruction to the Chief Officer – Finance to explore how the North East Pension Fund could invest locally in the North East, including, but not confined to, the strategic infrastructure priorities identified in the Regional Economic Strategy, City Region Deal and City Centre Masterplan, with a report back to the Pensions Committee of March 2019; and set out the risks, challenges and barriers as well as how a strategic partnership could be formed to support the development of the strategic infrastructure priorities.

**The report recommended:-**

that Committee instruct the Chief Officer – Finance to explore the opportunities for a strategic partnership between the Council, other stakeholders and the NESPF for the purposes of supporting local infrastructure investment, and to report on the feasibility of this within three committee cycles.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**PENSIONS COMMITTEE AND PENSION BOARD**  
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**STATEMENT OF ACCOUNTS 2018/19 - ACTION PLAN - PC/MAR19/ACCOUNTS**

10. The Committee had before it a report by the Director of Resources which provided high level information and key dates in relation to the 2018/19 Statement of Accounts, including any linkages to the plans and timetables of the Council's External Auditors.

**The report recommended:-**

that Committee note the contents of the report.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**BUDGET FORECAST AND PROJECTED SPEND 2018/19 - PC/MAR19/BUD**

11. With reference to article 6 of the minute of its meeting of 30 November 2018, the Committee had before it a report by the Director of Resources which provided detail of the Management Expenses Budget / Forecast and Projected Spend 2018/19 for the North East Scotland Pension Fund (NESPF).

**The report recommended:-**

that Committee –

- (a) note the update on the NESPF Management Expenses Budget / Forecast and Projected Spend for 2018/19;
- (b) note the update on Pension Fund staff costs and staffing vacancies; and
- (c) note the update on the work undertaken by the NESPF Accounting team and the Global Custodian resulting in the clearance of a processing backlog.

**The Committee resolved:-**

to approve the recommendations.

**The Board resolved:-**

to note the decision of the Committee.

**REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 AND PENSION REGULATOR REQUIREMENTS - PC/MAR19/GOV**

**PENSIONS COMMITTEE AND PENSION BOARD**

15 March 2019

**12.** With reference to article 12 of the minute of its meeting of 16 March 2018, the Committee had before it a report by the Director of Resources which provided a review of the NESPF's compliance with the Public Service Pensions Act 2013 and the Pension Regulation requirements relating to the Fund during the financial year 2018/19.

The report included detail on the meeting attendance, costs of operation and training attendance for the year, as well as the compliance review which was carried out by the Fund on a six monthly basis.

**The report recommended:-**

that Committee note the assurance provided in the report.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**GUARANTEED MINIMUM PENSION RECONCILIATION UPDATE - PC/MAR19/GMP**

**13.** The Committee had before it a report by the Director of Resources which provided an update to Committee on the reconciliation of Guaranteed Minimum Pension (GMP) values held by the NESPF and HM Revenues and Customs.

**The report recommended:-**

that Committee note the outcome of the GMP reconciliation project and the decision of the Fund to not recover any overpayments of pension.

**The Committee resolved:-**

to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**In accordance with the decision taken under article 1 of this minute, the following report was considered with the press and public excluded.**

**ASSET & INVESTMENT MANAGER PERFORMANCE REPORT - PC/MAR19/AIMPR**

**14.** With reference to article 11 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided a review of the

**PENSIONS COMMITTEE AND PENSION BOARD**

15 March 2019

investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 December 2018.

Appended to the report was information in respect of the NESPF and environmental, social and governance matters and responsible investment. The Committee and Board heard from Ms Colliss in respect of the detail contained within the report.

**The report recommended:-**

that the Committee note the contents of the report.

**The Committee resolved:-**

- (i) to note that the Pension Fund had added its name to the Global Investment statement to governments in respect of climate change and to request that officers share this information more widely to promote the Pension Fund's involvement in respect of addressing climate change; and
- (ii) to approve the recommendation.

**The Board resolved:-**

to note the decision of the Committee.

**MEMBERSHIP**

**15.** The Convener noted the earlier report on NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements, and the importance of Committee and Board Members attending meetings and training sessions. He noted that Mr Kevin Masson had not been in attendance for a number of meetings and requested that Councillor McKelvie, as Chair of the Pension Board, make contact with Mr Masson to ascertain if he was still in a position to act as Board member.

- **COUNCILLOR M. TAUQEER MALIK, Convener.**

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	A	B	C	D	E	F	G	H	I
1	<b>PENSIONS COMMITTEE BUSINESS PLANNER</b>								
	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	<b>Report Title</b>	<b>Minute Reference/Committee Decision or Purpose of Report</b>	<b>Update</b>	<b>Report Author</b>	<b>Chief Officer</b>	<b>Directorate</b>	<b>Terms of Reference</b>	<b>Delayed or Recommended for removal or transfer, enter either D, R, or T</b>	<b>Explanation if delayed, removed or transferred</b>
3	<b>14 June 2019</b>								
4	Pension Governance (Internal Audit)	To present the outcome of the audit to Committee		David Hughes	Governance	Governance	Remit 2.2		
5	Internal Audit Annual Report	To present the annual report to Committee		David Hughes	Governance	Governance	2.1		
6	Procurement of I-Connect Software	To secure approval to enter into a new contract for the provision of the I-Connect software to the North East Scotland Pension Fund		Laura Colliss	Finance	Resources	4.1 & 4.2		
7	Merger of the Aberdeen City Council Transport Fund with the Strathclyde No 3 Fund	To present the merger proposal for Committee		Laura Colliss	Finance	Resources	1, 4 and 5		
8	NESPF Office Accommodation	To seek provisional approval for a preferred option for new accommodation for the NESPF		Laura Colliss	Finance	Resources	1, 4 and 5		
9	NESPF Annual Report & Accounts	To present the draft annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
10	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
11	Revised Training Policy	To present the revised training policy for approval		Mairi Suttie	Finance	Resources	1.3		
12	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
13	Annual Committee Effectiveness Report	To present the annual effectiveness report for the Committee.		Jonathan Belford	Finance	Resources	GD 7.4		
14	<b>13 September 2019</b>								
15	External Audit Annual Audit Report 2018/19	To present the external audit annual audit report		Rachel Browne	External Audit	External Audit	2.1		
16	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
17	Pension Board Annual Report	To consider the annual Board report		Laura Colliss	Finance	Resources			
18	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
19	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
20	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		

	A	B	C	D	E	F	G	H	I
	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
2									
21	<b>6 December 2019</b>								
22	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
23	NESPF Annual Report & Accounts	To present the annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	TBC		
24	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
25	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
26	Strategic Infrastructure Priorities and the Scottish Local Government Pensions Scheme	Pensions Committee 15/03/19 - To instruct the Chief Officer Finance to explore the opportunities for a strategic partnership between the Council, other stakeholders and the North East Scotland Pension Fund for the purposes of supporting local infrastructure investment and to report on the feasibility of this within three committee cycles		Jonathan Belford	Finance	Resources	1.2		
27	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
28	<b>AD HOC REPORTS (CYCLE DEPENDENT ON REQUIREMENT TO REPORT)</b>								
29	Request for admitted body status	To consider applications for admission to the Local Government pension scheme administered by Aberdeen City Council		Claire Mullen	Finance	Resources	5.2		



## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	PENSIONS COMMITTEE
<b>DATE</b>	14 JUNE 2019
<b>EXEMPT</b>	NO
<b>CONFIDENTIAL</b>	NO
<b>REPORT TITLE</b>	STRATEGY
<b>REPORT NUMBER</b>	PC/JUN19/STRAT
<b>DIRECTOR</b>	STEVEN WHYTE
<b>CHIEF OFFICER</b>	JONATHAN BELFORD
<b>REPORT AUTHOR</b>	LAURA COLLISS & MAIRI SUTTIE
<b>TERMS OF REFERENCE</b>	PENSIONS COMMITTEE 1-5

### 1. PURPOSE OF REPORT

- 1.1 To inform the Committee and provide recommendations to changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

### 2. RECOMMENDATION

That the Committee: -

- 2.1 Review and approve the updates to the Scheme Policy documents (item 3.9.2)

### 3. BACKGROUND

- 3.1 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
- Technical

- Governance
- Employer Relations

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

3.3 The Pensions Committee will be comprehensively informed via this report as to the current position and any variances to the Funds strategy and recommendations. To support this report service updates covering the six strategic areas will also be available via the secure website (<http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>) and email.

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

### 3.5 **INVESTMENT**

#### 3.5.1 *Asset & Investment Manager Performance Report*

*Separate Report, provided*

#### 3.5.2 **Local Authority Pension Fund Forum (LAPFF)**

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

### 3.6 **ACCOUNTING**

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

*Separate Report, provided*

### 3.7 **BENEFIT ADMINISTRATION**

#### 3.7.1 **LGPS Scheme Advisory Board (Scotland) Structural Review**

The consultation responses from employers and employee bodies are available to view at <https://lgpsab.scot/consultation-responses/>

The Scottish Scheme Advisory Board have advised the resulting report will be made available in April 2019.

### 3.7.2 Revised Government Actuary's Department (GAD) factors

Updated factors for non-club transfers in and out, pensioner Cash Equivalent Transfer Value (CETV) on divorce, pension credits, reductions to pension debits on early retirement, early retirement, trivial commutation, club transfer factors, added pension factors and an updated Critical Retirement Age (CRA) conversion table were made available in the second half of March 2019. Unfortunately, the delay in receiving these revised factors did impact on the Fund's Pensions Administration Strategy (PAS) statistics for the quarter as certain calculations had to be put on hold. To meet our disclosure requirements, notification was given to those affected members.

### 3.7.3 New Guidance

A new guide for UK administering authorities entitled 'Administration in the LGPS' has been developed by AON and CIPFA. The guide highlights the importance of effective management and monitoring of administration matters. A copy is available at <https://www.cipfa.org/policy-and-guidance/reports/administration-in-the-lgps>.

## 3.8 TECHNICAL

### 3.8.1 *Appendix I*, Pensions Administration Strategy Update

## 3.9 GOVERNANCE

### 3.9.1 Scheme Advisory Board

3.9.1 Copies of the latest bulletins and meetings available at <http://lgpsab.scot>. The SAB's Annual Report 2017/18 was published in early March and is also available online.

### 3.9.2 Document Updates

3.9.2.1 The following documents have been introduced or updated and are available to view in the secure members area of the website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>

- Investment Policy
- Statement of Investment Principles
- Data Protection Policy
- Governance Policy
- Communication Policy
- Reporting Breaches of Law
- Record Keeping Policy
- Training Policy
- Compliance with the Myners Principles

3.9.2.2 Details of the changes to the above documents can be found in *Appendix II*.

### **3.9.3 Breaches of Law**

3.9.3.1 There were 33 breaches of law recorded in the NESPF Breaches Register during 2018/19. The majority of which were Scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions.

3.9.3.2 The Pension Fund will continue to engage with Scheme employers during 2019/20 and build on the training and support already provided.

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

3.9.3.4 Following changes to data protection laws in 2018, certain personal data breaches must now be reported to the Information Commissioners' Office i.e. where there is likely to be a risk to people's rights and freedoms. The Fund made no reports to the ICO during 2018/19.

### **3.9.4 Pension Fund Staff Training 2018/19**

3.9.4.1 Each staff member had a dedicated training plan, agreed with their line manager during the annual PR&D process, to complete over the course of 2018/19. In addition, internal training was made available to all staff on the General Data Protection Regulation and Annual Allowance. New starters during the year also received introductory training from the Investments, Admin, ERT and Governance teams.

3.9.4.2 The Fund had 4 Trainee Pensions Officers over the course of 2018/19:

- 2 successfully passed their 2<sup>nd</sup> year exams to become fully qualified and highly trained Pensions Officers in June 2018;
- 1 successfully passed their 1<sup>st</sup> year internal exam in June 2018 and moved into 2<sup>nd</sup> year of training; and
- 1 commenced the 2-year internal training programme in late 2018

### **3.9.5 Staffing and Accommodation update**

*Separate report, provided*

### **3.9.6 Pension Board Annual Report**

*Appendix III, Pension Board Annual Report 2018/19*

## **3.10 EMPLOYER RELATIONSHIP**

### **3.10.1 Firstbus Proposal**

*Separate report, provided*

### 3.10.2 Financial Forum

The Fund hosted its annual financial forum on 24 April 2019 in the Hilton Doubletree, Aberdeen. The event was aimed at the financial decision makers from participating employers. In total 32 attendees from across 24 employers attended, along with a contingent of Pensions Committee and Board members, to take in presentations from the Scheme Actuary, Aberdeen Standard, HSBC and NESPF staff.

## 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 no direct legal implications arising from the recommendation in this report.

## 6. MANAGEMENT OF RISK

- 6.1 The Pension Fund regularly updates its Risk Register in line with change and is reported quarterly to the Pensions Committee.

*Appendix IV, Copy of Risk Register (May 2019)*

## 7. OUTCOMES

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Governance</b>	This report links to the 'governance' design principle by ensuring transparency and by providing the necessary information to allow informed decisions to be made and implemented, including performance and improvement measures.

## 8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required
Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

## 9. BACKGROUND PAPERS

None

## 10. APPENDICES

Appendix I, PAS Update Quarter 4 Report 2018/19  
Appendix II, Document Review  
Appendix III, Pension Board Annual Report 2018/19  
Appendix IV, Copy of Risk Register (May 2019)

## 11. REPORT AUTHOR CONTACT DETAILS

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# Pension Administration Strategy



Quarterly Reporting | March 2019

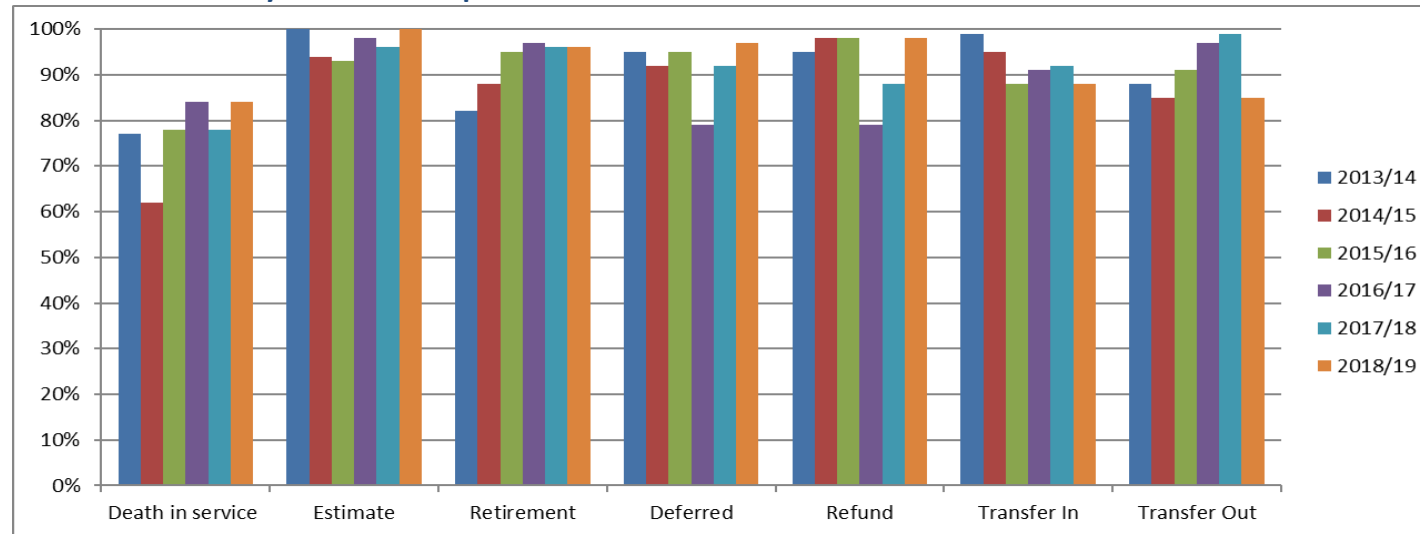
# 1. NESPF performance to 31 March

## 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.

Administration Task	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	31	26	84%
Notification of retirement estimate	10 days	991	987	99%
Notification of retirement benefits	10 days	1800	1725	96%
Notification of deferred benefits	10 days	2073	2000	97%
Notification of refund	10 days	1374	1339	98%
Notification of transfer in value	10 days	113	99	88%
Notification of transfer out value	10 days	510	432	85%

## 1.2 Previous years comparison





## 2. Employer performance to 31 March

### 2.1 Policy on discretions received (85%)

Each Scheme employer is required under regulation 58 of the Local Government Pension Scheme (Scotland) Regulations 2018 to prepare a written statement of its policy on how it will exercise various discretions provided by the Scheme. This 'discretions policy' must be kept under review by employers and revised as necessary.

Employers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberdeen Performing Arts	Aberdeen Sports Village	AIYF
Aberdeenshire Council	Aberlour	Archway	Bon Accord Care
Bon Accord Support	Outdoor Access Trust for Scotland	Fersands and Fountain	First Aberdeen
Forth & Oban (City)	Fraserburgh Harbour	Grampian Valuation Joint Board	Home Start Aberdeen
Inspire	Mental Health Aberdeen	Middlefield Community Project	Moray College
NESTRANS	North East Scotland College	North East Sensory Services	Osprey Housing
Pathways	Peterhead Port Authority	Printfield Community Project	Robert Gordons College
Robert Gordon University	Sanctuary Scotland	Scottish Fire and Rescue	Scotland's Lighthouse Museum
Scottish Police Authority	Scottish Water	Sport Aberdeen	St Machar Parent Support Project
Station House Media Unit	The Moray Council	Visit Scotland	Xerox

### 2.2 Signed PLO statements received (46%)

Following the revision of the NESPF Pension Administration Strategy in April 2018 each Scheme employer must designate a named individual to act as a Pension Liaison Officer, the main contact with regard to any aspect of administering the Local Government Pension Scheme (LGPS).

Pension Liaison Officers			
Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust	Aberdeen Foyer
Aberdeen Heat and Power	Aberlour Childcare Trust	Alcohol & Drugs Action	Archway
Bon Accord Care	Bon Accord Support	Outdoor Access Trust for Scotland	Fraserburgh Harbour
Middlefield Community Project	Moray College	North East Scotland College	North East Sensory Services
Pathways	Peterhead Port Authority	Printfield Community Project	Robert Gordons College
Scottish Fire and Rescue	Scottish Water	Sport Aberdeen	St Machar Parent Support Project
Visit Aberdeenshire	Xerox		

## 2.3 Quantity of data received (970,988)

All Scheme employers are now required to provide monthly data using I-Connect, by way of a monthly file extracted from the payroll system or by completing electronic forms for individual members.

I-Connect events processed	Total
Starters (new start and opt in)	4852
Amendments (address, personal details, hours and absence)	31543
Leavers (exit and opt out)	4352
Contributions (employee, employer and additional)	310983
Salary	308978
Cumulative CARE pay	299746
Works address	10534

## 2.4 Quality of data received

The quality of data received from Scheme employers is assessed and checked by the Employer Relationship Team (ERT). Red, Amber and Green flags will be used to assess the quality of the data. The Pension Fund will seek, at the earliest opportunity, to work closely with Scheme employers in identifying areas of unsatisfactory performance, and provide the necessary training and development for improvement.

Since the introduction of the requirement to provide monthly information in this format the quality of the data received through i-Connect has been of a very high standard. This allows the Fund to provide accurate and up to date information to members, meet the requirements of The Pension Regulator and improved the accuracy of the financial information held for the valuation of the Fund.

Green	I-Connect events processed and validated by ERT
Amber	I-Connect events processed however missing or incorrect data identified by ERT
Red	I-Connect events not processed
Blank	Data not provided (as at March 2019)

Employer	Submission	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	Extract File												
Aberdeenshire Council	Extract File												
Bon Accord Care	Extract File												
Bon Accord Support	Extract File												
Grampian Valuation Joint Board	Extract File												
Moray Council	Extract File												
NESTRANS	Extract File												
Police Scotland (Aberdeen)	Extract File												
Robert Gordon University	Extract File												
Moray College	Extract File												
Scottish Water	Extract File												
Scottish Fire and Rescue Service	Extract File												
Sport Aberdeen	Extract File												
Aberdeen Endowments Trust	Online Return												
Aberdeen Cyrenians	Online Return												
Aberdeen Foyer	Online Return												
Aberdeen Heat and Power	Online Return												
Aberdeen Performing Arts	Online Return												
Aberdeen Sports Village	Online Return												
Aberlour Child Care Trust	Online Return												
Archway	Online Return												
City Moves Dance Agency	Online Return												
Alcohol & Drugs Action	Online Return												

Fersands and Fountain	Online Return													
First Aberdeen	Online Return													
Forth and Oban (City)	Online Return													
Forth and Oban (Shire)	Online Return													
Fraserburgh Harbour	Online Return													
Homestart Aberdeen	Online Return													
Homestart NEA	Online Return													
ID Verde	Online Return													
Inspire	Online Return													
Mental Health Aberdeen	Online Return													
Middlefield Community Project	Online Return													
North East Sensory Services	Online Return													
Osprey Housing	Online Return													
Outdoor Access Trust Scotland	Online Return													
Pathways	Online Return													
Peterhead Port Authority	Online Return													
Printfield Community Project	Online Return													
Police Scotland (Glasgow)	Online Return													
Robert Gordon College	Online Return													
Robertson FM City	Online Return													
Robertson FM Shire	Online Return													
Sanctuary Scotland	Online Return													
SCARF	Online Return													
Scotlands Lighthouse Museum	Online Return													
St Machar Parent Support Project	Online Return													
Station House Media Unit	Online Return													
Visit Scotland	Online Return													
Xerox	Online Return													
North East Scotland College	ALCARE													

Document Name		Revisions
1.	Investment Policy	<ul style="list-style-type: none"> <li>Amended to include a reference to the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, confirming content and frequency of performance reporting to the Pensions Committee and management of underperformance of fund managers. To address recommendations set out in the internal audit report on Pensions Governance issued in March 2019.</li> </ul>
2.	Statement of Investment Principles	<ul style="list-style-type: none"> <li>Minor amendments for consistency of terms with other policy documents/reporting, removal of section relating to 'Overlay', appendix updated to document increased headroom limit approved by Committee in November 2018.</li> </ul>
3.	Data Protection Policy	<ul style="list-style-type: none"> <li>Minor changes to wording following implementation of GDPR and DPA 2018</li> </ul>
4.	Governance Policy	<ul style="list-style-type: none"> <li>Amended governance diagram as per Audit recommendation. Updated Terms of Reference following ACC Governance Review in March 2019. Other minor corrections for typographical errors etc.</li> </ul>
5.	Communication Policy	<ul style="list-style-type: none"> <li>Changes to reflect current practices: literature, to improve consistency across the document e.g. how we communicate with Pensions Committee, internal staff etc. Update to Publications Quick Checker.</li> </ul>
6.	Reporting Breaches of Law Policy	<ul style="list-style-type: none"> <li>Minor amendments to correct typographical errors and update to contents numbering</li> </ul>
7.	Record Keeping Policy	<ul style="list-style-type: none"> <li>Updated references to DPA 2018, and LGPS (Scotland) 2018 following enactment</li> <li>Updated for implementation of new Data Quality Improvement Plan from March 2019 and added reference to new tPR requirements relating to data in Scheme return</li> </ul>
8.	Training Policy	<ul style="list-style-type: none"> <li>Updated and revised content to incorporate recommendations from internal audit's Governance report e.g. minimum training requirements</li> </ul>
9.	Compliance with the Myners Principles	<ul style="list-style-type: none"> <li>Revised design and minor amendments to content to ensure consistency across policy documents</li> </ul>

All of the above revised reports are available to view via the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

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# NESPF Pension Board Annual Report

For the period 1 April 2018 to 31 March 2019

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## Introduction

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This is the 2018/19 annual report of the North East Scotland Pension Fund Pension Board.

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

The aim of this report is to provide an annual review of the activity of the NESPF Pension Board for the year 2018/19.

## Legal Background to the Local Pension Board

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

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

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

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

## The Role of the NESPF Pension Board

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

- Securing compliance with the LGPS (Scotland) 2018 regulations and other regulations relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator (tPR);

- Such other matters as the Scheme regulations may specify

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

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

## Regulatory Oversight by the Pensions Regulator (tPR)

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

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

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

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

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

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

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

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

## The North East Scotland Pension Fund Pension Board

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

### Membership during 2018/19

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

#### **Unison**

Morag Lawrence

#### **GMB**

Mr Kevin Masson

#### **Unite**

Mr Alan Walker

#### **UCATT**

Mr Steven Clunes *left September 2018*

Mr Liam Knox *joined September 2018*

#### **Admitted/Scheduled Bodies**

Ms Marie Hart (Police Scotland) *left April 2018*

Mr Ian Black (Aberlour Child Care Trust) *joined May 2018*

#### **The Moray Council**

Councillor John Cowe

#### **Aberdeenshire Council**

Councillor Alistair McKelvie

#### **Aberdeen City Council**

Councillor Yvonne Allan *joined July 2018*

In compliance with the Local Government Pension Scheme (Governance)(Scotland) Regulations 2015, the Chair and Vice Chair of the Pension Board are rotated each year. Following the appointment of Councillor Alistair McKelvie as the employer representative Chair for 2018/19, a member representative will be required to act as Chair in 2019/20.

Under the Terms of Reference for the Pensions Board, representatives are appointed for a 4 year term, with the option of re-appointment for further terms. In 2019, 3 members of the Board reached the end of the initial 4 year term:

- Councillor Cowe
- Morag Lawrence
- Alan Walker

To promote continuity of knowledge and experience on the Pension Board, all 3 members were offered, and accepted, re-appointment to the NESPF Pension Board for a further term with effect from 1 April 2019.

#### Meeting Attendance (for 2018/19)

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

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

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

Board Member Employer	Meetings & Attendance				
	15/06/2018	22/06/2018	14/09/2018	30/11/2018	15/03/2019
Cllr Yvonne Allan			✓	✓	✓
Cllr Alistair McKelvie	✓	✓	✓	✓	✓
Cllr John Cowe			✓	✓	✓
Ian Black	✓	X	✓	X	✓
<b>Member/Union</b>					
Kevin Masson	✓	✓	X	X	X
Morag Lawrence	✓	X	✓	X	✓
Alan Walker	✓	✓	✓	✓	✓
Steven Clunes	✓	✓			
Liam Knox			✓	✓	✓
<b>Overall Attendance Rate</b>	<b>100%</b>	<b>67%</b>	<b>88%</b>	<b>63%</b>	<b>88%</b>

#### Notes

**Councillor Allan was not appointed until full Council met in July 2018.**

**Councillor Cowe's position on the Pension Board was not reconfirmed until July 2018 due to a change in the administration at the Moray Council.**

### Meeting Content

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

The following reports were included as standard in the reporting packs during 2018/19:

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

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

Training	Statement of Accounts
Corporate Governance/ESG	NESPF Website
Actuarial Valuation	Risk Management
Compliance Review	External Audit
Annual Report & Account	Internal Audit
GMP Reconciliation Project	Risk Register
PAS performance	LGPS Structure Review
Strategic Infrastructure Priorities	Annual Benefit Statements

### Financial Costs

The Pension Board carries out its role in a cost effective manner, mindful of delivering value for money.

During the period 2018/19 the cost of administering the Pension Board was as follows:

Area	Costs £'s
Travel Costs	2,481.97
Allowances/Other*	190.26
<b>Total</b>	<b>2,672.23</b>

\*includes loss of earnings to attend meetings/training

The above figures are still subject to the annual accounts audit process.

### Training Requirements

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

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

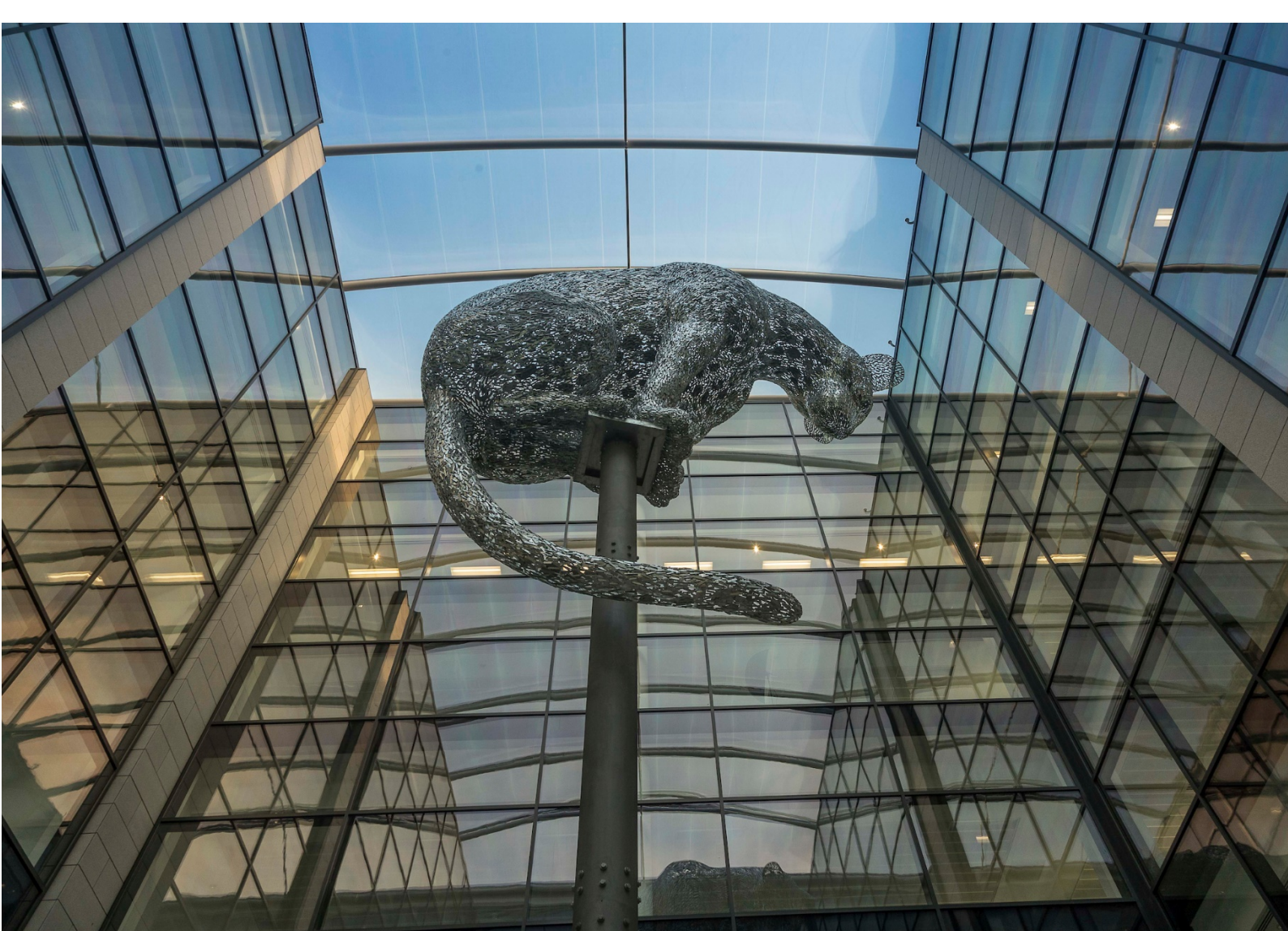
The Pensions Regulator Code of Practice no.14 sets out the legal requirements for the knowledge and understanding requirements of pension board members. The Pension Fund must be able to demonstrate compliance with the Code.

The NESPF Pension Board's training plan is subject to regular review and an annual training report is presented to the Pensions Committee. A copy of the Training Policy can be found at [Appendix II](#). There were no changes made to the policy during 2018/19, however changes are planned in 19/20 following on from the annual governance review.

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

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

Board members are expected to carry out a [personal training needs analysis](#) on an annual basis to assess their overall level of 'knowledge and understanding'. A knowledge and skills assessment is planned to take place during 2019/20 to allow Fund Officers to direct future training.



## Training Attendance during 2018/19

Board Member	10/09/2018	14/09/2018	23 & 24/10/2018	10-11/01/2019	Sessions attended per member
CLlr Yvonne Allan	X	✓	X	X	1
CLlr Alistair McKelvie	X	✓	✓	X	2
CLlr John Cowe	X	✓	✓	X	2
Ian Black	X	✓	✓	X	2
Kevin Masson	✓	X	X	X	1
Morag Lawrence	X	✓	✓	✓	3
Alan Walker	✓	✓	✓	✓	4
Steven Clunes	X				
Liam Knox		✓	X	✓	2
<b>Overall Attendance Rate</b>	<b>25%</b>	<b>88%</b>	<b>63%</b>	<b>38%</b>	

The SPLG training on the 10<sup>th</sup> September took place at COSLA's office in Edinburgh. Training covered the following:

- Investment Fee Transparency
- The Pensions Regulator
- The Role of the Pension Board
- Climate Change and Investment Strategy
- Complexities of the LGPS Benefits and the new flexibilities for members
- Government oversight of the Funding of the Scottish LGPS
- General Data Protection Regulation

The training on the 14<sup>th</sup> September took place in Aberdeen following the Pensions Committee/Board meeting on the same day. Both PIRC and SSGA presented to the Committee on Corporate Governance and ESG.

The LGC Seminar on the 23<sup>rd</sup> and 24<sup>th</sup> October took place over the course of two days in Edinburgh.

Topical areas covered during the 2 days of training included:

- Progress report on the consultation on the structural review of the LGPS
- The infrastructure and housing challenge
- Learning from the experience of pooling in England and Wales
- Impact of responsible investment on a Scheme's direct investment portfolio
- Investment Strategy – how to ensure it is fit-for-purpose and future proofed
- The changing landscape of the LGPS in Scotland

The training on the 10/11<sup>th</sup> January took place at the SSGA offices down in London covering various topics from the fund managers.

Day 1 sessions covered:

<b>SSGA</b>	Global Equities & Bonds
<b>Baillie Gifford</b>	Global Equities
<b>Blackrock</b>	UK Equities
<b>HarbourVest</b>	Private Equity
<b>Aberdeen Standard</b>	Property

Day 2 sessions covered:

<b>Aviva</b>	Infrastructure
<b>Hayfin</b>	Direct Lending
<b>Alcentra</b>	Direct Lending
<b>Hermes</b>	Infrastructure

### Commitment to Training

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

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



## Code of Conduct, Conflicts of Interest & compliance with tPR

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### Code of Conduct

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

The key principles of the Code of Conduct are:

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

### Conflicts of Interest

Members of the NESPF Pension Board have agreed to a Conflicts of Interest Policy. This was reviewed and noted by the Pensions Committee on 15 March 2019. It requires all members to notify NESPF of any potential conflicts of interest arising as a result of their position on the Board.

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

During 2018/19 the Pension Fund carried out an annual review by issuing each Board member with a declaration of interest form. The responses were recorded on a 'Conflicts Register' to facilitate ongoing monitoring and review by the Governance Team.

There were no formal conflicts declared by Board members during 2018/19.

### Compliance with tPR

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

The most recent review concluded that key controls for monitoring the ongoing compliance with legislation and tPR requirements are in place and working effectively. A review using the tPR scheme assessment tool confirmed there were no areas of concern.

During 2018/19, work was completed to review the Fund's processes and policies in preparation for the introduction of the General Data Protection Regulation (GDPR) from 25 May 2018.

As part of the Governance Review completed at the end of 2018 and presented to the Pensions Committee and Board in March 2019, Fund Officers identified some areas for focus in the forthcoming year. These included:

- Assessment of 'knowledge and understanding' levels across the Committee and Board to allow tailored training to address areas of less confidence
- Revision to Training Policy to set out steps to address members who fail to meet minimum training requirements
- Development of 'member area' of new NESPF website, to make better use of digital resources through improved functionality of new site
- A new Data Quality Improvement Plan, to help ensure the Fund continues to hold High Quality data to meet our statutory and tPR requirements

### Breaches of Law

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

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

Under the General Data Protection Regulation, organisations now have a duty to report certain types of personal data breach to the relevant supervisory authority within 72 hours of becoming aware of the breach, where feasible.

In June 2018 an updated Breaches of Law Policy was approved by the Pensions Committee and a Breaches of Law Register is in place to assist with ongoing monitoring and management. In addition, a Breaches of Law Procedure was created to assist pension fund staff.

There were no breaches reported to the tPR or the ICO (the supervisory authority) during the year 2018/19.

### Risk Management

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

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

## Work for 2019/20 onwards

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

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



**PENSION BOARD – TERMS OF REFERENCE****INTRODUCTION**

- 1.1** Each Local Government Pension Scheme Manager in Scotland is required to establish a Pensions Board separate from the Pensions Committee that acts as the Scheme Manager.
- 1.2** The North East Scotland Pension Fund Pension Board is established under the provisions of sections 5 (1) and (2) of the Public Service Pensions Act 2013 and confirmed under the Local Government Pension Scheme (Governance) (Scotland) Regulations 2015.

**OBJECTIVES**

- 2.1** The Pension Board as detailed in regulations is the body responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.
- 5.—(1) There shall be established for each Scheme manager a Pension Board with responsibility for assisting the Scheme Manager in relation to the following matters.*
- (2) Those matters are—*
- (a) securing compliance with the 2014 Regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;*
- (b) securing compliance with requirements imposed in relation to the Scheme and any connected scheme by the Pensions Regulator;*
- (c) such other matters as the 2014 Regulations may specify*
- 2.2** The Pension Board will determine the areas they wish to consider including, amongst others:
- Reports produced for the Pensions Committee
  - Seek reports from the Scheme Managers on any aspect of the Fund
  - Monitor investments and the investment principles/strategy/guidance
  - The Fund Annual Report
  - External voting and engagement provisions
  - Fund administrative performance
  - Actuarial reports and valuations
  - Funding policy
  - Any other matters that the Pension Board deem appropriate
- 2.3** The Pension Board is not a decision making body.
- 2.4** The Pension Board is not a scrutiny function.
- 2.5** The Pension Board will be collectively and individually accountable to the Pensions Committee

## MEMBERSHIP

- 3.1** Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must not also participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.
- 3.2** There will be 4 trade union representatives appointed by the trade unions as follows:
- GMB
  - UCATT
  - UNISON
  - Unite
- 3.3** There will be 4 employer representatives appointed by the respective employer organisations as follows:
- Councils – 3 representatives
  - Scheduled bodies/Admitted bodies – 1 representative
- 3.4** Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.
- 3.5** Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below.
- 3.6** Advisors may attend meetings of the Pension Board in a non-voting capacity
- 3.7** No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the Scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

## MEETINGS

- 4.1** The Chair of the Pension Board will be rotated on an annual basis between the member (trade union) and employer sides of the Pension Board.
- 4.2** Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers' sides of the Pension Board. All reasonable administration costs shall be met by the Fund.

- 4.3** The Pension Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.
- 4.4** The Pension Board may establish sub-committees.
- 4.5** While the statutory roles and function of the Pensions Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

## DISPUTE RESOLUTION

- 5.1** If the Pensions Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pensions Committee is still competent.
- 5.2** In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:
- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
  - That the decision of the Pensions Committee could be considered illegal or contrary to regulations;
  - That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
  - That the decision is not in the interest of the continued financial viability of the Scheme or is against the principles of proper and responsible administration of the Scheme
- 5.3** If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the Fund website and included in the Fund Annual Report.
- 5.4** The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

**TRAINING**

- 6.1** All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.
- 6.2** The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.
- 6.3** The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

**ACCESS TO INFORMATION**

- 7.1** The Scheme Manager and Pension Board will together ensure that information is published about the activities of the Board including:
- the full terms of reference for the Pension Board, including details of how they will operate
  - the Pension Board appointment process
  - who each individual Pension Board member represents and
  - any specific roles and responsibilities of individual Pension Board members.
- 7.2** The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

# North East Scotland **PENSION FUND**

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## Training Policy

April 2018



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## Introduction

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

The level of knowledge required by members of both the Pensions Committee and Pension Board to ensure that they can carry out effective decision making in respect of the Fund is identified at Appendix I.

In addition to the Training Policy for Pensions Committee members, 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 provides a description of both roles.

In addition to the Training Policy for Pension Board members, Board members will have access to all training provided to the members of the Pensions Committee.

## Training Programme

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

### Scheme Governance

- LGPS - Status and Legal Framework
- LGPS Regulations
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

### Investment Strategy

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

## Support Services

- Custody Services
- Service Organisation
- Role of the Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

## Scheme Documentation

On joining the Pensions Committee or Board, a new member will receive the following documentation;

- Copy of the guide to the Local Government Pension Scheme (LGPS)
- Copy of the most recent Annual Report
- Copy of the most recent Actuarial Valuation and Funding Strategy Statement
- Copy of the Governance Statement
- Copy of the LGPS Regulations
- Copy of the Fund's compliance with the Myners Principles
- Copy of the Statement of Investment Principles

All remaining documentation will be available to Committee and Board members via the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

## Training Agenda

Training is ongoing for members, however it would normally consist of the following:

- each Committee/Board member is expected to receive at least 2 days of training each year
- all members are invited to attend training courses suitable for their needs
- members are invited to attend employer and scheme member events hosted by the Pension Fund
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences, these provide a general appreciation of the pension industry
- on-line training
- members will be given the opportunity to attend seminars and training events offered by the Fund's investment managers and advisors
- in addition to the above, Fund officers are available to answer any queries from Committee/Board members.
- use of the member secure area of the Pension Fund website [www.nespf.org.uk](http://www.nespf.org.uk)

In line with the CIPFA guidance 'Trustee Knowledge and Skills Framework', Appendix I outlines a framework for the degree of knowledge and skill expected of the member.

## Review Arrangements

A report will be presented to the Committee on an annual basis detailing;

- training provided in the previous year
- those members who attended the various training sessions
- seminars and conferences held in the previous year
- which seminars and conferences were attended by members

Board Members will carry out a personal training needs analysis on an annual basis to assess their overall level of 'Knowledge and Understanding'.

The Training Policy will be reviewed annually.

## Reimbursement of Expenses

All training costs are met directly by the Pension Fund.

## Further Information

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

Corporate Governance  
Business Hub 16  
3<sup>rd</sup> Floor-West  
Marischal College  
Broad Street  
Aberdeen  
AB10 1AB

Phone: 01224 26 4169  
Email: [msuttie@nespf.org.uk](mailto:msuttie@nespf.org.uk)  
Web: [www.nespf.org.uk](http://www.nespf.org.uk)

## Appendix I

## Knowledge and Skills Framework

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

### Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pensions Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> <li>• General and Scheme Pension Legislation</li> <li>• Scheme Governance</li> <li>• Pension regulators and advisors</li> <li>• Legislative framework</li> <li>• Risk</li> </ul>	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> <li>• Audit and accounting regulations and requirement</li> </ul>	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> <li>• Understanding public procurement</li> <li>• Supplier risk management</li> </ul>	2	3
Investment Governance <ul style="list-style-type: none"> <li>• Investment Strategy</li> <li>• Financial Markets</li> </ul>	2	2
Investment performance and risk management <ul style="list-style-type: none"> <li>• Fund performance</li> <li>• Performance of advisors</li> <li>• Performance of the committee</li> <li>• Performance of support services and advisors</li> </ul>	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> <li>• Valuations</li> <li>• Outsourcing</li> </ul>	2	3

## Appendix II

### Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

#### PRINCIPAL RESPONSIBILITIES

1. Convener of the Pensions Committee to determine, after taking the advice of the Chief Officer - Finance and other advisors:
  - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
  - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
  - The appointment of investment and actuarial advisors and other third party services
  - The Governance Framework
  - The communication strategy of the Fund or Funds
  
2. And to monitor:
  - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
  - The costs of running the Pension Fund and Scheme
  - Comments and feedback from stakeholders
  
3. And to approve:
  - The Annual Report and Accounts of the Fund(s)
  - Audit reports on the performance of the Pension Fund Service
  - Statements on Investment Principles, Governance, Administration and Communication
  - The Risk Register and an annual risk analysis
  - The medium term business plan and annual updates
  - Training and development plans and updates
  - Discretions given by statute and regulation to the Pensions Committee in relation to benefits under the LGPS
  
4. Work with the Chief Officer - Finance and other officers and advisors to plan an effective work programme for the Pensions Committee
  
5. Report to the administering authority and other employers, as stakeholders, using practical and appropriate means of communication, to give assurances about the Fund's financial statements, risk management and internal control mechanisms
  
6. Receive regular briefings from the Chief Officer - Finance and other advisors in order to understand the context and import of forthcoming issues

## PERSONAL SPECIFICATION

Requirement	Essential	Desirable
1. Educational	<p>Appropriate financial experience and training.</p> <p>Knowledge of pension funds and schemes.</p>	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	<p>Political awareness in numerous political environments.</p> <p>Chairing high level partnership meetings achieving effective outcomes.</p> <p>Operated for 5 years at a senior level.</p> <p>Experience of risk and performance frameworks.</p>	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	<p>Chairing skills.</p> <p>Influencing and consensus building.</p> <p>Listening skills.</p> <p>Able to assimilate complex information.</p>	<p>Mathematical/statistical literacy.</p> <p>Knowledge of public sector and local government finance.</p>
4. Adjustment & Social Skills	<p>Ability to establish good working relationships with councillors, officers and advisors.</p> <p>Able to direct discussions in politically sensitive environments.</p> <p>Able to command respect and demonstrate strong leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have</p>	Diplomacy and tact.

	different levels of experience and understanding.	
5. Motivation	Enthusiastic, not easily deterred and able to convey enthusiasm to others.  Committed to the objectives of the Pension Scheme and Fund(s).	
6. Equal Opportunities	Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.	

**The vice convener of the Pensions Committee will also receive a copy of this guidance**

## 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 dedicated 'trustee' area of the Pension Fund website. 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 Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority Conference held annually in May which covers all aspects of the LGPS and the Local Authority Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pensions Committee, these will be brought to the attention of members by officers.***

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



- ***Scheme Valuation***
- ***Administration Matters which are ongoing***
- ***Investment Matters ongoing***
- ***Pensions Market issues***
- ***Communication with employers and scheme members***

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

## **2. Pensions accounting and auditing standards**

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

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

## **3. Investment performance and risk management**

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

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

## **4. Financial markets and product knowledge**

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

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

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

#### **5. Actuarial methods, standards and practices**

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

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

## 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.

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

## Risk Matrix Scoring

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

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

## Current Heatmap

Very Serious	1, 9, 18	6, 16, 21				
Serious		4, 19, 20	8, 15, 25	14, 24		

Marginal	17	2, 5, 11, 13, 27, 29	7, 12, 22, 23	3, 10, 28		26
Negligle						
<b>Impact</b> <b>Likelihood</b>	Almost impossible	Very Low	Low	Significant	High	Very High

## Pension Fund Risk Register (May 2019)

No	Risk Description	Effect/Consequences	Control & Mitigating Actions	Current Risk			Risk Movement	Current Status/Progress
				Impact	Likelihood	Score		
<b>Pension Fund Level</b>								
1	Lack of effective Risk Management	Failure to identify and respond to risks will impact on service delivery capabilities	Pension Fund Risk Register is reviewed and updated quarterly	4	1	4	↓	Creation of a new Fund specific Risk Management Policy and risk register review underway
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create a regulatory compliance issue, lead to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, ensuring both regulatory and Council objectives compliance	2	2	4	↔	Ongoing - annual review reported to Committee
3	Lack of Performance Measures	Failure to monitor performance across the Fund will provide a lack of transparency on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	2	4	8	↔	The Fund participates in national benchmarking exercises and has internal measures which are reported to Committee
4	Failure of Pensions Committee and Pension Board to operate effectively	Failure to ensure effective joint working will result in non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	Annual review of Committee and Board, in consultation with both	3	2	6	↔	New annual report on Committee Effectiveness from March 2019
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC	2	2	4	↔	Ongoing - Business Continuity Plan implemented for loss/disruption to <i>Altair</i> (October 2018)
6	Failure to recruit and develop staff	Service delivery and succession planning at risk	Individual staff training plans reviewed annually, ongoing review of staffing requirements	4	2	8	↔	Ongoing - 4 new posts approved in March to be recruited
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	2	3	6	↔	Information provided by FSM

### Governance

8	Failure to comply with LGPS Regulations, Pensions Act, HMRC and other overriding legislation	Audit criticism, legal challenge, reputational risk, financial loss/penalties	Six monthly compliance review and annual report to Committee	3	3	9	↔	Ongoing - annual compliance report to Committee (March 2019)
9	Failure to comply with FOI or SAR requests	Audit criticism, legal challenge, reputational risk	Internal controls in place to ensure deadlines adhered to, Pension Fund Manager responsible for all FOI/SAR requests	4	1	4	↔	Ongoing
10	Conflicts of Interest	Audit criticism, legal challenge, reputational risk	Regular discussions between CO-Finance and Pension Fund Manager. Areas of risk and conflict declared at Pensions Committee and Pension Board meetings, conflicts register to record and monitor	2	4	8	↔	Ongoing
<b>Benefit Administration</b>								
11	Requirement to complete GMP reconciliation	Failure to ensure future member benefits are calculated correctly, audit criticism and financial loss	Appointment of GMP Project Team	2	2	4	↔	Ongoing - report to Committee (March 2019)
12	Fraud/Negligence	Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitted lump sum payments. Admin to Pay to be implemented in 2019	2	3	6	↔	Ongoing - regular reporting to Committee in place
13	Overpayments of pension benefits	Audit criticism, legal challenge, reputational risk	Pension payments signed off by a SPO-Benefits, segregation of duties for staff authorising/submitted lump sum payments	2	2	4	↔	Ongoing
<b>Investments</b>								
14	Insufficient assets to meet the Fund's long term liabilities	Increase in employer contribution rates and investment risk, audit criticism, legal challenge, reputational risk, financial loss	Quarterly assessment of investment performance and funding updates, tri-ennial valuation and investment strategy review	3	4	12	↔	Ongoing

15	Failure to monitor investment managers and assets	Audit criticism, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with managers	3	3	9	↔	Ongoing
16	Failure of world stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	4	2	8	↔	Ongoing
17	Negligence/fraud/default by investment managers	Financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	2	1	2	↔	Ongoing
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	4	1	4	↔	Ongoing
<b>Accounting</b>								
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	3	2	6	↔	Ongoing - unaudited accounts to Committee (June 2019)
20	Annual review of Code of Practice and any other overriding regulations	Qualified accounts	Review of Code, attending CIPFA meetings/reviews	3	2	6	↔	Ongoing
<b>Technical</b>								
21	Failure to secure and manage personal data in line with Data Protection requirements	Audit criticism, legal challenge, reputational risk, financial penalties	Internal controls and procedures for management of data e.g. Data Protection Policy.	4	2	8	↔	Ongoing
22	Failure of the Fund's administration system, including outages, hardware and software failures and cyber attack	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location. Business Continuity Plan in place.	3	2	6	↔	Quarterly report is provided to Pension Fund Manager on any hosted system errors/resolutions.
23	Failure to track member status and trace information	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS) and access to national 'Tell Us Once' service	2	3	6	↔	Ongoing - new data quality improvement plan approved by Committee (March 2019)
<b>Employer Relationship</b>								
24	Failure to monitor employer covenant	Orphaned liabilities could fall on remaining employers	Continued implementation of Covenant Assessment & Monitoring Policy (within FSS)	3	4	12	↔	Ongoing

25	Changes in early retirement strategies by employers	Pressure on cash flows	ERT to manage through Covenant Assessment & Monitoring Policy and discretions	3	3	9	↔	Ongoing
26	Employers leaving Scheme/closing to new members	Orphaned liabilities could fall to remaining employers	ERT to manage through Covenant Assessment & Monitoring Policy	2	6	12	↔	Ongoing
27	Longevity	Increase in employer contribution rates	Actuarial valuation every 3 years which undertakes scheme specific analysis including review of life expectancy/mortality assumptions	2	2	4	↔	Ongoing - revised Investment Strategy and FSS to Committee following tri-ennial valuation in 2018
28	Employer contributions not received, collected or recorded accurately	Orphaned liabilities could fall to remaining employers	Accounting Team escalate any issues to Governance/ERT Team, with escalation to tPR if persists. Breaches Policy and Register in place	2	4	8	↔	Ongoing
29	Failure to maintain member records; data incomplete or inaccurate	Incorrect pension payments made, incorrect assessment of actuarial liabilities	All employers required to submit monthly data which is reconciled by the ERT	2	2	4	↔	Quarterly PAS reporting to Committee. Data Improvement Plan approved by Committee (March 2019)



## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	PENSIONS COMMITTEE
<b>DATE</b>	14 JUNE 2019
<b>EXEMPT</b>	NO
<b>CONFIDENTIAL</b>	NO
<b>REPORT TITLE</b>	TRAINING
<b>REPORT NUMBER</b>	PC/JUN19/TRA
<b>DIRECTOR</b>	STEVEN WHYTE
<b>CHIEF OFFICER</b>	JONATHAN BELFORD
<b>REPORT AUTHOR</b>	LAURA COLLISS
<b>TERMS OF REFERENCE</b>	PENSIONS COMMITTEE 1.3

### 1. PURPOSE OF REPORT

To provide details of the training plan (2019/20) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

### 2. RECOMMENDATION

That the Committee: -

- 2.1 Agree the proposed training schedule (as set out in items 3.3-7) and:
  - Approve the travel of members to the training session in London
  - Approve the travel of members to attend external training opportunities
  - Approve the travel of members to attend LAPFF meetings;
- 2.2 Approve the revised Training Policy for Pensions Committee and Board members (as set out in Appendix I); and
- 2.3 Agree to undertake the online E-Learning Public Service Toolkit produced by the Pensions Regulator as soon as possible and provide evidence of completion to the Pension Fund's Governance Manager (as detailed further in 3.8)

### **3. BACKGROUND**

- 3.1 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.
- 3.2 The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the function of a member of the Pensions Committee or Board. (see attached Training Policy)

#### Training Delivery and Content

- 3.3 Officers propose to deliver training over two set periods during 2019/20, together with any industry externally delivered training when available.
- 3.4 The first training session will take place during September (exact date to be confirmed) providing members with further insight across the Fund.
- 3.5 A second training session will take place in London in early 2020 and will include presentations from the Fund's fund managers.
- 3.6 The fund manager presentations will discuss their investing process, how they manage money for their clients and looking forward, how they are going to continue to deliver the Pension Fund's Strategy while providing an update on their business and any industry and economic insight.
- 3.7 Further external training opportunities are available, including but not limited to:

#### **Scottish Local Government Pensions Scheme Conference**

Edinburgh, 3<sup>rd</sup> September, agenda (tbc)

#### **LGC Investment Seminar Scotland**

Edinburgh, date and agenda (tbc)

#### **Local Authority Pension Fund Forum (LAPFF) Conference**

Location (tbc), 4-6<sup>th</sup> December 2019

- 3.8 In addition to the above, the Pensions Regulator have 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. The tPR toolkit can be found at the following link:

<http://www.thepensionsregulator.gov.uk/public-service-schemes.aspx>

Pensions Committee and Board members should aim to complete the tPR's online toolkit as part of their individual training plans for 2019/20 and provide evidence of this to the Pension Fund's Governance Manager for the training log.

3.9 Training attendance will be reported in the annual Committee Effectiveness Report going forward and respectively for members of the Board, in the Pension Board Annual Report.

3.10 Fund Officers have recommended some amendments to the Training Policy as part of the annual document review, which includes setting out the administering authority's approach to addressing failure to meet minimum training requirements (Appendix I). In addition, a knowledge and skills review will take place during 2019/20 to direct future training plans.

#### **4. FINANCIAL IMPLICATIONS**

4.1 Training costs will be met by the Pension Fund.

#### **5. LEGAL IMPLICATIONS**

5.1 Failing to ensure 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 Regulator Code of Practice 14 and the Public Service Pensions Act 2013, which set out knowledge and understanding requirements.

#### **6. MANAGEMENT OF RISK**

6.1 The risks associated with failure to ensure sufficient training are managed through the Pension Funds Risk Register, which is updated and reported to the Pensions Committee on a quarterly basis.

#### **7. OUTCOMES**

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Governance</b>	The purpose of this report is to propose training for Committee and Board members in compliance with legislative and regulator requirements. This ensures continuing good governance of the Pension Fund.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. BACKGROUND PAPERS

None

## 10. APPENDICES

Appendix I, Training Policy

## 11. REPORT AUTHOR CONTACT DETAILS

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# North East Scotland **PENSION FUND**

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## **Training Policy**

March 2019

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<b>Document</b>	Training Policy
<b>Draft/Review Date</b>	11/03/2019
<b>Approval Date</b>	
<b>Author &amp; Team</b>	Mairi Suttie and Hayleigh Weldon, Governance
<b>Review Date</b>	March 2020

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## Introduction

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

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

A Knowledge and Skills Framework was developed by CIPFA in 2010 along with accompanying guidance. The Fund has formally adopted the Framework, and will assess all relevant individuals against the suggested standards ([Appendix I](#)).

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](#)).

**All Pension Fund Committee and Board members to whom this policy applies are expected to continually demonstrate their own personal commitment to training.**

## Induction Process

On appointment to the Pensions Committee or Board, a member will attend an introductory briefing/training session and receive copies of the following documentation to assist in providing a basic understanding of the NESPF;

- [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](#)
- [Copy of the LGPS Regulations](#)
- [Copy of the Statement of Investment Principles and compliance with Myners Principles](#)

All remaining documentation is available to Committee and Board members via the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk).

## Training Agenda

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

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

### **Scheme Governance**

- LGPS - Status and Legal Framework
- LGPS Regulations
- Role of Elected Members
- Advisors and their Role
- Actuarial Valuation and Funding Strategy Statement
- Statement of Investment Principles
- Myners Principles
- Risk Management

### **Investment Strategy**

- Asset Classes
- Risk
- Investment Structure
- Investment Management and Performance Monitoring

### **Support Services**

- Custody Services
- Service Organisation
- Role of the Chief Officer-Finance
- Role of the Pensions Manager and Pensions Section

### **Markets in Financial Instruments Directive (MiFID II)**

Since the introduction of MiFID II from 3<sup>rd</sup> January 2018, financial institutions (including the LGPS) are required to 'opt up' to be classified under 'elective professional client' status, to allow continued access to the full range of vehicles investment managers need to deliver the investment strategy.

In order to maintain this status, the client (i.e. Pension Fund) needs to be able 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.



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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.

## Training Delivery

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

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

- members are invited to attend employer and scheme member events hosted by the Pension Fund
- Internally developed training days and pre/post meeting sessions
- members will be given the opportunity to attend Seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training
- members will be given the opportunity to attend 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/Board members.

### The Pensions Regulator's E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand the governance and administration requirements set out in it's Code of Practice No.14. There are seven 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

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

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## Review Arrangements

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.

This training policy will be reviewed annually, taking account of the results from any training needs analysis and emerging issues.

## Costs

All training costs are met directly by the Pension Fund.

## Further Information

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

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

Phone: 01224 26 4169  
Email: [msuttie@nespf.org.uk](mailto:msuttie@nespf.org.uk)  
Web: [www.nespf.org.uk](http://www.nespf.org.uk)

## Knowledge and Skills Framework

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

### Level of knowledge required

1 – In depth, 2 – Understanding, 3 – Conversant

CIPFA Knowledge and Skills	Knowledge Requirement	
	Pensions Committee	Pension Board
Pension legislative and governance context <ul style="list-style-type: none"> <li>• General and Scheme Pension Legislation</li> <li>• Scheme Governance</li> <li>• Pension regulators and advisors</li> <li>• Legislative framework</li> <li>• Risk</li> </ul>	2	2
Pension accounting and auditing standards <ul style="list-style-type: none"> <li>• Audit and accounting regulations and requirement</li> </ul>	2	2
Financial services procurement and relationship management <ul style="list-style-type: none"> <li>• Understanding public procurement</li> <li>• Supplier risk management</li> </ul>	2	3
Investment Governance <ul style="list-style-type: none"> <li>• Investment Strategy</li> <li>• Financial Markets</li> </ul>	2	2
Investment performance and risk management <ul style="list-style-type: none"> <li>• Fund performance</li> <li>• Performance of advisors</li> <li>• Performance of the committee</li> <li>• Performance of support services and advisors</li> </ul>	2	3
Actuarial methods, standards and practices <ul style="list-style-type: none"> <li>• Valuations</li> <li>• Outsourcing</li> </ul>	2	3

## Convener of the Pensions Committee

Strategy and operations of the Pension Fund; the proper administration of the Pension Scheme by the administering authority; the performance of the Fund, its advisors and agents; and the proper governance of the Committee and the Fund.

### PRINCIPAL RESPONSIBILITIES

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

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

2. And to monitor:

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

3. And to approve:

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

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

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

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

### PERSONAL SPECIFICATION

Requirement	Essential	Desirable
1. Educational	Appropriate financial experience and training.  Knowledge of pension funds and schemes.	Demonstrable evidence of knowledge kept up to date.
2. Work Experience	Political awareness in numerous political environments.  Chairing high level partnership meetings achieving effective outcomes.  Operated for 5 years at a senior level.  Experience of risk and performance frameworks.	Previously chaired a pension committee or similar.
3. Abilities, Intelligence & Special Aptitudes	Chairing skills.  Influencing and consensus building.  Listening skills.  Able to assimilate complex information.	Mathematical/statistical literacy.  Knowledge of public sector and local government finance.
4. Adjustment & Social Skills	Ability to establish good working relationships with councillors, officers and advisors.  Able to direct discussions in politically sensitive environments.  Able to command respect and demonstrate strong	Diplomacy and tact.

	<p>leadership.</p> <p>Assertive in pursuing the correct course of action.</p> <p>Able to work effectively with colleagues who may have different levels of experience and understanding.</p>	
5. Motivation	<p>Enthusiastic, not easily deterred and able to convey enthusiasm to others.</p> <p>Committed to the objectives of the Pension Scheme and Fund(s).</p>	
6. Equal Opportunities	<p>Understanding and commitment to promoting equality of opportunity with an understanding of the pension context.</p>	

**The vice convener of the Pensions Committee will also receive a copy of this guidance.**

## 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 dedicated 'trustee' area of the Pension Fund website. 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 Conveners must commit to attending a minimum of two UK wide pension conferences per annum. Recommended is the PLSA Local Authority***

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**Conference held annually in May which covers all aspects of the LGPS and the LGC Investment Seminar held in the autumn giving a focus on investment management. Other events may arise during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.**

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

- **Scheme Valuation**
- **Administration Matters which are ongoing**
- **Investment Matters ongoing**
- **Pensions Market issues**
- **Communication with employers and scheme members**

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

## 2. Pensions accounting and auditing standards

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

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

## 3. Investment performance and risk management

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

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

## 4. Financial markets and product knowledge

4.1 In those schemes with invested funds, an understanding of financial markets and products is fundamental. The depth of knowledge will depend to some degree upon the particular approach to

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investment management undertaken by the Fund. The investment activities of LGPS Funds for example can be split into two groups - those Funds that use external managers to manage all of their investment portfolio and those that undertake some or all of their investment activities using in-house investment managers.

***The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA or the Local Authority Pension Fund Seminar held annually at Celtic Manor, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight to future legislation that make impact on the companies in which we invest. A list of forthcoming conferences is reported annually to the June meeting of the Pensions Committee.***

## 5. Actuarial methods, standards and practices

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

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



## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	14 June 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Report AC1923 – Pension Governance
<b>REPORT NUMBER</b>	IA/AC1923
<b>CHIEF OFFICER</b>	Fraser Bell
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	2.2

### **1. PURPOSE OF REPORT**

- 1.1 The purpose of this report is to present the planned Internal Audit report on Pension Governance.

### **2. RECOMMENDATION**

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

### **3. BACKGROUND / MAIN ISSUES**

- 3.1 Internal Audit has completed the attached report which relates to an audit of Pension Governance.

### **4. FINANCIAL IMPLICATIONS**

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

### **5. LEGAL IMPLICATIONS**

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

### **6. MANAGEMENT OF RISK**

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

## 7. OUTCOMES

- 7.1 There are no direct impacts, as a result of this report, in relation to the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. APPENDICES

- 9.1 Internal Audit report AC1923 – Pension Governance.

## 10. REPORT AUTHOR DETAILS

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**Internal Audit Report**

**North East Scotland Pension Fund**

**Pension Governance**

**Issued to:**

Steven Whyte, Director of Resources  
Laura Colliss, Pension Fund Manager  
Jonathan Belford, Chief Officer – Finance  
Fraser Bell, Chief Officer – Governance  
Mairi Suttie, Governance Manager  
Audit Scotland

## **EXECUTIVE SUMMARY**

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF), jointly known as the Fund, are administered by Aberdeen City Council.

The objective of this audit was to provide assurance over the governance arrangements and procedures in place including risk management and performance management. In general the governance arrangements are appropriate, and aligned with regulatory requirements.

The Council recently adopted a revised Risk Management Framework, which is not currently being applied in full by the Fund. CIPFA has highlighted that it is best practice for local government pension schemes to have their own risk management arrangements. The Service will review and implement procedures to reflect the Fund's requirements.

Whilst Committee and Board members' training is planned and reported on annually, there have been instances where the requirements of the Fund's training policy were not being met. The Service plans to review the policy to ensure appropriate actions can be taken.

Fund managers' performance is subject to regular reporting and review, however there is potential for variation in how this is managed due to varying contractual and monitoring arrangements. The Service has agreed to develop documentation to further promote clarity and assurance of its performance management arrangements, however, has accepted the risk that not all fund managers produce independently assured annual service organisation control reports.

# 1. INTRODUCTION

- 1.1 The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF), jointly known as the Fund, are administered by Aberdeen City Council.
- 1.2 The NESPF provides pension services to 53 bodies and had a net worth of £4.1 billion at the end of the 2017/18 financial year. Members include: all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers), 15 transferee bodies and 27 admitted bodies. The employees of the admitted bodies can join the Scheme subject to their individual admission criteria, which are outwith the control of Aberdeen City Council.
- 1.3 The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time, and has a net worth of £100.1 million at the end of the 2017/18 financial year.
- 1.4 The Funds are built up from contributions from both employees and employing bodies, together with interest, dividends, and rent from investments, out of which pensions and other benefits are paid. Employee contributions are fixed by statute while employer contributions are assessed every three years by an independent Actuary to determine the level of contributions necessary by employing bodies to ensure that the Funds are able to meet future benefits as they fall due.
- 1.5 The objective of this audit was to provide assurance over the governance arrangements procedures in place including risk management and performance management.
- 1.6 The factual accuracy of this report and action to be taken regarding the recommendations made have been agreed with Laura Colliss, Pension Fund Manager, and Mairi Suttie, Governance Manager.

## 2. FINDINGS AND RECOMMENDATIONS

### 2.1 Governance Structure

- 2.1.1 The Governance structure of the Fund is defined within the Governance Policy, which is available to view on the NESPF website and was last updated in April 2018. It covers the roles and responsibilities of all those involved in the governance of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. This is in partial or full compliance with the Public Service Pensions Act 2013, The Local Government Pension Scheme (Scotland) Regulations 2018, and the Pensions Regulator Code of Practice no. 14 “Governance and administration of public service pension schemes”. Out of the 16 guiding principles identified for compliance by the Pension Regulator, compliance is full for 14 and partial for 2. Where compliance is partial explanations of why this is the case are detailed in the Governance Compliance Statement.
- 2.1.2 The governance structure is clearly defined within the Governance Policy at a basic level, including a diagram. However, the associated governance arrangements for external service providers are not included within this. There is a risk that the impact of external services is not fully understood, particularly by members with no financial experience, and therefore decisions are not as transparent as they could be.

#### **Recommendation**

The Service should include external service providers in the Governance Structure Diagram.

#### **Service Response / Action**

Agreed. We will update the diagram to include external service providers.

#### **Implementation Date**

June 2019

#### **Responsible Officer**

Governance Manager

#### **Grading**

Important within audited area

### 2.2 Governance Related Policies

- 2.2.1 Various governance related policies are available to view on the NESPF webpage, ensuring easy access for any member of the scheme as expected by the Pensions Regulator’s Principles of Governance, specifically Principle I – Publicity.
- 2.2.2 The policies are all reviewed annually. The dates of when a policy was last reviewed, and its next review date are contained within the first page of each policy. It is also specified on each policy who the author is and which team is responsible, aiding openness and transparency.
- 2.2.3 A number of policies are specifically required by the Pensions Regulator such as the Internal Dispute Resolution Policy. This must be made readily available to scheme members. The internal dispute resolution procedures are referenced in the guide to the scheme sent to all new members with information on how to obtain these through either contact with the NESPF or by going online.
- 2.2.4 It is also a requirement that the Fund report any breaches of the law that would be deemed as significant to the Pensions Regulator, and / or the Information Commissioners Office depending on the type of breach. The Fund’s policy is thorough and contains examples of breaches that would and would not require reporting. All breaches, significant or otherwise, must be recorded on the Breaches Register and this document is regularly reviewed and updated. On the register the rationale behind whether to report or not report a breach is documented as well as when it occurred, the type of breach, a brief description,

potential consequences, and a risk matrix detailing the impact and likelihood of recurrence. This matrix is used to help assess whether a breach should be reported or not. Procedures are available to staff to enable them to deal with any breaches of the law and report them appropriately.

2.2.5 A conflicts of interest policy is in place and complies with regulatory and legal requirements. Although the Policy only specifically covers the Pensions Board; the Committee is covered by the Councillor Code of Conduct; and the Chief Officer – Finance by the Aberdeen City Council Employee Code of Conduct. The Conflicts Register collates all relevant details in respect of the Fund.

2.2.6 A training policy is in place that applies to Members of the Pensions Committee and the Pensions Board. However, the policy is not always complied with: 6 of 16 members of the Committee and Board had not attended at least 2 days of training as stipulated in the Training Policy. Attendance details were provided to the Committee and Board for discussion at their meeting on 22 June 2018, and future training plans were discussed, but the risks of non-compliance were not highlighted. The policy does not define the action to be taken in the event of training falling short of its requirements. There is, therefore, a risk that members may not have the appropriate knowledge required for their roles, and therefore could be in breach of the Pensions Regulators Code of Practice No. 14 (Governance and administration of Public Service Pension Schemes) in particular regard to the “Knowledge and understanding required by pension board members.”

**Recommendation**

The Service should ensure compliance with the Training Policy

**Service Response / Action**

Agreed. Fund Officers will review and discuss with the Pension Board at the annual meeting in June. The Training Policy will also be reviewed to set out actions that will be taken to address instances where minimum requirements are not being met, and this will also be taken to Committee in June.

**Implementation Date**

June 2019

**Responsible Officer**

Governance Manager

**Grading**

Significant within audited area

**2.3 Risk Management Policies and Procedures**

2.3.1 The Pension Fund follows the Aberdeen City Council Risk Management Framework. According to the Aberdeen City Council Financial Regulations: “*The Risk Management Framework contains the procedures to be adopted to ensure risk is properly identified and appropriate mitigating control actions are put into place.*” The framework delivers thorough and clear explanations of the procedures to follow in regard to risk management.

2.3.2 The Framework identifies a risk aware approach for the Council, and notes that development of a risk appetite statement is being considered. Whilst this is not inconsistent with the Fund’s requirements, it is exposed to different types of risk, and will have a different appetite for different types of risk – e.g. for investments as influenced by its funding strategy. A more tailored approach may be of benefit. Recent guidance from CIPFA, entitled “Managing Risk in the Local Government Pension Scheme (2018)”, recommends that LGPS’ develop their own risk management framework.

**Recommendation**

The Service should develop a Fund specific Risk Management Framework.

**Service Response / Action**

Agreed. Fund Officers will review and implement a Fund specific Risk Management Framework as per CIPFA guidance.

**Implementation Date**

December 2019

**Responsible Officer**

Governance Manager

**Grading**

Important within audited area

2.3.3

A risk register is produced, however it does not follow the format set out in the Framework, which results in a lack of detail surrounding the risks the Fund faces and the controls that are in place for these. In addition, although the risk register is reviewed quarterly by the Pension Fund Management Team, the current format does not provide a record of this review and any changes applied as a result.

**Recommendation**

The Service should update the risk register to follow the format described within the Risk Management Framework.

**Service Response / Action**

Agreed. A Fund specific Risk Management Framework will be implemented in line with recommendation 2.3.2. Going forward the risk register will feature quarterly on the management team meeting agenda and any discussions around review/changes minuted.

**Implementation Date**

December 2019

**Responsible Officer**

Governance Manager

**Grading**

Important within audited area

2.3.4

The risk register is included in quarterly strategy reports presented at Committee, rather than as a separate item. As a result there is limited evidence of discussion regarding risk management, and therefore of compliance with the Council's Risk Management Framework – which requires Committee oversight of registers reflecting risks falling within their terms of reference, as well as receiving an annual report on effectiveness and forward plan scheduling.

**Recommendation**

The Service should ensure the Pensions Committee and Pension Board are provided with the opportunity to discuss risk registers and risk management at least annually.

**Service Response / Action**

Not agreed. Committee members are provided with opportunity to discuss the risk register quarterly. We see no need to take an additional annual report or provide it as a separate item on the agenda. However, further consideration will be given to reporting/escalation of risk as part of the development of the Fund specific Risk Management Framework.

**Internal Audit Comment**

Service response noted.

**Grading**

Important within audited area



## 2.4 Internal Controls

- 2.4.1 All services provided to the Fund by external suppliers are subject to Service Level Agreements contained within the contracts between the Fund and their suppliers. This ensures that the Fund has recourse in the event that a supplier is unable or unwilling to administer the services required.
- 2.4.2 Service providers are asked to supply evidence of an internal controls assessment annually. One supplier has provided a self-certification, with more limited detail, rather than evidence of an independent review. This was raised in Internal Audit report AC1620: Pensions Investment Strategy & Investment Performance Management, and management stated that this was considered adequate given the level of investment with this fund management company at the time, and avoided additional costs.
- 2.4.3 One instance was identified where the last report was dated 27 February 2017, and related to the providers' operations to the year ended 31 December 2016. Another covered a period between October 2015 and January 2017 and is therefore also out of date, and indicates that assurance is not being obtained for each separate year. There is a risk that assurance over internal controls is not being obtained and these may not be as robust as expected.

### **Recommendation**

The Service should ensure statements of Internal Controls are obtained annually.

### **Service Response / Action**

Not agreed. Fund Officers request the latest version of internal control reports on an annual basis, usually in March as part of the year end process. However not all fund managers will update these reports annually and some of the smaller fund managers do not produce them at all. There is a lot of work/cost involved to produce these, so they are not always produced annually (but normally no less than 2 yearly). In addition to the report, Fund Officers take assurance from due diligence at the point of appointment and from our ongoing relationship with the service providers. The Service has considered and accepted the risk of not obtaining these reports.

### **Internal Audit Comment**

Service response noted.

### **Grading**

Significant within audited area

## 2.5 Performance Management

- 2.5.1 There is no policy or procedures relating to reporting the performance of the Fund to the Pensions Committee and the Board, but reports are sent to every meeting. While the Pensions Committee business planner stipulates in advance what will be discussed at any one meeting it would be good practice to set out the specified frequency and content of required reports to ensure continued support in the event of staffing or other changes.

### **Recommendation**

The Service should set the frequency and content of performance reporting for the Pensions Committee.

### **Service Response / Action**

Agreed. The Investment Policy will be amended to include a reference to The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, 10 Review of Investment Managers performance. Confirming content and frequency of performance reporting to the Pension Committee.

<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2019	Governance Manager	Important within audited area

- 2.5.2 There is no specific guidance on how to deal with underperformance of Fund Managers: this is dealt with on a case by case basis. Whilst circumstances will vary, a clear procedure would provide more assurance that these are being treated consistently, fairly and within an appropriate timescale.

<b><u>Recommendation</u></b> The Service should develop guidance on dealing with underperformance of Fund Managers.		
<b><u>Service Response / Action</u></b> Agreed. We will expand on 2.5.1 to include details of how underperformance of managers is managed.		
<u>Implementation Date</u>	<u>Responsible Officer</u>	<u>Grading</u>
June 2019	Pension Fund Manager	Important within audited area

**AUDITORS:** D Hughes  
C Harvey  
C Johnston

## Appendix 1 – Grading of Recommendations

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

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## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	14 June 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Internal Audit Annual Report 2018/19
<b>REPORT NUMBER</b>	IA/19/008
<b>DIRECTOR</b>	N/A
<b>CHIEF OFFICER</b>	Fraser Bell
<b>REPORT AUTHOR</b>	David Hughes
<b>TERMS OF REFERENCE</b>	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 2018/19.

### 2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2018/19;
- 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 2018/19; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

### 3. BACKGROUND / MAIN ISSUES

- 3.1 It is one of the functions of the Pensions Committee to consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.
- 3.2 The Internal Audit plan for 2018/19 was agreed by the Pensions Committee on 16 March 2018. The plan consisted of one audit although there were a number of audits undertaken in relation to Aberdeen City Council which contributed to Internal Audit's understanding of the NESPF framework of governance, risk management, and internal control arrangements.

- 3.3 It is considered that sufficient work was completed during the year, or was sufficiently advanced by the year-end, on which to base the conclusion drawn in the annual Internal Audit Report. This is supplemented by review of other relevant documentation, including Pension Committee papers, and the assessment of risk undertaken (by both Internal and External Audit) in updating the Internal (and External) Audit plan(s).
- 3.4 Internal Audit's annual opinion is attached as Appendix A, and concludes that reasonable assurance can be placed upon the adequacy and effectiveness of the Board's framework of governance, risk management and internal control in the year to 31 March 2019.
- 3.5 The Public Sector Internal Audit Standards require that Internal Audit confirms to the Board, at least annually, that it is organisationally independent. The organisational independence of Internal Audit 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 Internal Audit'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.
- 3.6 There is also a requirement to report any instances where the scope of Internal Audit's work has been limited. During 2018/19, there have been no such limitations.
- 3.7 Internal Audit Standards require that Internal Audit implement a system to monitor the implementation of agreed recommendations by management arising from its reports. Appendix B to this report shows the progress that management has made with implementing such recommendations.

#### **4. FINANCIAL IMPLICATIONS**

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

#### **5. LEGAL IMPLICATIONS**

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

#### **6. MANAGEMENT OF RISK**

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

## 7. OUTCOMES

- 7.1 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, or Enabling Technology, or on the Design Principles of the Target Operating Model.
- 7.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	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.
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. APPENDICES

- 9.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2019.
- 9.2 Appendix B – Position with agreed recommendations included in NESPF Internal Audit reports.

## 10. REPORT AUTHOR DETAILS

David Hughes, Chief Internal Auditor  
[David.Hughes@aberdeenshire.gov.uk](mailto:David.Hughes@aberdeenshire.gov.uk)  
(01467) 537861

## **Appendix A**

### **Internal Audit Annual Report relating to the North East Scotland Pension Fund for the year ended 31 March 2019**

As Chief Internal Auditor of the North East Scotland Pension Fund, I am pleased to present my annual statement on the adequacy and effectiveness of the NESPF's framework of governance, risk management and control for the year ended 31 March 2019. The purpose of this statement is to assist the Chief Officer – Finance in forming the required opinion in relation to the Annual Governance Statement to be included in the Annual Accounts.

#### **Opinion**

It is my opinion, based on the following, that reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2019.

Whilst issues were identified in audits that have been completed, as reported to the Pensions Committee, areas of good practice, improvement, and procedural compliance were also identified.

#### **Basis of Opinion**

My evaluation of the control environment is informed by a number of sources:

- The audit work completed by Internal Audit during the year to 31 March 2019;
- Progress made with implementing agreed Internal Audit recommendations;
- The assessment of risk completed during the updating of the audit plan;
- Reports issued by the Council's external auditors; and
- Internal Audit's knowledge of the NESPF's and Aberdeen City Council's framework of governance, risk management and performance monitoring arrangements.

#### **Respective responsibilities of management and internal auditors in relation to internal control**

It is the responsibility of the Pension Fund's senior 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.

#### **Sound internal controls**

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



- ensure adherence to management policies and directives in order 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; and
- 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 Council is continually seeking to improve the effectiveness of its systems of internal control.

### **The Work of Internal Audit**

Internal Audit is an independent appraisal function established by the NESPF / Council for the review of the internal control system as a service to the organisation. It objectively examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources.

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

All Internal Audit 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 Internal Audit reports and that appropriate action is taken on audit recommendations. The Internal Auditor 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 taking action.

**David Hughes,  
Chief Internal Auditor,  
North East Scotland Pension Fund  
8 April 2019**

**Appendix B**

**POSITION WITH AGREED RECOMMENDATIONS INCLUDED IN NESPF**

**INTERNAL AUDIT REPORTS**

**AS AT 8 APRIL 2019**

Note: This is on an exception basis, where all recommendations in a report have been implemented, the report is not shown.

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Report Number	Report Title	Date Issued	Number of Recommendations				Grading of overdue recommendations
			Agreed in Report	Due for implementation by 31.03.19	Confirmed Implemented by Service	<b>Not implemented by original due date</b>	
<b>AC1827</b>	<b>Pensions System</b>	March 2018	7	7	6	<b>1</b>	1 Significant
The position with the overdue recommendation is as follows:							
Chief Officer	Recommendation	Grading / Due Date	Position				
Finance	The Service should ensure that secondary calculation checks are a system requirement (2.4.8)	Significant September 2018	The Service is in the process of implementing a new software solution but testing of this has been delayed by the system provider. This recommendation should now be fully implemented by September 2019.				
<b>AC1923</b>	<b>Governance Arrangements</b>	March 2019	6	0	0	<b>0</b>	0

## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	Pensions Committee
<b>DATE</b>	14 June 2019
<b>EXEMPT</b>	No
<b>CONFIDENTIAL</b>	No
<b>REPORT TITLE</b>	Pensions Committee Annual Effectiveness Report
<b>REPORT NUMBER</b>	GOV/19/244
<b>DIRECTOR</b>	Steve Whyte
<b>CHIEF OFFICER</b>	Jonathan Belford
<b>REPORT AUTHOR</b>	Stephanie Dunsmuir
<b>TERMS OF REFERENCE</b>	GD 7.5

### 1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the annual report of the Pensions Committee.

### 2. RECOMMENDATION

That Committee:-

- 2.1 note the annual report.

### 3. BACKGROUND

#### **Annual Reports on Committee Terms of Reference**

- 3.1 The Governance Review of 2017/18 was initiated as part of the Council's work with the Chartered Institute of Public Finance and Accountancy (CIPFA) and the aim to secure that organisation's accreditation in governance excellence. As part of CIPFA's interim assessment of the Council's governance arrangements, CIPFA recommended that each Committee should annually review its effectiveness, including its information and reporting needs, to help ensure that it is following its Terms of Reference, is operating effectively and to identify any training needs or improvements to the Council's decision-making structures. When approving the new Terms of Reference in March 2018, the Council agreed that each Committee would be required to review their own effectiveness against their Terms of Reference through an annual report and approved the proposed template for those reports.

3.2 CIPFA reviewed the approved template and in general terms stated:

*A committee effectiveness report has the potential to support the improvement journey by accounting for the ways that committees support a quality improvement culture with quality assurance of services and feedback loops. A template that goes beyond tick box and more clearly offers the opportunity to address some current and historic issues and, importantly give a clear signal that good governance is taken seriously. It could therefore provide support to a number of the developments that Aberdeen City Council seeks in its journey towards achieving the excellence in governance mark.*

3.3 The first annual report for 2018/2019 is appended for the Committee's consideration. Following consideration by the Committee, the report will be submitted to Council on 24 June 2019 for noting.

#### **4. FINANCIAL IMPLICATIONS**

4.1 There are no direct financial consequences from the recommendation.

#### **5. LEGAL IMPLICATIONS**

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

#### **6. MANAGEMENT OF RISK**

	<b>Risk</b>	<b>Low (L), Medium (M), High (H)</b>	<b>Mitigation</b>
<b>Financial</b>	None	N/A	N/A
<b>Legal</b>	None	N/A	N/A
<b>Employee</b>	None	N/A	N/A
<b>Customer</b>	None	N/A	N/A
<b>Environment</b>	None	N/A	N/A
<b>Technology</b>	None	N/A	N/A
<b>Reputational</b>	None	N/A	N/A

## 7. OUTCOMES

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Organisational Design</b>	The report reflects recognition of the process of organisational design and provides assurance through scrutiny of committee effectiveness. The review of the Committee will support the redesign of the organisation and ensure that the Committee discharges its role in accordance with the Scheme of Governance.
<b>Governance</b>	The committee effectiveness report enhances transparency and understanding of the Committee as well as help to address any areas for improvement.

## 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

## 9. BACKGROUND PAPERS

None.

## 10. APPENDICES

- 10.1 Pensions Committee Annual Effectiveness Report 6 March 2018 to 29 April 2019.

## 11. REPORT AUTHOR CONTACT DETAILS

Stephanie Dunsmuir  
Committee Services Officer  
[sdunsmuir@aberdeencity.gov.uk](mailto:sdunsmuir@aberdeencity.gov.uk)  
01224 522503

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# Pensions Committee Annual Effectiveness Report



# Contents

1. Introduction
2. The role of the Committee
3. Membership of the Committee during 2018/2019
4. Membership changes
5. Member Attendance
6. Meeting Content
7. Training Requirements and Attendance
8. Code of Conduct – Declarations of Interest
9. Civic Engagement
10. Officer support to the Committee
11. Executive Lead's Comments
12. Next year's focus



## 1. INTRODUCTION

- 1.1 I am pleased to present the first annual effectiveness report for the Pensions Committee. As members will be aware, as part of their interim assessment of the Council's governance arrangements in 2016, CIPFA recommended that committees review the extent to which they have operated within their Terms of Reference, through an annual report. This has been an aspiration for some time, representing good practice in governance terms and evidencing the Council's progress towards achieving CIPFA accreditation and I am glad to see the first report for the Pensions Committee presented.
- 1.2 This first annual effectiveness report is a good mechanism for the Committee to support the Council's improvement journey by demonstrating the ways that the Committee supports the principles of the Target Operating Model; whilst also providing the opportunity to reflect on the business of the Committee over the past year and to look to the Committee's focus for the year ahead.
- 1.3 Throughout the first year, the Committee has worked collectively to ensure the governance arrangements for the Pension Fund are robust and continue to deliver a responsible and compliant scheme. Focusing on the Pensions Regulator, the continuation of moving to the strategic investment benchmark and embracing technology to improve the quality and efficiency of service delivery.



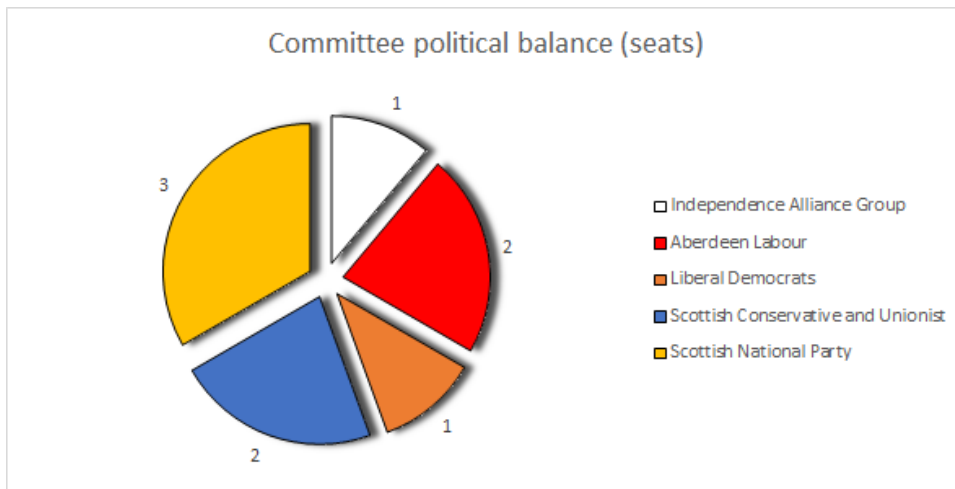
Councillor M. Tauqeer Malik  
Convener, Pensions Committee

## 2. THE ROLE OF THE COMMITTEE

- 2.1 The role of the Committee is to discharge all functions and responsibilities relating to the Council's role as administering authority for the North East Scotland Pension Funds (NESPF).
- 2.2 The previous Terms of Reference for the Committee as approved by Council on 5 March 2018 are appended to the report.

## 3. MEMBERSHIP OF THE COMMITTEE DURING 2018/2019

- 3.1 The Pensions Committee has 9 members and the composition is presented below.



## 4. MEMBERSHIP CHANGES

- 4.1 There were no changes to the Pensions Committee membership during the 2018/19 reporting period.

## 5. MEMBER ATTENDANCE

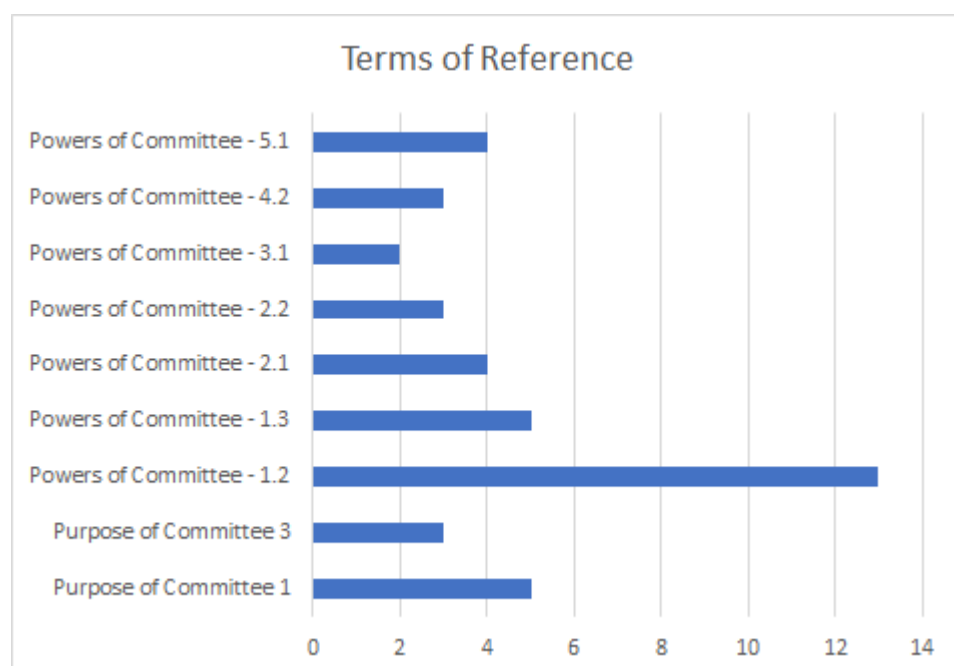
Member	Total Anticipated Attendances	Total Attendances	Nominated Substitute
Councillor Malik	5	5	
Councillor Reynolds	5	5	
Councillor Allard	5	4	
Councillor Bell	5	5	
Councillor Cooke	5	5	
Councillor Crockett	5	3	1 - Councillor Laing
Councillor Delaney	5	4	
Councillor Donnelly	5	4	
Councillor MacGregor	5	5	

## 6. MEETING CONTENT

- 6.1 During the 2018/2019 reporting period (6 March 2018 to 29 April 2019) the Committee had 5 meetings and considered a total of 38 reports.

### 6.2 Terms of Reference

Of the 38 reports received the following table details how the reports aligned to the Terms of Reference for the Committee.



- 6.3 The majority of reports have fallen under the Purpose of the Committee 1.2 (Managing the investment of the NESPF in accordance with the LGPS (Scotland) Regulations and other relevant legislation). This is to be expected in terms of the main part of the Committee's role in monitoring and overseeing the investment of the NESPF. There is a relatively even spread of reports across the other Terms of Reference (ToR).
- 6.4 There have not been any reports presented under the Purpose of the Committee 1.4 (Working alongside the Pension Board to consider any pension compliance matters raised) as there have been no compliance matters for consideration.
- 6.5 While there have not been any reports specifically listed under ToR 1.1 (Ensure effective risk management of the Fund), there is a risk register update provided to each Committee meeting as part of the Strategy report which falls under the other ToR.
- 6.6 Finally, there have not been any reports presented under ToR 5.2 (Determine applications for Admitted Body status) as there have been no requests for Admitted Body status during the reporting period for the annual effectiveness report.

#### 6.7 **Local Outcome Improvement Plan**

None of the 38 reports had a link to the themes of the Local Outcome Improvement Plan. Due to the nature of the Pensions Committee remit, reports to the Committee link instead to the design principles of the Target Operating Model, such as Governance.

## 6.8 Reports and Committee Decisions

The following table details the outcome of the Committee's consideration of the 38 reports presented to it throughout the year.

	Total	% Total Reports
Number of confidential reports	0	0.0%
Number of exempt reports	7	18.4%
Number of reports where the Committee has amended officer recommendations	0	0.0%
Number and percentage of reports approved unanimously	38	100.0%
Number of reports requested by members during the consideration of another report to provide additional assurance and not in forward planner	0	
Number of service updates requested by members during the consideration of another report to provide additional assurance and not in forward planner	0	
Number of decisions delayed for further information	0	0.0%
Number of times the Convener has had to remind Members about acceptable behaviour and the ethical values of Public Life	0	
Number of late reports received by the Committee	0	0.0%
Number of referrals to Council, or other Committees in terms of Standing Order 33.1	0	0.0%

**6.9 Notices of Motion, Suspension of Standing Orders, Interface with the Public**

	Total
Number of Notices of Motion	1 (Urgent Notice of Motion)
Number of times Standing Orders were suspended	0
The specific Standing Orders suspended	N/A
Number of deputations or other indicators of interface with the public, i.e. engagement and social media.	0
Number of petitions considered	0
Number of Members attending meetings of the committee as observers	0
Number of Meetings held by the Convener with other Conveners, relevant parties, to discuss joint working and key issues being raised at other Committee meetings	There is less scope for the Pensions Committee to link with other Committees, however the Convener meets with Chief Officers on a monthly basis in respect of any key issues at other Committee meetings.

**7. TRAINING REQUIREMENTS AND ATTENDANCE**

7.1 The following specific Scheme of Governance training which is related to the operation of all Committees was provided to Members:-

- Effective Decision Making on 23, 27 and 28 March 2018
- Financial and Procurement Regulations on 23 and 29 March 2018

7.2 Training on the Councillors' Code of Conduct was provided to Elected Members in January and February 2018.

7.3 Throughout the course of 2018-2019 there have been training sessions on:

14 September 2018, following the Pensions Committee meeting, presentations from Pensions & Investment Research Consultants Ltd (PIRC) and State Street Global Advisors (SSGA) covering corporate governance and Environmental, Social Governance (ESG).

23/24 October 2018, members were invited to attend the annual LGC Seminar covering:-

- a progress report on the consultation on the structural review of the LGPS
- the infrastructure and housing challenge, learning from the experience of pooling in England and Wales
- impact of responsible investment on a Scheme's direct investment portfolio
- investment strategy – how to ensure it is fit for purpose and future proofed; and

- the changing landscape of the LGPS in Scotland.

10/11 January 2019, training consisted of presentations from a range of fund managers: SSGA, Baillie Gifford, Blackrock, HarbourVest, Aberdeen Standard, Aviva, Hayfin, Alcenta and Hermes.

- 7.4 The above opportunities provide valuable insights into relevant business areas to aid scrutiny of Committee business. Further development opportunities will be developed for 2019 – 2020 based on Committee business and officer proposals; and Member feedback.

## 8. CODE OF CONDUCT – DECLARATIONS OF INTEREST

- 8.1 No declarations of interest were made by Councillors during the reporting period. Information in respect of declarations is measured to evidence awareness of the requirements to adhere to the Councillors' Code of Conduct and the responsibility to ensure fair decision-making.

## 9. CIVIC ENGAGEMENT

- 9.1 The Committee's focus, by its very nature, has largely been in respect of its responsibilities relating to the Council's role as administrating authority for the NESPF. It has undertaken this in close partnership with the external organisations represented on the Pension Board, as well as other schedule and admitted body employers of the Pension Fund via Forums held by the Fund and training sessions with Fund Managers appointed by the Fund.
- 9.2 Throughout the course of the year, consideration will be given to enhancing civic engagement in the discharge of the Committee's remit.

## 10. OFFICER SUPPORT TO THE COMMITTEE

Officer	Total Anticipated Attendances	Total Attendances	Substitute Attendances
Director of Resources	3	2	0
Chief Officer – Finance	3	3	0
Pensions Manager	5	4	0
Investment Manager	5	3	0

## 11. EXECUTIVE LEAD'S COMMENTS

- 11.1 One of the Council's transformation projects is to deliver the CIPFA Mark of Excellence in Good Governance. As part of this project, CIPFA recommended that each Committee should annually review its effectiveness, including its information reporting needs, to help ensure that each Committee was following its Terms of Reference; operating effectively; and would assist in identifying any training needs or improvements to the Council's decision-making structures.
- 11.2 It can be seen from the statistics in the annual report that no decisions required to be delayed and that all business was approved or noted unanimously. With the exception of the regular Asset and Investment Manager Performance and Investment Strategy reports, which by their nature contain exempt financial information, it has been possible for the rest of the Committee's business to be taken in public to ensure that there is transparency in the democratic process.
- 11.3 Only minor changes were made to the Committee's Terms of Reference when they were presented to Council in March 2019, which suggests that the current Terms of Reference are operating effectively.



## 12 NEXT YEAR'S FOCUS

- 12.1 Council on 4 March 2019 approved new Terms of Reference and a further review will be reported to Council in March 2020. Throughout the next reporting year, we will review the Terms of Reference in line with the business submitted to the Committee and reflect on whether any areas require refinement moving forward to ensure the efficient operation of the Committee.
- 12.2 Areas of focus from the Business Planner – generally, the Committee considers the same reports at each point in the year in line with its role to monitor the administration of the NESPF. A major piece of work each year is the presentation and approval of the NESPF Annual Report and Accounts. There will also be a report presented later in the year on the exploration of the opportunities for a strategic partnership between the Council, other stakeholders and the North East Scotland Pension Fund for the purposes of supporting local infrastructure investment.
- 12.3 Budget considerations for the Committee during 2019/20 will focus on staffing and accommodation costs to ensure future service delivery. Work leading up to the 2020 actuarial valuation will also add to those pressures.
- 12.4 Priorities for the committee during 2019/20 include, delivery of the potential merger between Strathclyde No.3 Fund and the Aberdeen City Council Transport Fund, Actuarial Valuation, ensuring the Fund is sufficiently resources to continue service delivery to all stakeholders and the delivery of the investment strategy.

**Previous Version of Pensions Committee Terms of Reference  
Approved by Council on 5 March 2018**

## **PENSIONS COMMITTEE**

### **PURPOSE OF COMMITTEE**

To discharge all the functions and responsibilities relating to the Council's role as administering authority for the North East Scotland Pension Funds (NESPF) including:-

1. overseeing the administration of the Local Government Pension Scheme (LGPS) in accordance with the LGPS (Scotland) Regulations 2014 and other relevant regulations,
2. managing the investment of the NESPF in accordance with the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010 (as amended);
3. receiving regular training to enable the Committee members to make effective decisions under the LGPS Regulations, other relevant legislation and to make decisions in compliance with the Pensions Regulator Code of Practice; and
4. working alongside the Fund's Local Pension Board, considering any pension compliance matters raised.

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

### **POWERS OF COMMITTEE**

#### **1. Risk Management**

The Committee will:

- 1.1 ensure effective risk management of the Fund;
- 1.2 set the investment objective and strategy in light of the Funds liabilities and appoint or remove Fund Managers or new vehicles in furtherance of the strategy; and
- 1.3 ensure that an effective system of internal financial control is maintained.

#### **2. Internal and External Audit**

The Committee will:

- 2.1 approve the annual audit plans; and
- 2.2 consider all reports prepared by the Council's Internal and External Auditors in relation to the Pension Fund.

#### **3. Annual Report and Accounts**

The Committee will:

- 3.1** review and approve the annual report and accounting statement.

#### **4. Legal obligations**

The Committee will ensure:

- 4.1** compliance with the Local Government Pension Scheme (Scotland) Regulations as amended and with all other legislation governing the administration of the Fund; and
- 4.2** adherence to the principles set out in the Pension Regulator's Code of Practice.

#### **5. Scrutiny**

The Committee will:

- 5.1** monitor the performance of Fund Managers; and
- 5.2** determine applications for Admitted Body status.

#### **JOINT WORKING WITH OTHER COUNCIL COMMITTEES:**

The Committee, through its lead officers, will regularly consider key issues arising through other committees, in particular the City Growth and Resources and Staff Governance Committees.

#### **JOINT WORKING WITH NON COUNCIL BODIES:**

The Committee, through its lead officers, will work jointly with the Fund's Investment Consultant and Actuary in the management of the Fund and with external contacts such as the provider of the pensions IT programme.

**Executive Lead: Director of Resources**



## ABERDEEN CITY COUNCIL

<b>COMMITTEE</b>	PENSIONS COMMITTEE
<b>DATE</b>	14 JUNE 2019
<b>EXEMPT</b>	NO
<b>CONFIDENTIAL</b>	NO
<b>REPORT TITLE</b>	UNAUDITED ANNUAL REPORT AND ACCOUNTS
<b>REPORT NUMBER</b>	PC/JUN19/ARA
<b>DIRECTOR</b>	STEVEN WHYTE
<b>CHIEF OFFICER</b>	JONATHAN BELFORD
<b>REPORT AUTHOR</b>	LAURA COLLISS
<b>TERMS OF REFERENCE</b>	PENSIONS COMMITTEE 3.1

### 1. PURPOSE OF REPORT

- 1.1 To present the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for consideration.

### 2. RECOMMENDATION

That the Committee: -

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

### 3. BACKGROUND

- 3.1 Further to the Local Authority Accounts (Scotland) Regulations 2014 the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are presented to the Committee at this stage for review, with the audited version being presented to the September Committee for consideration and signing.

#### 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 in this report.

#### 6. MANAGEMENT OF RISK

- 6.1 There are no direct risk implications arising from the recommendation in this report.

#### 7. OUTCOMES

<b>Design Principles of Target Operating Model</b>	
	<b>Impact of Report</b>
<b>Governance</b>	This reports links to the 'governance' design principle as publication demonstrates the Council's proper stewardship and accountability of the public funds with which it is entrusted.

#### 8. IMPACT ASSESSMENTS

<b>Assessment</b>	<b>Outcome</b>
<b>Equality &amp; Human Rights Impact Assessment</b>	Not required
<b>Data Protection Impact Assessment</b>	Not required
<b>Duty of Due Regard / Fairer Scotland Duty</b>	Not applicable

#### 9. BACKGROUND PAPERS

None

## **10. APPENDICES**

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

## **11. REPORT AUTHOR CONTACT DETAILS**

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# North East Scotland **PENSION FUND**

**UNAUDITED  
ANNUAL REPORT  
& ACCOUNTS**

**FOR THE PERIOD  
1 APRIL 2018 TO 31 MARCH 2019**

**ABERDEEN CITY COUNCIL,  
ADMINISTERING AUTHORITY FOR THE  
ABERDEEN CITY COUNCIL PENSION FUND,  
KNOWN AS  
NORTH EAST SCOTLAND PENSION FUNDS**



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# Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2018/19 Annual Report and Accounts which reflects a year of significant activity and achievement.

2018/19 was another good year for investment returns, with Equities continuing to deliver strong positive performance. The North East Scotland Pension Fund achieved an 8.5% return on investments against a 7.4% benchmark with contributions from active managers being a key driver for this outperformance. The Fund's strategy of diversified investments combined with a long term outlook, has meant the Fund has outperformed its benchmark over both the medium and long term, rising to a total net asset value of £4,450m. Meanwhile the Aberdeen City Council Transport Fund has also performed favourably with a net increase in the fund value of £5.2m, increasing the total net asset value to £105.3m.

As a long term investor, the Funds have a responsibility to engage with the companies it invests in on environmental, social and governance (ESG) issues. As part of the Funds' commitment to such issues, the Funds added its name to the Principles of Responsible Investment (PRI) Investor Working Group on the Sustainable Palm Oil Expectation Statement. The Funds introduced new quarterly reports on the ESG performance of our fund managers, which are presented to the Pensions Committee and Pension Board. Full details on responsible investment can be found in the "Corporate, Environmental and Social Governance" section.

Moving towards day-to-day administration, the Funds continue to make use of technological improvements and systems to push administration and communications online. As part of a phased approach, deferred benefits statements were issued online via our self-service portal, My Pension, for the first time in June 2018. From 2019 onwards, benefit statements for both active and deferred members will be automatically issued this way, resulting in considerable time and cost savings. Additional ways to utilise these systems to improve customer and stakeholder experiences will continue to be a priority.

I would like to take this moment to thank our employers whose willingness to adopt new processes and technologies has made such achievements possible.

Concerns were raised during the year regarding the Scheme Advisory Board's consultation on the future structure of the LGPS Scotland. Several options were proposed including; merging the pension funds, increased collaboration, pooled investments or keeping the status quo all being examined. Following the consultation, it is hoped that matters can be resolved within a reasonable timescale as funds require a degree of certainty in order to confidently plan ahead and improve outcomes for stakeholders.

Looking ahead to 2019/20, the Funds will continue to deliver essential services in addition to a number of projects that are already planned. The projects include; the potential transfer of First Bus from Strathclyde Pension Fund to Aberdeen City Council Transport Fund which will be a considerable task, involving teams from across the Fund and is a major collaboration project between the two Funds. The actuarial valuation process will also commence next year, with the Funds working to replicate the success of previous valuations.

Finally, can I take this opportunity to thank my colleagues on the Committee and Board, Pension staff and our advisors for their dedication and hard work during the year.

**Councillor M Tauqeer Malik**  
**Pensions Committee Convener**

# Management Commentary

## 1. About the North East Scotland Pension Funds

The North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) are administered by Aberdeen City Council within Local Government Pension Scheme (LGPS) regulations.

The LGPS is a public sector, multi-employer defined benefit Scheme that was established under the Superannuation Fund Act 1972.

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

The NESPF is open to all employees of the 11 scheduled bodies, except for those who are entitled to belong to another statutory pension Scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme in line with the body's individual admission criteria for staff.

The ACCTF was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen.

The rules by which the LGPS operates by are set out in the Local Government Pension Scheme (Scotland) Regulations which are Scottish Statutory Instruments (SSIs). Separate regulations set out Scheme benefits, investment and governance requirements.

As at 31 March 2019, the NESPF is the third largest LGPS Fund in Scotland in asset size, with over 67,000 members and 50 participating employers.

## 2. Administration 2018/19

<b>Administering Authority</b>	Aberdeen City Council
<b>Committees</b>	Pensions Committee, Pension Board
<b>Director of Resources*</b>	Steven Whyte
<b>Chief Officer – Finance*</b>	Jonathan Belford
<b>Actuary</b>	Mercer
<b>Global Custodian</b>	HSBC
<b>Performance Measurement</b>	HSBC
<b>Bank</b>	Clydesdale Bank
<b>AVC Providers</b>	Prudential, Standard Life Assurance
<b>External Auditor</b>	Audit Scotland
<b>Internal Auditor</b>	Aberdeenshire Council
<b>Investment Consultant</b>	KPMG
<b>Legal Advisor</b>	Aberdeen City Council
<b>Employers</b>	For full details see Appendix 2

\*The Section 95 Officer is responsible for the financial administration of the Pension Funds. Steven Whyte, Director of Resources was the Section 95 Officer until 2 September 2018 after which Jonathan Belford, Chief Officer – Finance subsumed this role.

# 3. Pensions Committee & Pension Board

## **Pensions Committee**

While day to day administration of the Pension Funds 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 pensions Scheme. It is the key decision maker for all matters under LGPS Regulations including benefit administration and investment management.

The Council and the Pensions Committee recognise that they have fiduciary duties and responsibilities towards pension Scheme members, participating employers and local taxpayers.

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

The Committee is comprised of nine elected members of Aberdeen City Council each with equal voting rights.

## **Membership 2018/19**

Councillor M.Tauqeer Malik (Convener)  
Councillor John Reynolds (Vice Convener)  
Councillor Barney Crockett  
Councillor Neil MacGregor  
Councillor Philip Bell  
Councillor John Cooke  
Councillor Christian Allard  
Councillor Steve Delaney  
Councillor Alan Donnelly

## Meeting Attendance in 2018/19

	22/06/18	14/09/18	30/11/18	15/03/19	Overall Attendance
Cllr Donnelly	✓	✓	✓	✓	100%
Cllr Crockett*	✓	X	✓	✓*	75%
Cllr Reynolds (Vice Convener)	✓	✓	✓	✓	100%
Cllr MacGregor	✓	✓	✓	✓	100%
Cllr Malik (Convener)	✓	✓	✓	✓	100%
Cllr Philip Bell	✓	✓	✓	✓	100%
Cllr Allard	✓	X	✓	✓	75%
Cllr Delaney	X	✓	✓	✓	75%
Cllr Cooke	✓	✓	✓	✓	100%

\*Substitute: Cllr Jenny Laing

## Pension Board

In line with Scheme regulations, the Funds established a Pension Board in 2015/16 with the responsibility of assisting the Scheme Manager in relation to compliance with Scheme regulations and the requirements of the Pensions Regulator.

Board membership consists of equal numbers of trade union representatives and employer representatives, drawn from Councils and scheduled or admitted bodies.

## Membership 2018/19

Morag Lawrence	Unison	
Kevin Masson	GMB	
Alan Walker	Unite	
Steven Clunes	UCATT	Left Sept 2018
Liam Knox	UCATT	Joined Sept 2018
Councillor Yvonne Allan	Aberdeen City Council	Joined July 2018
Councillor John Cowe	The Moray Council	
Councillor Alistair McKelvie*	Aberdeenshire Council	
Marie Hart	Police Scotland	Left April 2018
Ian Black	Aberlour Child Care Trust	Joined May 2018
*Councillor Alastair Bews	Aberdeenshire Council	Substitute



## Meeting Attendance in 2018/19

	15/06/18	22/06/18	14/09/18	30/11/18	15/03/19	Overall Attendance
Cllr Yvonne Allan	n/a	n/a	✓	✓	✓	100%
Cllr Alistair McKelvie	✓	✓	✓	✓	✓	100%
Cllr John Cowe	n/a	n/a	✓	✓	✓	100%
Ian Black	✓	X	✓	X	✓	60%
Kevin Masson	✓	✓	X	X	X	40%
Morag Lawrence	✓	X	✓	X	✓	60%
Alan Walker	✓	✓	✓	✓	✓	100%
Steven Clunes	✓	✓	n/a	n/a	n/a	100%
Liam Knox	n/a	n/a	✓	✓	✓	100%

The Board sits at the same time as the Pensions Committee and receives the Committee reports for each meeting which includes information on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance, the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2018/19 no issues were reported by the Board to the Pensions Regulator.

An Annual Report which reviews the activity of the Pension Board can be viewed on our website at [www.nespf.org.uk](http://www.nespf.org.uk)

### Conflicts of Interest

The Funds maintain a 'Conflicts Register' on an ongoing basis to record and monitor all potential or actual conflicts noted prior to or during Pension Board meetings.

Every 12 months all individuals complete a new 'Declaration of Interest' form confirming that the information held on the Register is correct or making any changes that need to be made to the declaration.

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
- a member can resign from the Pension Board if the conflict is so fundamental that it cannot be managed in any other way.

Pension Committee members are managed by the national Councillors' Code of Conduct. Training was delivered by Aberdeen City Council in early 2018 on the Councillors' Code of Conduct.

### Committee and Board Training 2018/19

While Pensions Committee members are not legally obliged to undertake training, the Fund feels strongly that Committee members should receive training to ensure that they have the necessary levels of knowledge and understanding to exercise their functions. As per the Training Plan agreed by Committee, Committee members are expected to undertake 2 days of training per year. Recording and monitoring of attendance at meetings or training events allows any issues to be addressed promptly.

In line with the Training Policy, Board members undertook 4 training sessions during 2018/19 with further opportunities identified including LGPS seminars and Fund Manager presentations in 2019/20.

In 2018/19, attendance for both Pensions Committee and Pension Board members' training is outlined below.

Member	10/09/18	14/09/18	23-24/10/18	10-11/01/19	Overall Attendance
<b>Pensions Committee</b>					
Cllr Malik (Convener)	n/a	✓	✓	✓	100%
Cllr Reynolds (Vice Convener)	n/a	✓	X	✓	67%
Cllr Donnelly	n/a	✓	X	✓	67%
Cllr Crockett	n/a	X	X	X	0%
Cllr Bell	n/a	✓	X	✓	67%
Cllr MacGregor	n/a	✓	✓	✓	100%
Cllr Cooke	n/a	✓	✓	X	67%
Cllr Allard	n/a	X	X	X	0%
Cllr Delaney	n/a	✓	X	✓	67%
<b>Pensions Board</b>					
Cllr Yvonne Allan	X	✓	X	X	25%
Cllr Alistair McKelvie	X	✓	✓	X	50%
Cllr John Cowe	X	✓	✓	X	50%
Ian Black	X	✓	✓	X	50%
Kevin Masson	✓	X	X	X	25%
Morag Lawrence	X	✓	✓	✓	75%
Alan Walker	✓	✓	✓	✓	100%
Steven Clunes	X	n/a	n/a	n/a	0%
Liam Knox	n/a	✓	x	✓	67%

## **Training Topics**

### **10 September 2018**

The Scottish Pensions Liaisons Group (SPLG) training covered the following:

- Investment Fee Transparency
- The Pensions Regulator
- The Role of the Pension Board
- Climate Change and Investment Strategy
- Complexities of the LGPS Benefits and the new flexibilities for members
- Government oversight of the Funding of the Scottish LGPS
- General Data Protection Regulation

Note: Pensions Committee members were unable to attend due to Full Council meeting being held on 10 September 2018.

### **14 September 2018**

Pensions & Investment Research Consultants (PIRC) and State Street Global Assets (SSGA) presented to the Committee and Board on Corporate Governance and Environmental, Social and Governance issues (ESG).

### **23 – 24 October 2018**

Local Government Chronicle (LGC) Seminar areas covered during the 2 days of training included:

- Progress report on the consultation on the structural review of the LGPS
- The infrastructure and housing challenge
- Learning from the experience of pooling in England and Wales
- Impact of responsible investment on a Scheme's direct investment portfolio
- Investment Strategy – how to ensure it is fit-for-purpose and future proofed
- The changing landscape of the LGPS in Scotland

### **10 – 11 January 2019**

Training was delivered by several fund managers on the follow topics:

- Global Equities & Bonds
- UK Equities
- Private Equity
- Property
- Infrastructure
- Direct Lending

## 4. Administration and Performance

This year's report focuses on the move towards online benefit statements, pension administration strategy performance, data quality and our commitment to work together with other administering authorities through the Computerised Local Authority Superannuation System (CLASS) group.

### Going Digital

This year our deferred members received their benefit statements through our Member Self Service (MSS) portal. This allowed us to create 6 specifically tailored documents depending on type of service the member had as well as making significant savings on production and postage.

To accommodate increased demand for digital services we moved the hosted environment to ensure that there is enough capacity to deal with the expected increase in activity. Online benefit statements for active members will be introduced in 2019.

The overall percentage achieved for providing benefit statements to more than 41,000 active and deferred members prior to the 31 August deadline was 99.81% (99.76% in 2017/18)

### Pension Administration Strategy

The Pension Administration Strategy (PAS) [Revised 2017] focuses on NESPF processing against key performance measurements and monthly data provision from employers.

#### NESPF processing performance

<b>Key performance measurement</b>	<b>Target</b>	<b>2017/18</b>	<b>Amount</b>	<b>Achieved</b>	<b>2018/19</b>
Letter notifying death in service to dependent	5 days	83%	31	26	84%
Letter notifying retirement estimate	10 days	98%	991	987	99%
Letter notifying actual retirement benefit	10 days	97%	1800	1725	96%
Letter notifying deferred benefit	10 days	93%	2073	2000	97%
Letter notifying amount of refund	10 days	93%	1374	1339	98%
Letter detailing transfer in quotes	10 days	89%	113	99	88%
Letter detailing transfer out quotes	10 days	98%	510	432	85%

This year again saw a strong benefit processing performance with the highest ever number of retirements, 200 more than in 2017/18. Deferred and refund processing continues to improve following the introduction of specialisation through group working in 2016/17.

The percentage reduction for transfer out processing is down to a delay receiving new factors which meant, like other administering authorities, we were unable to process these cases.

Prior to the 6 October deadline, statements were issued to all members who potentially could exceed their Annual Allowance threshold for tax free pension savings.

#### Employer data provision

Instead of traditional annual year end returns, the Funds continue to see the benefits of obtaining monthly data from employers through the i-Connect portal. With 98.2% of active member records being securely updated monthly this has reduced the administrative burden of reconciling records annually to meet statutory deadlines. Monthly data checks, reconciliation and balancing ensures that data provided is complete and accurate and that the quality of the data held by the Funds is of a very high standard.

<b>Updates from I-Connect</b>	<b>2016/17</b>	<b>2017/18</b>	<b>2018/19</b>
Starters	4,029	4,175	4,852
Amendments	12,430	27,826	31,543
Leavers	3,256	3,198	4,352
Contributions (employee, employer and additional)	184,205	249,347	310,983
Salary	178,650	253,576	308,978
CARE pay	176,274	249,255	299,746
<b>Total Updates</b>	<b>558,844</b>	<b>787,377</b>	<b>960,454</b>

Moving to monthly data has resulted in significant benefits including reducing the time taken to reconcile member records for benefits statements from 328 working days (2013/14) to 32 working days (2017/18). This reduction allows resources to be allocated to other essential areas of benefit administration.

#### Employer discretions

Under Regulation 58 of the LGPS (Scotland) Regulations 2018 employers must have a policy on discretions. As at 31 March 2019 a total of 43 employers have provided the Funds with a Discretions Policy.

#### Employer contacts

A named person contact review was carried out in 2018 to which 37 employers responded.

## Data Quality

The hot topic over the past 3 years within the LGPS has been data quality. The Funds' quality of data impacts directly on the calculation of member benefits, the valuation of the liabilities held and setting the contribution rate requirements for employers.

The move to monthly data provision several years ago has resulted in improved and consistently high quality data. Validation of the data by the transferring system and reconciliation of the data received ensures that inaccurate or missing data is caught at source or queried upon receipt.

The Pension Regulator is now putting emphasis on the need to hold good data with Schemes required to score their data in the annual return. For the 2018 return the Funds reported 97% for Common data and 94% for Scheme Specific data.

Analysis of work carried out to report the data scores resulted in the Funds developing a data improvement plan to follow over the forthcoming months in advance of the 2020 valuation. The plan contains the following objectives:

1. To maintain the accuracy of members records to ensure that benefits held and paid are correct
2. To meet the regulatory requirements of pension administration including the Pension Regulator Code of Practice 14
3. To provide comfort to the Administering Authority and participating employers in the accuracy of the actuarial results based on the quality of the data provided
4. To ease the administrative burden of incomplete or inaccurate records.

It also covers plans regarding tracing members, reducing the number of unprocessed records, using a new data analysis service offered by the system provider and completion of the reconciliation of Guaranteed Minimum Pensions (GMP) with Her Majesty's Revenue and Customs (HMRC).

GMP reconciliation has seen the Funds raise almost 4,000 queries with HMRC prior to the 31 October deadline, reconcile more than 36,000 members on the pension administration system and work is underway to rectify under/over payment of pensions identified.

To protect the quality of data held on the pension administration system the Funds carried out work to ensure full compliance with the General Data Protection Regulation which came into force on 25 May 2018. A review of e-mail processing was carried out with changes made to working practices that complimented the Aberdeen City Council policy. A new System Access policy was implemented as well as a Local Contingency Plan that delivered business continuity and met audit requirements.

## **CLASS commitment**

The Funds recognises the importance of working alongside other authorities and the software provider, Aquila Heywood, through the CLASS (Computerised Local Authority Superannuation System) group and continue to have an active role.






Currently the CLASS group consists of 81 administering authorities in England, Wales, Scotland and Northern Ireland.

NESPF have again participated in 2 national Testing Working Parties (TWP) and offered support to other Scottish funds to encourage their participation. Taking part in the TWP allows early access to the latest software releases and ensures that new developments are working as expected and deliver Scheme requirements.



Alongside the Scottish User Group meetings there have also been 2 new national groups set up based on feedback from CLASS group members for Member Self Service, the online portal for employees and i-Connect, the online portal for employers. Officers have attended both and will look to have an active role going forward to ensure both systems are developed as required.

A good example of work to come from these groups is the ability to share how funds use the system and develop new procedures. This has allowed us to fully utilise the bulk calculation facility. Instead of running multiple individual calculations, we can now run bulk redundancy quotes for employers and send all the relevant information at once.

## 5. Financial Performance

2018/19 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£142m	 Contributions Receivable	£2m
£141m	 Benefits Payable	£4m
£21m	 Management Expenses	£312k
£344m	 Net Return on Investments	£7m
£4,450m	 Net Assets of the Fund at the End of Year	£105m



Key Statistics		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
50	 Total Number of Employers	1
67,526	 Total Membership	590


**2,122**

Votes at AGMs




**3**

Award Nominations



**960,454**

Updates Processed



**32.8**

Staff Employed (FTE)



## North East Scotland Pension Fund Financial Summary

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions Less Benefits and Expenses paid <b>Net Additions/ (Deductions)*</b>	<b>(12,357)</b>	<b>(13,485)</b>	<b>(15,456)</b>	<b>(18,219)</b>	<b>(19,697)</b>
Net Investment Income Change in Market Value <b>Net Return on Investment</b>	<b>350,131</b>	<b>23,929</b>	<b>648,411</b>	<b>329,035</b>	<b>343,787</b>
<b>Net Increase in Fund</b>	<b>337,774</b>	<b>10,444</b>	<b>632,955</b>	<b>310,816</b>	<b>324,090</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>3,171,349</b>	<b>3,181,793</b>	<b>3,814,748</b>	<b>4,125,564</b>	<b>4,449,654</b>

Net Additions/(deductions)\* - 'Management Expenses' are included within this figure resulting in a negative position.

The monies belonging to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are managed entirely by appointed fund managers and are held separate from any of the employing bodies which participate in the Funds. 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 increasing value of investments is then available to meet future liabilities. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

## Budget

	Note	Budget or Forecast* 2018/19 £'000	Actual Spend 2018/19 £'000	Over or (Under) Spend 2018/19 £'000
Administration Expenses	1	1,963	1,634	(329)
Oversight and Governance Expenses		472	474	2
Investment Management Expenses*	2	20,028	18,665	(1,363)
<b>Management Expenses Total</b>		<b>22,463</b>	<b>20,773</b>	<b>(1,690)</b>

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

1. Under spend – New staff posts some of which were recently filled and some yet to be filled.
2. Under spend – This is a forecast\* rather than a traditional budget. This is largely due to the level of estimation and the extent of the unknown, especially given that the expenses are based upon an unpredictable market activity/value. However, the under spend is largely associated with the reduction in transaction costs (please see separate analysis within the Accounts for more detail).

## Membership Statistics

NESPF	2014/15	2015/16	2016/17	2017/18	2018/19
Active	24,089	24,546	25,329	25,568	25,892
Pensioners	17,726	18,328	19,111	20,023	21,029
Deferred	16,153	16,590	16,888	17,218	17,846
Frozen Leavers	1,606	1,865	2,232	2,435	2,759
<b>Total</b>	<b>59,574</b>	<b>61,329</b>	<b>63,560</b>	<b>65,244</b>	<b>67,526</b>

Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several factors including an accelerated trend in longevity and an increase in early retirements as a result of Voluntary Severance/Early Retirement exercises.

## Management Expenses

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Administration	1,421	1,542	1,563	1,638	1,634
Oversight and Governance	467	348	468	467	474
Investment Management	13,198	14,627	16,455	19,092	18,665
<b>Total Management Expenses</b>	<b>15,086</b>	<b>16,517</b>	<b>18,486</b>	<b>21,197</b>	<b>20,773</b>

## Unit Cost Per Member

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Administrative Unit Cost per Member	23.85	25.14	24.59	25.11	24.20
Oversight and Governance Unit Cost per Member	7.84	5.68	7.36	7.16	7.02
Investment Management Unit Cost per Member	221.54	238.50	258.89	292.62	276.41
<b>Total Cost per Member</b>	<b>253.23</b>	<b>269.32</b>	<b>290.84</b>	<b>324.89</b>	<b>307.63</b>

## Aberdeen City Council Transport Fund Financial Summary

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions Less Benefits and Expenses paid <b>Net Additions/ (Deductions)*</b>	<b>(762)</b>	<b>(1,347)</b>	<b>(1,731)</b>	<b>(2,669)</b>	<b>(1,900)</b>
Net Investment Income Change in Market Value <b>Net Return on Investment</b>	<b>10,564</b>	<b>(2,050)</b>	<b>15,454</b>	<b>2,774</b>	<b>7,129</b>
<b>Net Increase in Fund</b>	<b>9,802</b>	<b>(3,397)</b>	<b>13,723</b>	<b>105</b>	<b>5,229</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>89,640</b>	<b>86,243</b>	<b>99,966</b>	<b>100,071</b>	<b>105,300</b>

Net Additions/(Deductions)\* - 'Management Expenses' are included within this figure resulting in a negative position.

## Membership Statistics

Transport Fund	2014/15	2015/16	2016/17	2017/18	2018/19
Active	78	71	61	48	42
Pensioners	403	411	423	434	429
Deferred	140	133	121	114	110
Frozen Leavers	10	9	9	9	9
<b>Total</b>	<b>631</b>	<b>624</b>	<b>614</b>	<b>605</b>	<b>590</b>

Active and deferred membership numbers for the Transport Fund have reduced over a 5 year period due to the closed nature of the Fund mostly resulting in more members moving to pensioner status.

### Management Expenses

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Administration	42	46	50	51	50
Oversight and Governance	38	16	38	72	31
Investment Management	14	166	157	868	231
<b>Total Management Expenses</b>	<b>94</b>	<b>228</b>	<b>245</b>	<b>991</b>	<b>312</b>

### Unit Cost Per Member

	2014/15 £	2015/16 £	2016/17 £	2017/18 £	2018/19 £
Administrative Unit Cost per Member	66.56	73.72	81.43	84.30	84.75
Oversight and Governance Unit Cost per Member	60.22	25.64	61.89	119.01	52.54
Investment Management Unit Cost per Member	22.19	266.02	255.70	1,434.71	391.52
<b>Total Cost per Member</b>	<b>148.97</b>	<b>365.38</b>	<b>399.02</b>	<b>1,638.02</b>	<b>528.81</b>

### Remuneration Report

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

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund Annual Accounts. Full details of councillor and senior employee remuneration can be found in the Remuneration Report in Aberdeen City Council's Financial Statements.

## 6. Economic and Market Background

Most major equity and bond markets saw positive returns over the last 12 months. After a period of volatility in the markets, a rally in first few months of 2019 can be attributed to central bank intervention across countries. In Europe, the European Central Bank announced a new round of Long Term Refinancing Operations to help bolster the liquidity of the banking sector which helped to boost the market. In China, the government engaged in a stimulus programme, cutting bank reserve requirements and reducing taxes to boost economic activity. In the US, the federal reserve adopted a stance indicating they might reduce rather than increase interest rates which led to strong returns.

### US

The US markets gained 17.5% over the past 12 months however the period has been marked by high volatility. Market participants have pointed towards factors such as rising interest rates, fears over slowing global growth and rising tension surrounding a US-China trade war as some of the main reasons. Despite general market perceptions, economically this year is one of the best of the 9 year US economic expansion. The unemployment rate, at 3.7% in November, is at a 49 year low. Gross Domestic Product (GDP) expanded at the annualised rate of 3.5% in the third quarter from a year earlier. At the same time, wage growth picked up while inflation was kept at the U.S. Federal Reserve's target of 2%.

### UK

This was a challenging year for equity markets in the UK. The potentially damaging effects of a Sino-American trade war and uncertainty over Brexit hit investors' confidence and after a relatively benign period, market volatility increased. However, since the start of 2019, a softer stance on interest rate rises from central banks and a de-escalation in the trade tensions between China and the US have calmed markets around the world and the FTSE All Share Index rebounded strongly in the first quarter to close the 12 month period to 31 March up 6%.

### Europe

European markets remain subdued. The market worried about the sustainability of European economic growth, the possibility of a hard Brexit and national protectionism. However, equities enjoyed strong gains in the beginning of 2019 as markets were supported by central banks stepping away from tighter monetary policy.

## **Japan**

Japan's economy has slowed down. After eight consecutive quarters of GDP expansion, the economy contracted modestly. It seems likely that this was largely driven by a slowdown in overseas demand, particularly within the technology and machinery sectors which is consistent with the release of cautious forecasts by a number of Japanese companies. Although activity has slowed, unemployment remains low and there have been further signs of wage inflation with core wages recently rising by their highest level since 1997.

## **Emerging Markets**

Emerging markets equities achieved modest gains as macroeconomic and geopolitical developments weighed on market sentiment. Markets were concerned by divergence in global economic growth, a strengthening US dollar, trade disputes, sanctions and the spectre of populism.

## **Bonds**

Bonds delivered positive returns over the year. The two things that had been worrying markets dissipated. First, the US Federal Reserve changed its outlook and took the likelihood of further interest rate hikes off the table. Government and corporate bonds rallied, as the market began to price in US rate cuts instead. The second factor was a softening in US trade belligerence towards China and the reduced possibility of an all-out trade war. In the UK, the government's failure thus far to reach any agreement with the EU on Brexit has caused the pound and gilts to fluctuate without settling on any clear direction. The Bank of England has signalled that it will most likely continue to raise interest rates despite economic activity being somewhat disappointing.

## **Property**

Over the 12 months to March 2019, according to the Morgan Stanley Capital International (MSCI) Monthly Index, property recorded a total return of 5.6%. This was markedly down on the 11.3% recorded over the previous 12 month period and contained significant sector dispersion. Capital values rose by just 0.4% in the year to March 2019, with both rental value growth and yield impact making modest positive contributions.

The retail sector continued to underperform in comparison to other sectors over the 12 month period, posting a negative total return of -2.6% with significant structural headwinds impacting on investment sentiment and rental levels. This was dramatically lower than the 6.5% delivered by offices, while industrials hugely outperformed the wider market once again, recording a total return of 14.5% over the period. The retail sector recorded an 8.1% fall in capital values but its income return, at 6.0%, is now considerably higher than all other sectors. Office capital values increased by 1.7% over the year to March, principally driven by rental appreciation. Meanwhile, the industrial sector delivered the majority of its 9.3% capital growth from the impact of yields falling

as a result of strong investor demand, buoyed by a strong occupational market. Industrial rental values rose by 3.8% on average over the period.

<b>Market Returns</b>	<b>1 Year (%)</b>	<b>3 Years (% p.a.)</b>	<b>5 Years (% p.a.)</b>
<b>Equities:</b>			
FTSE All Share Index	6.4	9.5	6.1
FTSE All World Index	10.7	11.7	8.8
FTSE All World ex UK	10.9	8.9	12.9
FTSE North American Index	17.5	17.1	15.8
FTSE European (ex UK) Index	2.6	11.0	7.1
FTSE Japan Index	-0.9	12.3	11.7
FTSE Developed Asia (ex Japan) Index	4.9	13.6	8.9
FTSE Emerging Markets Index	1.9	14.5	9.8
<b>Bonds:</b>			
FTA Government Securities All Stocks	3.7	3.6	5.5
ML UK Corporate Bonds	3.7	4.7	5.5
FTA Index Linked All Stocks	5.5	8.3	8.9
Above are total returns in Sterling. Source: Datastream content from Refinitiv			



## 7. NESPF Investment Strategy

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

Equity benchmarks are designed to encourage diversification of the equity mix. There are a range of fund managers to again spread risk, each with clear and documented agreements in place detailing their investment mandates.

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, focusing on long term policies with consideration given to short term tactical strategies.

The types of investments and their suitability are detailed in the Statement of Investment Principles.

Both Funds employ an independent Global Custodian. Also, both Funds take proper advice at reasonable intervals regarding their investments, through their advisors to the Pensions Committee.

### Asset Structure 2018/19

Asset Class	Distribution as at 31 March 2018		Distribution as at 31 March 2019	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
<b>Equities (including Alternative Assets)</b>	76.8	57.5	76.0	57.5
<b>Bonds / Credit</b>	11.4	20.0	10.0	20.0
<b>Property / Infrastructure</b>	10.0	20.0	11.2	20.0
<b>Cash / Other</b>	1.8	2.5	2.8	2.5
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>

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

Equities	45.0% (range +/- 5%)
Alternative Assets (including private equity)	12.5% (range +/- 5%)
Bonds/ Credit	20.0% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

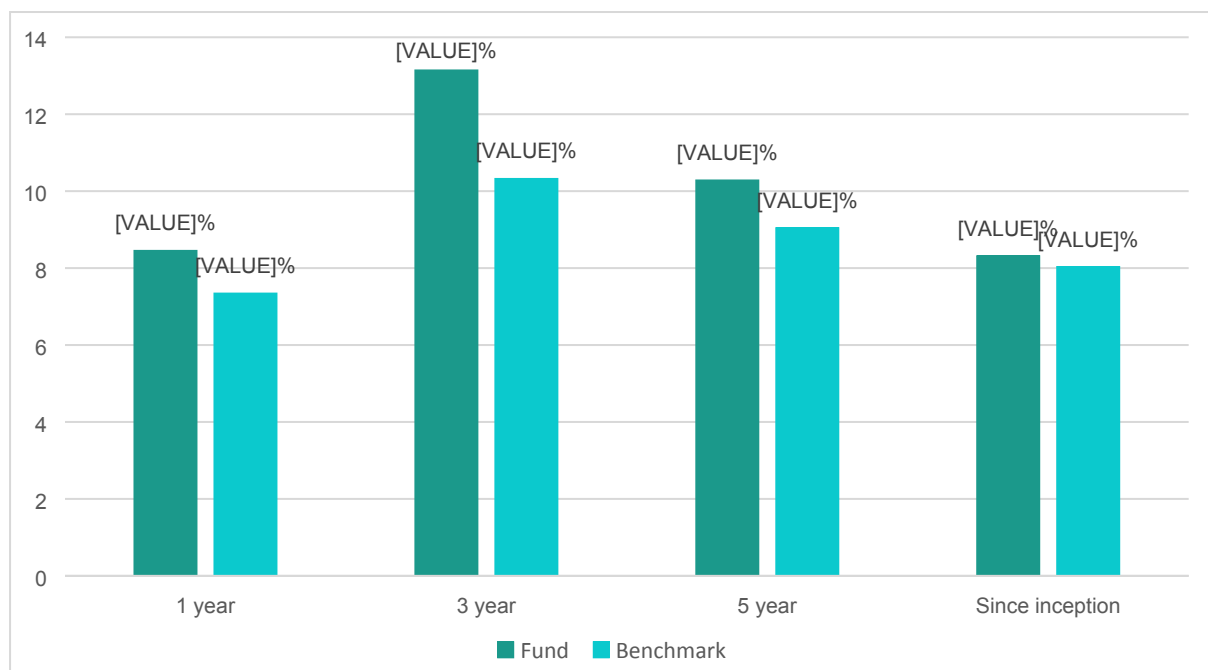
The NESPF continues to rebalance assets in line with its Investment Strategy, aiming to de-risk by reducing exposure to equities and increasing infrastructure, alternatives and credit opportunities.

### North East Scotland Pension Fund Performance

2018/19 was another good year for investment returns, with equities continuing to deliver strong positive performance. A key driver for the outperformance of the Fund over the benchmark, has been the contribution from active managers.

Longer term over all periods the Fund has also outperformed the benchmark returns and longer term comparators such as Consumer Price Index (CPI) and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

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



Whilst employee contribution rates and benefits payable are set by statute, the long term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the Fund's performance against these benchmarks that affect the long term employer

contribution rate, which is variable. Over the longer term, the performance of the Fund remains ahead of both Average Earnings and CPI.

<b>Year Ending</b>	<b>2016/17 %</b>	<b>2017/18 %</b>	<b>2018/19 %</b>	<b>Since inception annualised %</b>
<b>CPI*</b>	2.3	2.5	1.9	2.3
<b>Average Earning*</b>	2.4	2.6	3.2	2.8
<b>NESPF Return</b>	20.0	11.1	8.5	8.3

\*Source: Office of National Statistics

### **Investment Management Structure**

The Investment Management Structure is contained within Note 11: "Investments Analysed by Fund Manager" within the NESPF Accounts and within Note 9 of the ACC Transport Fund Accounts.

## 8. ACCTF De-Risking Strategy and Performance

With effect from 1 April 2015 the Administering Authority and the Scheme employer agreed a revised Investment Strategy for the Transport Fund – ‘a de-risking or “flightpath” strategy’. That is to say, the performance of the Fund will no longer be measured against a benchmark of global equities and bonds but rather against its funding target of 100%.

The aim of the strategy is to reach the funding requirement of 100% funding in a manner that reduces both interest and inflation risk exposure. The strategy consists of a portfolio of growth assets to achieve the 100% funding target and portfolio of matching assets to meet current liabilities.

The aim of the flightpath is to “lock in” improvements in funding by switching from growth to defensive or matching assets. The de-risking plan is to be reviewed in line with the triennial actuarial valuation and is structured to keep contributions as stable as possible.

The flightpath continues to move in a favourable direction, providing the Fund the opportunity to de-risk. As of March 2019, the funding level was 97.5% and continues to rise in line with the flightpath.

## 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 an 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 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 Funds' 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 NESPF 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. 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. The full Register is available on the website [www.nespf.org.uk](http://www.nespf.org.uk)

# 10. Funding Strategy Statement

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

The purpose of the FSS is therefore:

- To establish a clear and transparent Fund specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer term view of funding those liabilities.
- To establish contributions at a level to "secure the solvency" of the Pension Funds 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 the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments. As part of the 2017 actuarial valuation, the FSS for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund were reviewed, with employers consulted on the revised version.

Copies of the full statement are available at [www.nespf.org.uk](http://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 and Aberdeen City Council Transport Fund.

All investment decisions are governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The Funds' 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 Funds' target is 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](http://www.nespf.org.uk)

# 12. Corporate, Environmental and Social Governance

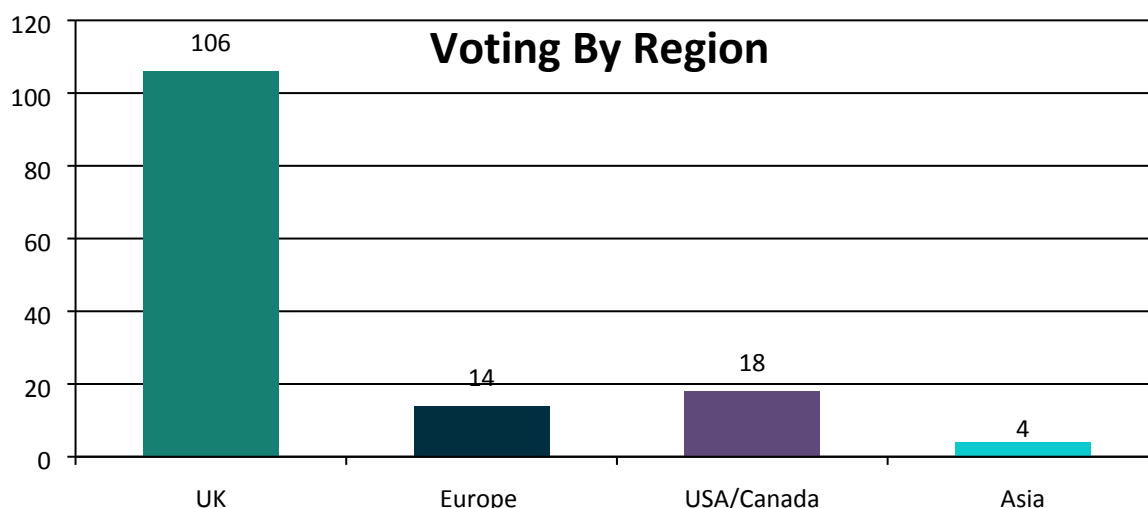
Good corporate governance is a vital element to effective corporate management leading to good management, performance and stewardship of shareholders' funds. The North East Scotland Pension Funds' commitment to this promotes accountability and reassurance to its stakeholders.

## Voting

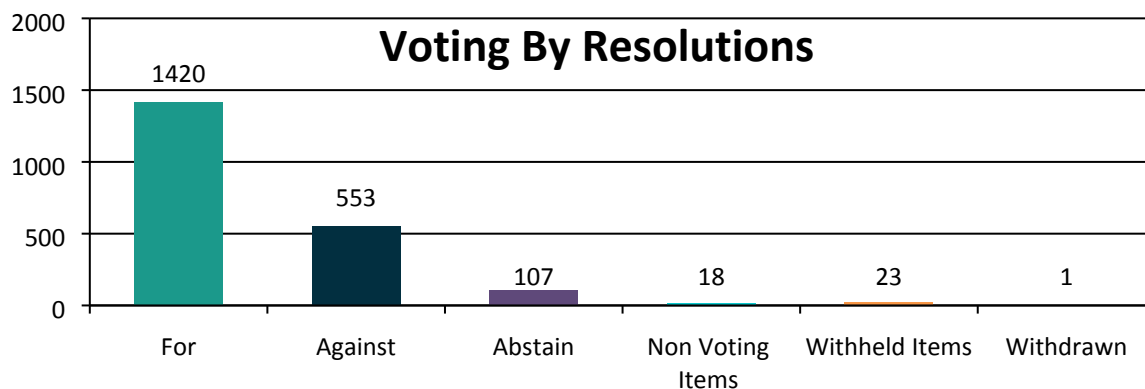
As an institutional shareholder we have a responsibility to make full use of our voting rights. This enables the Funds to promote good governance practices in the companies in which we invest.

The Funds' vote in-house on all our active managers holdings and over the last year have voted at 142 Annual General Meetings/Special meetings on 2,122 resolutions. The Funds' voting advice is provided by PIRC. Additional advice is also received from the Local Authority Pension Fund Forum (LAPFF).

Further information on the Funds' voting record can be found on our website [http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund\\_Voting.aspx](http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund_Voting.aspx)







During the year to 31 March 2019 the main reasons for casting a vote Against a resolution are listed below:

### **Annual Reports**

- Vote on Dividend or Dividend Policy not put to shareholders which is contrary to best practice.

### **Share Issues/Re-purchase**

- No clear justification for the re-purchase put forward by the Board

### **Election of Directors**

- Insufficient independent representation on the board
- Lack of board diversity
- Concerns over aggregated time commitments

## **Engagement**

### **Local Authority Pension Fund Forum (LAPFF)**

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £230 billion and brings together over 80 Local Authority Pension Funds and six pools. The Forum provides a unique opportunity for the UK's Local Authority Pension Funds to discuss shareholder engagement and investment issues. The Lord Provost Barney Crockett who sits on the Pensions Committee is a member of the LAPFF Executive Committee.

Some examples of the engagement work undertaken by LAPFF are noted below:

## **Environmental**

### **Climate Change**

LAPFF has long engaged with those UK and global companies who have the largest carbon footprint. It considers companies' direct emissions and those in their supply chains. Although the Forum addresses climate risk in a range of company engagements, it has concentrated on the oil and gas, utilities and transportation sectors.

LAPFF's engagement focus on high carbon companies continues through its participation in the Climate Action 100+ initiative which engages with the largest global emitters.

Some of the companies engaged with include BP, Royal Dutch Shell, National Grid, BMW and Tesla.

## **Social Risk**

### **Employment Standards**

LAPFF have consistently argued that poor working conditions are not sustainable and should be addressed for a company to succeed in the long term.

In response to growing concern on various issues including zero hours contracts, temporary work, modern slavery and increased self-employment, the Forum published a paper in early 2018 on 'precarious work'. It found that driving down employment standards might be a quick fix for financial performance but that this tactic was likely to weaken a company in the long run.

Employment standards were raised with Sports Direct, Ryanair, AstraZeneca, Banco Santander and Tesla during the year.

## **Governance**

### **Diversity**

Numerous studies have shown that companies with diverse boards, particularly those with women directors, are less prone to groupthink, more likely to challenge executives and achieve better results.

LAPFF continued to engage companies on board diversity and work as an active member of the 30% Club, a coalition of investors pushing for a minimum of 30% women on FTSE 350 boards and at senior management level in FTSE 100 companies. Together with other members of the 30% Club, LAPFF met representatives of real estate companies to find out about initiatives to increase female representation.

Companies LAPFF questioned about board diversity included National Express and Diageo. After LAPFF pressed for Sports Direct International to appoint a female director, the Company announced at its September AGM the appointment of Nicola Frampton as a non-executive director.

Further information of LAPFF engagements can be found at <http://www.lapfforum.org>

## **Principles for Responsible Investment (PRI)**

PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of Environmental, Social and Governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

Through being members of the PRI, we can become involved in issues at an early stage and to effect change on a global basis.

Throughout the year the Fund has added its name to:

- Feb 2019 Working Practices – retention of the Bangladesh Accord for Fire and Building Safety
- Dec 2018 Climate Change – Statement to Governments calling on global leaders to urgently act to fulfill the goals of the Paris Agreement.
- Sep 2018 Child Labour/Environment Issues – Interfaith Centre on Corporate Responsibility (ICCR) letter to the Government of Bangladesh
- Aug 2018 Working Practices – Statement of support for new Accord for Fire and Building Safety in Bangladesh.

More information on the above can be found on our website at <http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/ResponsibleInvesting.aspx>

## **Stewardship Code**

The Stewardship Code is a part of UK company law concerning principles that institutional investors are expected to follow. It was released in 2010 by the Financial Reporting Council (FRC) and is directed at asset managers who hold voting rights on shares in UK companies. Its principle aim is to make institutional investors who manage money to actively engage in corporate governance in the interest of the shareholders. The Code also strongly encourages institutional investors like us to disclose their own level of compliance with the Code's principles.

In 2016, the FRC assessed signatories to the Stewardship Code based on the quality of their Code statements. The FRC graded all the signatory's statements into two tiers

- Tier 1 For signatories who report well and display their commitment to stewardship
- Tier 2 For signatories where reporting improvements were found to be necessary.

The tiering exercise has improved the quality of reporting against the Code, promoted best practice and resulted in greater transparency in the UK market.

The NESPF's Stewardship Codes statement was assessed by the FRC and allocated to Tier 1.

# 13. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2018/19 Annual Report and Accounts.

**Angela Scott**  
Chief Executive

**Jonathan Belford**  
Chief Officer – Finance

**Councillor M Tauqeer Malik**  
Pensions Committee Convener

**On behalf of Aberdeen City Council**

**14 June 2019**

# Statement of Responsibilities

**The North East Scotland Pension Funds are governed by an Administering Authority, Aberdeen City Council, and are required to:**

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, 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 14 June 2019.

Signed on behalf of Aberdeen City Council

**Councillor M Tauqeer Malik**  
**Pensions Committee Convener**

### **The Chief Officer - Finance responsibilities:**

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

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

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

The Chief Officer - Finance has also:

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

### **Financial Position:**

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2019.

**Jonathan Belford**  
**Aberdeen City Council, Chief Officer – Finance**  
**Date: 14 June 2019**

# 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 Funds, the Council is responsible for ensuring that its business, including that of the Pension Funds, 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 Funds' affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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

## Purpose of the Governance Framework for North East Scotland Pension Funds

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

The North East Scotland Pension Funds are 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 Funds' objectives together with the main risks facing the Funds 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 Funds during 2018/19 and up to the date of approval of the Annual Report and Accounts.



## **The Governance Framework**

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

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

The systems include:

- Managing receipt of contributions from employees and employers and payment of benefits to retired members of the Funds;
- 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 standard of knowledge and understanding of the LGPS;
- Identifying the objectives of the Funds 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 in terms of quality and cost against other Local Government Pension Scheme funds;
- 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 Funds' 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 Funds have also implemented a new structure that identified six key areas; Investment, Accounting, Administration, Technical, Employer Relationship and Governance.

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

### **Review of Effectiveness**

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

The Pension Funds 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 Funds was directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2018/19, no significant areas of weakness were highlighted.

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

Scrutiny Committee, City Growth and Resources Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the internal audit function and considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Funds.

#### *Assurance from Internal Audit*

The internal audit function, for the Council and the Pension Funds, was under contract to Aberdeenshire Council during the financial year.

During 2018/19, internal audit focused on the Pension Funds' governance arrangements with the outcome being reported to the Pensions Committee during June 2019.

At the Pensions Committee meeting on the 15th March 2019, the 2019/20 internal audit plan was approved to review Investment Strategy and Investment Performance Management.

The objective is to provide assurance over compliance with the Pension Fund Investment Strategy and arrangements in place to monitor the performance of investment managers.

#### *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. In 2018/19, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement can be found on our website [www.nespf.org.uk](http://www.nespf.org.uk).

## **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 Funds. The annual review demonstrates that the governance and internal control environment operated effectively during the 2018/19 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

**Angela Scott**  
**Chief Executive**

**Jonathan Belford**  
**Chief Officer – Finance**

**Councillor M Tauqeer Malik**  
**Pensions Committee Convenor**

**On behalf of Aberdeen City Council**  
**14 June 2019**

# Governance Compliance Statement

<b>Principle</b>	<b>Compliance</b>
<b>1. Structure</b>	Partially compliant as per the Scheme Governance Compliance Statement
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	
b) That 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.	
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.	
<b>2. Committee Membership and Representation</b>	Partially compliant as per the Scheme Governance Compliance Statement
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).	
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.	
<b>3. Voting</b>	Fully compliant as per the Scheme Governance Compliance Statement
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.	

<b>4.) Training/Facility time/Expenses</b>	
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 as per the Scheme Governance Compliance Statement
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.	
<b>5.) Meetings (frequency /quorum)</b>	
a) That an Administering Authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Compliance Statement
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.	
<b>6. Access</b>	
a) That subject to any rules in the Council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.	Fully compliant as per the Scheme Governance Compliance Statement
<b>7. Scope</b>	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant as per the Scheme Governance Compliance Statement
<b>8. Publicity</b>	
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 as per the Scheme Governance Compliance Statement

# Accounting Policies

The North East Scotland Pension Funds' 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 Funds' transactions for the 2018/19 financial year and its position at year end as at 31 March 2019.

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 Funds' Annual Accounts are generally 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 Regulations.

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

## **Investment Income**

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

## **Fund Account - Expenses**

### **Benefits Payable**

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

### **Taxation**

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

### **Management Expenses**

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

#### **a.) Administrative Expenses and Oversight and Governance Costs**

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

#### **b.) Investment Management Expenses**

All investment management expenses are accounted for on an accrual 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 £6,146,372 in 2018/19 (2017/18 £5,032,863).

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 2019 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

### **Derivatives**

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

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

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

### **Cash**

Cash comprises of cash in hand and demand deposits.

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

### **Financial Liabilities**

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

## **Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits of each of the Funds is assessed on a quarterly basis by the Scheme Actuary and is in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary found on Appendix 1.

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

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

## **Additional Voluntary Contributions**

North East Scotland Pension Funds provides an additional voluntary contributions (AVC) Scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

## **Critical Judgments 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 judgments involving many factors. These investments are valued by the investment managers.

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

The value of unquoted investments at 31 March 2019 was £303,831,657 (31 March 2018 £232,460,096).

## **Actuarial Present Value of Promised Retirement Benefits**

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

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

## **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**

When a new or amended accounting standard has been issued but not yet adopted, the Code requires the disclosure of information relating to its impact. The following new or amended standards have been published but not yet adopted:

- **Amendments to IAS 40 Investment Property: Transfers of Investment Property**, which clarifies guidance regarding transfers in and out of investment properties, where there has been evidence of a change of use and property now meets or ceases to meet the definition of an investment property. The Fund already meets the requirements of this amendment.

- **Amendments to IFRS 9 Financial Instruments: Prepayment Features with Negative Compensation** alters the existing requirements in IFRS 9 regarding termination rights in order to allow measurement at amortised cost (or, depending upon the business model, at fair value through other comprehensive income). The Fund does not have any such transactions.

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Fund Account for the year ended 31 March 2019

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

	Notes	2017/18 £'000	2018/19 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	29,533	30,242
Employers' Contributions	2	105,124	108,618
Transfer Values	3	3,371	2,905
Other Income		4	6
		<b>138,032</b>	<b>141,771</b>
<b>Benefits Payable</b>			
Retirement Pensions	4	99,288	106,572
Retirement Allowances	4	26,184	25,574
Death Gratuities	4	4,646	4,061
Contributions Refunded	5	563	598
Transfer Values	5	4,373	3,890
		<b>135,054</b>	<b>140,695</b>
<b>Management Expenses</b>	6	<b>21,197</b>	<b>20,773</b>
<b>Return on Investment</b>			
Investment Income	7	52,770	54,805
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	276,265	288,982
<b>Net Return on Investments</b>		<b>329,035</b>	<b>343,787</b>
<b>Net Increase/(Decrease) in the Net Assets available for Benefits during the year</b>		<b>310,816</b>	<b>324,090</b>
<b>Opening Net Assets of the Fund</b>		<b>3,814,748</b>	<b>4,125,564</b>
<b>Net Assets of the Fund at the end of the year</b>		<b>4,125,564</b>	<b>4,449,654</b>

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Net Assets Statement as at 31 March 2019

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2017/18	2018/19
		£'000	£'000
<b>Investment Assets</b>			
UK Equities		734,875	766,975
Overseas Equities		819,078	921,354
Pooled Vehicles - Other		1,855,823	1,849,246
Pooled Infrastructure		88,899	130,730
Direct Property	13	293,045	328,025
Private Equity – Other		232,461	261,756
Private Debt		0	17,932
Funds held by Investment Managers		90,704	71,971
ACC Loans Fund Deposit	19	22,780	106,700
Investment Income Due*		0	5,799
Investment Sales Amount Receivable*		0	664
<b>Total Investment Assets</b>		<b><u>4,137,665</u></b>	<b><u>4,461,152</u></b>
<b>Investment Liabilities</b>			
Investment Purchases Amount Payable*		0	(890)
<b>Net Investment Assets</b>		<b><u>4,137,665</u></b>	<b><u>4,460,262</u></b>
<b>Long Term Assets</b>	18a	<b>33</b>	<b>0</b>
Current Assets	18b	14,824	16,026
Current Liabilities	18c	(26,958)	(26,634)
<b>Net Current Assets/(Liabilities)</b>		<b>(12,134)</b>	<b>(10,608)</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>4,125,564</u></b>	<b><u>4,449,654</u></b>

\*In 2017/18, the above marked headings were included within the figure 'Funds held by Investment Managers'. Since moving to a new custodian in 2018/19 a further breakdown has become available that allows reporting in greater detail.

**Jonathan Belford, CPFA**  
**Aberdeen City Council, Chief Officer – Finance**  
**Date: 14 June 2019**

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Fund Account for the year ended 31 March 2019

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

	Notes	2017/18 £'000	2018/19 £'000
<b>Contributions Receivable</b>			
Employees' Contributions	2	100	72
Employer's Contributions	2	2,028	1,943
Other Income		320	305
		<b><u>2,448</u></b>	<b><u>2,320</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	3	3,210	3,243
Retirement Allowances	3	914	337
Death Gratuities	3	2	328
		<b><u>4,126</u></b>	<b><u>3,908</u></b>
<b>Management Expenses</b>	5	<b><u>991</u></b>	<b><u>312</u></b>
<b>Return on Investment</b>			
Investment Income	6	812	104
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	1,962	7,025
		<b><u>2,774</u></b>	<b><u>7,129</u></b>
<b>Net Increase/ (Decrease) in the Net Assets available for Benefits during the year</b>		<b>105</b>	<b>5,229</b>
<b>Opening Net Assets of the Fund</b>		<b>99,966</b>	<b>100,071</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>100,071</u></b>	<b><u>105,300</u></b>



## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Net Assets Statement as at 31 March 2019

This statement provides a breakdown of type and value of all net assets at the year end.

	Notes	2017/18	2018/19
		£'000	£'000
<b>Investment Assets</b>			
Index Linked Securities		1,117	27,793
Pooled Vehicle		97,060	76,192
Funds held by Investment Managers		1,450	4,093
ACC Loans Fund Deposit	16	171	228
Investment Income Due*		0	3
Investment Sales Amount Receivable*		0	918
<b>Total Investment Assets</b>		<b><u>99,798</u></b>	<b><u>109,227</u></b>
<b>Investment Liabilities</b>			
Investment Purchases Amount Payable*		0	(3,999)
<b>Net Investment Assets</b>		<b><u>99,798</u></b>	<b><u>105,228</u></b>
<b>Long Term Asset</b>	15a	<b>324</b>	<b>296</b>
Current Assets	15b	314	192
Current Liabilities	15c	(365)	(416)
<b>Net Current Assets/ (Liabilities)</b>		<b>(51)</b>	<b>(224)</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>100,071</u></b>	<b><u>105,300</u></b>

\*In 2017/18, the above marked headings were included within the figure 'Funds held by Investment Managers'. Since moving to a new custodian in 2018/19 a further breakdown has become available that allows reporting in greater detail.

**Jonathan Belford, CPFA**  
**Aberdeen City Council, Chief Officer – Finance**  
**Date: 14 June 2019**

## NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2017.

Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£3,815,000,000
Liabilities	£3,576,000,000
Surplus	£ 239,000,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	107%
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### Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 24 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.4% meaning that the average employer contribution rate is 19.4% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2017 Actuarial Valuation. This sets out the contributions for each employer over the 3 year period to 31 March 2021.

### 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 2021. 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 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

## **Assumptions used to Calculate Funding Target**

Discount Rate	4.15% p.a.
Assumed Long Term Price Inflation (CPI)	2.40% p.a.
Salary Increases – Long term	3.90% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.40% p.a.

\*Where an allowance for short term pay restraint was determined appropriate either 1% or 2.4% (CPI) was applied.

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

## **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 £5,379m (2018 £4,892m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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

The full statement by the Scheme Actuary can be found in Appendix 1.

**Note 2: Contributions Receivable**

<b>By Category</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employees' Normal Contributions</b>	<b>29,533</b>	<b>30,241</b>
Employers' Normal Contributions	101,226	106,088
Employers' Deficit Recovery Contributions	3,898	2,530
<b>Total Employers' Contributions</b>	<b>105,124</b>	<b>108,618</b>
<b>Total</b>	<b>134,657</b>	<b>138,859</b>

<b>By Authority</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Administering Authority	42,619	42,486
Scheduled Bodies	78,481	82,470
Admitted Bodies	9,179	9,086
Transferee Admission Bodies	4,378	4,817
<b>Total</b>	<b>134,657</b>	<b>138,859</b>

**Note 3: Transfers in from other Pension Funds**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Individual Transfers	3,371	2,905
<b>Total</b>	<b>3,371</b>	<b>2,905</b>

**Note 4: Benefits Payable**

<b>By Category</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	99,288	106,572
Commutation and Lump Sum Retirement Benefits	26,184	25,574
Lump Sum Death Benefits	4,646	4,061
<b>Total</b>	<b>130,118</b>	<b>136,207</b>

<b>By Authority</b>	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Administering Authority	35,474	36,309
Scheduled Bodies	81,587	88,538
Admitted Bodies	10,145	9,934
Transferee Admission Bodies	2,912	1,426
<b>Total</b>	<b>130,118</b>	<b>136,207</b>

**Note 5: Payment to and on Account of Leavers**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to Members Leaving Service	562	599
Payments for Members Joining State Scheme	1	(1)
Individual Transfers	4,373	3,889
<b>Total</b>	<b>4,936</b>	<b>4,487</b>

## Note 6: Management Expenses

	2017/18	2018/19
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,070	1,084
Information Technology*	333	366
Supplies & Services*	128	83
Accommodation*	88	79
Printing and Publications	19	22
<b>Administration Expenses Total</b>	<b>1,638</b>	<b>1,634</b>
Pension Fund Staffing Costs – Investment	189	159
Pension Fund Committee	12	12
Pension Board	3	1
External Audit Fee	39	34
Internal Audit Fee	9	8
Actuarial Fees	109	113
General Expenses	106	147
<b>Oversight and Governance Expenses Total</b>	<b>467</b>	<b>474</b>
Investment Management	10,997	10,721
Performance Fees	5,033	6,146
Direct Operating Property Expenses	259	186
Transaction Costs	2,679	1,477
Custody Fees	124	135
<b>Investment Management Expenses Total</b>	<b>19,092</b>	<b>18,665</b>
<b>Management Expenses Grand Total</b>	<b>21,197</b>	<b>20,773</b>

\*Note – Previously under the heading ‘Support Services including IT’

### Analysis of Transaction Costs:

Commission £'000	Fees/ Tax £'000	2017/18 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2018/19 Total £'000
781	0	781	Fixed Income	0	0	0
239	806	1,045	Equities	319	747	1,066
0	842	842	Pooled Infrastructure	0	267	267
11	0	11	Private Equity	0	144	144
<b>1,031</b>	<b>1,648</b>	<b>2,679</b>	<b>Total</b>	<b>319</b>	<b>1,158</b>	<b>1,477</b>

**Note 7: Investment Income**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	27	0
Equity Dividends	23,402	27,079
Pooled Property Investments	0	0
Property Rental Income	14,969	15,690
Interest on Cash Deposit	90	689
Other (including P/L from Currency and Derivatives)	14,582	12,116
<b>Total</b>	<b>53,070</b>	<b>55,574</b>
<b>Tax</b>		
Withholding Tax – Fixed Interest Securities	(16)	0
Withholding Tax – Equities	(284)	(769)
Withholding Tax – Pooled	0	0
<b>Total Tax</b>	<b>(300)</b>	<b>(769)</b>
<b>Net Total</b>	<b>52,770</b>	<b>54,805</b>

## Note 8: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	<b>Market Value 31 March 2018</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
UK Equities	734,875	170,380	(157,517)	19,237	766,975
Overseas Equities	819,078	105,501	(157,630)	154,405	921,354
Pooled Other	1,855,823	9,918	(96,768)	80,273	1,849,246
Pooled Infrastructure	88,899	39,576	(1,662)	3,917	130,730
Property	293,045	35,652	(4,323)	3,651	328,025
Private Equity	232,461	59,967	(58,780)	28,108	261,756
Private Debt	0	17,549	(94)	477	17,932
	<b>4,024,181</b>	<b>438,543</b>	<b>(476,774)</b>	<b>290,068</b>	<b>4,276,018</b>
<b>Derivative Contracts</b>					
FX Contracts	0	33,374	(32,288)	(1,086)	0
	<b>4,024,181</b>	<b>471,917</b>	<b>(509,062)</b>	<b>288,982</b>	<b>4,276,018</b>
<b>Other</b>					
Cash	113,484				178,671
Investment Income Due	0				5,799
Investment Sales Amount Receivable	0				664
Investment Purchases Amounts Payable	0				(890)
<b>Net Investment Assets</b>	<b>4,137,665</b>				<b>4,460,262</b>



## Reconciliation of Movements in Investment and Derivatives (continued)

	<b>Market Value 31 March 2017</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in Market Value</b>	<b>Market Value 31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	290,974	437,404	(719,824)	(8,554)	0
UK Equities	740,007	158,397	(165,636)	2,107	734,875
Overseas Equities	674,024	63,054	(97,976)	179,976	819,078
Pooled Other	1,557,721	742,457	(519,318)	74,963	1,855,823
Pooled Infrastructure	0	92,711	(21)	(3,791)	88,899
Property	259,146	35,136	(12,372)	11,135	293,045
Private Equity	240,975	61,906	(87,400)	16,980	232,461
Private Debt	0	0	0	0	0
	<b>3,762,847</b>	<b>1,591,065</b>	<b>(1,602,547)</b>	<b>272,816</b>	<b>4,024,181</b>
<b>Derivative Contracts</b>					
FX Contracts	(493)	3,456,730	(3,459,686)	3,449	0
	<b>3,762,354</b>	<b>5,047,795</b>	<b>(5,062,233)</b>	<b>276,265</b>	<b>4,024,181</b>
<b>Other</b>					
Cash	58,334				113,484
Investment Income Due	0				0
Investment Sales Amounts Receivable	0				0
Investment Purchases Amounts Payable	0				0
<b>Net Investment Assets</b>	<b>3,820,688</b>				<b>4,137,665</b>

## Note 9: Analysis of Investments

	2017/18	2018/19
	£'000	£'000
<b>Equities</b>		
<b>UK</b>		
Quoted	734,875	766,975
<b>Overseas</b>		
Quoted	819,078	921,354
<b>Subtotal Equities</b>	<b>1,553,953</b>	<b>1,688,329</b>
<b>Pooled Funds (Other) – Additional Analysis</b>		
<b>UK</b>		
Unit Trusts	849,394	872,300
Pooled Indexed Linked	251,551	202,644
<b>Overseas</b>		
Unit Trusts	636,218	652,004
Global Pooled Bonds	118,660	122,298
<b>Subtotal Pooled Funds (Other)</b>	<b>1,855,823</b>	<b>1,849,246</b>
Pooled Infrastructure - Quoted	88,899	106,586
Pooled Infrastructure - Unquoted	0	24,144
<b>Subtotal Pooled Infrastructure</b>	<b>88,899</b>	<b>130,730</b>
Property, Direct	293,045	328,025
Private Equity	232,461	261,756
Private Debt	0	17,932
Funds held by Investment Managers	90,704	71,971
ACC Loans Fund Deposit	22,780	106,700
Investment Income Due	0	5,799
Investment Sales Amount Receivable	0	664
<b>Investment Assets Total</b>	<b>4,137,665</b>	<b>4,461,152</b>
<b>Investment Liabilities</b>		
Investment Purchases Amounts Payable	0	(890)
<b>Investment Liabilities Total</b>	<b>0</b>	<b>(890)</b>
<b>Net Investment Assets</b>	<b>4,137,665</b>	<b>4,460,262</b>

## Note 10: Analysis of Derivatives

### Futures

There were no outstanding exchange traded future contracts as at 31 March 2019.

### Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2019.

## Note 11: Investments Analysed by Fund Manager

	31 March 2018	%	31 March 2019	%
	£'000		£'000	
<b>Investment Assets</b>				
State Street Global Advisors	1,420,631	34.4	1,403,222	31.5
Baillie Gifford	1,130,668	27.4	1,237,351	27.8
BlackRock Asset Management	465,188	11.3	500,158	11.2
BlackRock Diversified Growth Fund	157,367	3.8	162,322	3.6
Baring Asset Managers	(3)	0.0	(3)	0.0
AAM Property (API)	312,228	7.6	364,367	8.2
AAM Property Residential	8,136	0.2	7,963	0.2
HarbourVest	82,365	2.0	100,652	2.3
Standard Life	54,377	1.3	28,312	0.6
ACC Loans Fund Deposit	22,780	0.5	106,700	2.4
Global Custodian	15,758	0.4	18,818	0.4
Partners Group	52,313	1.3	56,396	1.3
Maven Capital	2,925	0.1	2,167	0.1
Capital Dynamics	15,003	0.4	26,125	0.6
RCP Advisors	7,289	0.2	16,105	0.4
Unigestion	11,808	0.3	26,909	0.6
Invesco Diversified Growth Fund	153,663	3.7	150,707	3.4
Russell Overlay	33,960	0.8	0	0.0
Russell Multi Asset Credit	101,831	2.5	103,035	2.3
Russell Transition	479	0.0	294	0.0
Aviva Infrastructure	88,899	2.1	106,586	2.4
Hermes Infrastructure	0	0.0	24,144	0.5
Alcentra (Clareant)	0	0.0	17,932	0.4
	<b>4,137,665</b>	<b>100.3</b>	<b>4,460,262</b>	<b>100.2</b>
<b>Net Long and Current Assets</b>				
Bank Account	19	0.0	19	0.0
Long Term and Current Debtors Less Creditors	(12,120)	(0.3)	(10,627)	(0.2)
<b>Net Assets</b>	<b>4,125,564</b>	<b>100.0</b>	<b>4,449,654</b>	<b>100.0</b>

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

<b>Security</b>	<b>Market Value 31 March 2018</b>	<b>% of Net Investment Assets</b>	<b>Market Value 31 March 2019</b>	<b>% of Net Investment Assets</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>%</b>
MPF International Equity Index Pooled Fund	279,983	6.8	548,970	12.3
MPF UK Equity Pooled Fund	337,317	8.2	529,305	11.9

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

#### **Note 12: Stock Lending**

	<b>31 March 2018</b>	<b>Collateral Percentage</b>	<b>31 March 2019</b>	<b>Collateral Percentage</b>
	<b>£'000</b>		<b>£'000</b>	
<b>Stock on Loan</b>				
Equities	0		398,546	
Fixed Interest	0		0	
<b>Total Exposure</b>	<b>0</b>		<b>398,546</b>	
<b>Total Collateral</b>	<b>0</b>	<b>0%</b>	<b>425,845</b>	<b>107%</b>

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 13: Property Holdings

	2017/18	2018/19
	£'000	£'000
<b>Opening Balance</b>	<b>259,146</b>	<b>293,045</b>
Purchases	22,393	26,440
Construction	12,705	9,227
Subsequent Expenditure	38	(15)
Disposals	(12,372)	(4,323)
Net Increase in Market Value	11,135	3,651
<b>Closing Balance</b>	<b>293,045</b>	<b>328,025</b>

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

		Restated	
	2017/18	2017/18	2018/19
	£'000	£'000	£'000
Within One Year	15,144	15,144	17,049
Between One Year and Five Years	55,604	53,508	59,748
Later than Five Years	98,560	83,784	100,571
<b>Total</b>	<b>169,308</b>	<b>152,436</b>	<b>177,368</b>

In accordance with IAS17, the above table has been presented using the 'break date' of the lease agreements. Historically, this has been calculated to the end of the leases. Therefore, the figures for 2017/18 have been restated accordingly.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosures have not been reduced by a credit loss allowance, as it was deemed not material.

### Note 14: Financial and Non-Financial Instruments

Accounting policies describe how different asset classes of financial and non-financial instruments are measured. Also, how income and expenses, including fair value gains and losses, are recognised. The following table analyses the fair value of financial assets and liabilities (excluding cash) by category and 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 2018			31 March 2019			
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
			<b>Financial Assets</b>			
1,553,953			Equities	1,688,329		
1,855,823			Pooled Other	1,849,246		
88,899			Pooled Infrastructure	130,730		
232,461			Private Equity	261,756		
0			Private Debt	17,932		
	113,484		Cash		178,671	
	0		Other Investment Balances		6,463	
	14,857		Debtors		16,026	
<b>3,731,136</b>	<b>128,341</b>		<b>Subtotal</b>	<b>3,947,993</b>	<b>201,160</b>	
			<b>Financial Liabilities</b>			
		0	Other Investment Balances			(890)
		(26,958)	Creditors			(26,634)
		<b>(26,958)</b>				<b>(27,524)</b>
<b>3,731,136</b>	<b>128,341</b>	<b>(26,958)</b>	<b>Financial Instruments Total</b>	<b>3,947,993</b>	<b>201,160</b>	<b>(27,524)</b>
			<b>Non-Financial Instruments</b>			
293,045			Property	328,025		
<b>4,024,181</b>	<b>128,341</b>	<b>(26,958)</b>		<b>4,276,018</b>	<b>201,160</b>	<b>(27,524)</b>
		<b>4,125,564</b>	<b>Net Assets of the Fund</b>			<b>4,449,654</b>

**Note 15: Net Gains and Losses on Financial and Non-Financial Instruments**

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£'000</b>	<b>Financial Assets</b>	<b>£'000</b>
265,280	Fair Value through Profit and Loss	285,331
	<b>Financial Liabilities</b>	
(150)	Fair Value through Profit and Loss	0
<b>265,130</b>	<b>Net Gains and Losses on Financial Instruments</b>	<b>285,331</b>
	<b>Non-Financial Instruments</b>	
11,135	Fair Value through Profit and Loss	3,651
<b>276,265</b>	<b>Net Gains and Losses of the Fund</b>	<b>288,982</b>

## **Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

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

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

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

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



## Note 16a: Fair Value – Basis of Valuation

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

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities Affecting the Valuations Provided</b>
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 Ben Nicholson MRICS under the supervision of Claire McGowan MRICS of Savills	Existing lease terms and rentals  Independent market research Nature of Tendencies Covenant Strength for	

		in accordance with the <i>RICS Valuation Professional Standard</i>	existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2018)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between (un)audited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,644,161		303,832	<b>3,947,993</b>
Non-Financial Assets at Fair Value through Profit and Loss		328,025		<b>328,025</b>
Financial Liabilities at Fair Value through Profit and Loss	0			<b>0</b>
<b>Net Investment Assets (Fair Value)</b>	<b>3,644,161</b>	<b>328,025</b>	<b>303,832</b>	<b>4,276,018</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,498,675	0	232,461	<b>3,731,136</b>
Non-Financial Assets at Fair Value through Profit and Loss	0	293,045	0	<b>293,045</b>
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	<b>0</b>
<b>Net Investment Assets (Fair Value)</b>	<b>3,498,675</b>	<b>293,045</b>	<b>232,461</b>	<b>4,024,181</b>

### Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

### Note 16c: Reconciliation of Fair Value Measurements within Level 3

2018/19	Market Value 1 April 2018	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Infrastructure	0	25,154	(753)	753	(1,010)	24,144
Private Equity	232,461	59,967	(58,780)	17,661	10,447	261,756
Private Debt	0	17,549	(94)	94	383	17,932
<b>Total</b>	<b>232,461</b>	<b>102,670</b>	<b>(59,627)</b>	<b>18,508</b>	<b>9,820</b>	<b>303,832</b>

(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 of the fund accounts.

### Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed Valuation Range (+/-)	Value at 31 March 2019	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Pooled Infrastructure	13%	24,144	27,283	21,005
Private Equity	30%	261,756	340,283	183,229
Private Debt	30%	17,932	23,312	12,552
<b>Total</b>		<b>303,832</b>	<b>390,878</b>	<b>216,786</b>

## **Note 17: Risk arising from Financial and Non-Financial Instruments**

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

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

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

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

### **Market Risk**

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

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

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

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

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 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%
Pooled Infrastructure	13.0%
Private Equity	30.0%
Private Debt	30.0%
Property	13.0%
Cash	1.0%

The potential price changes disclosed above are broadly consistent with a one standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the Investment Advisor'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 2019	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	202,644	7.5	217,842	187,446
Overseas Bonds	225,333	7.5	242,233	208,433
UK Equities	1,326,246	16.0	1,538,445	1,114,047
Overseas Equities	1,470,324	20.5	1,771,740	1,168,908
Pooled – Diversified Growth Funds	313,028	12.5	352,157	273,899
Pooled – Infrastructure	130,730	13.0	147,725	113,735
Private Equity	261,756	30.0	340,283	183,229
Private Debt	17,932	30.0	23,312	12,552
<b>Total</b>	<b>3,947,993</b>		<b>4,633,737</b>	<b>3,262,249</b>

<b>Asset Type</b>	<b>Value as at 31 March 2018</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Bonds	251,551	5.6	265,638	237,464
Overseas Bonds	220,491	5.6	232,838	208,144
UK Equities	1,273,241	16.0	1,476,960	1,069,522
Overseas Equities	1,353,465	20.5	1,630,925	1,076,005
Pooled – Diversified Growth Funds	311,028	12.0	348,351	273,705
Pooled Infrastructure	88,899	13.0	100,456	77,342
Private Equity	232,461	30.0	302,199	162,723
<b>Total</b>	<b>3,731,136</b>		<b>4,357,367</b>	<b>3,104,905</b>

### **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 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset Type</b>	<b>As at March 2018</b>	<b>As at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	113,484	178,671
Cash Balances	19	19
Fixed Interest Securities	472,041	427,977
<b>Total</b>	<b>585,544</b>	<b>606,667</b>

### **Interest Rate Risk Sensitivity Analysis**

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,671	180,458	176,884
Cash Balances	19	19	19
Fixed Interest Securities	427,977	432,257	423,697
<b>Total</b>	<b>606,667</b>	<b>612,734</b>	<b>600,600</b>

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	113,484	114,619	112,349
Cash Balances	19	19	19
Fixed Interest Securities	472,041	476,761	467,321
<b>Total</b>	<b>585,544</b>	<b>591,399</b>	<b>579,689</b>

## 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 2019 and as at the previous period end:



<b>Assets Exposed to Currency Risk</b>	<b>Asset Value as at 31 March 2018</b>	<b>Asset Value as at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	819,078	921,354
Overseas Unquoted Securities	206,396	243,433
Overseas Unit Trusts	636,218	652,004
Overseas Global Pooled Bonds	118,660	122,298
<b>Total Overseas Assets</b>	<b>1,780,352</b>	<b>1,939,089</b>

### **Currency Risk – Sensitivity Analysis**

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% 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 2019	Potential Market Movement	
		+10.2%	-10.2%
	£'000	£'000	£'000
Overseas Quoted Securities	921,354	1,015,332	827,376
Overseas Unquoted Securities	243,433	268,263	218,603
Overseas Unit Trust	652,004	718,508	585,500
Overseas Global Pooled Bonds	122,298	134,772	109,824
<b>Total</b>	<b>1,939,089</b>	<b>2,136,875</b>	<b>1,741,303</b>

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Potential Market Movement	
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Quoted Securities	819,078	914,091	724,065
Overseas Unquoted Securities	206,396	230,338	182,454
Overseas Unit Trust	636,218	710,019	562,417
Overseas Global Pooled Bonds	118,660	132,425	104,895
<b>Total</b>	<b>1,780,352</b>	<b>1,986,873</b>	<b>1,573,831</b>

## Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2019 was

£178,690,000 (31 March 2018 £113,503,000). This was held with the following institutions as shown below:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2018 £'000</b>	<b>Balance as at 31 March 2019 £'000</b>
<b>Liquidity Funds</b>			
HSBC Liquidity Funds	AAAm	0	31,856
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	22,780	106,700
BNP Paribas	AAAm	90,704	0
HSBC	AA-	0	40,115
<b>Subtotal</b>		<b>113,484</b>	<b>178,671</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	19	19
<b>Total</b>		<b>113,503</b>	<b>178,690</b>

### **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 2019 the value of illiquid assets was £631,856,657 which represented 14.2% of the total net assets of the Fund (31 March 2018 £525,505,096 which represented 12.7% of the total Fund assets).

### Note 18a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	£'000
Termination Valuation	33	0
<b>Total Long Term Assets</b>	<b>33</b>	<b>0</b>

### Note 18b: Current Assets

	31 March 2018	31 March 2019
	£'000	£'000
Employees' Contributions due	2,329	3,259
Employers' Contributions due	7,367	9,674
Sundry Debtors	5,109	3,074
<b>Subtotal</b>	<b>14,805</b>	<b>16,007</b>
Bank	19	19
<b>Total Current Assets</b>	<b>14,824</b>	<b>16,026</b>

### Note 18c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry Creditors	19,245	23,904
Benefits Payable	7,713	2,730
<b>Total Current Liabilities</b>	<b>26,958</b>	<b>26,634</b>

### Note 19: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Fund, the costs of which are reimbursed by the Fund.

The costs of these services for the North East Scotland Pension Fund amounted to £1,991,796 (2017/18 £1,388,413).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £106,700,000 (2017/18 £22,780,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £345,451 (2017/18 £36,330) for the North East Scotland Pension Fund.

## Note 20: Key Management Personnel

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

		<b>Accrued Pension 2017/18</b>	<b>Accrued Pension 2018/19</b>
		<b>£'000</b>	<b>£'000</b>
Steven Whyte	Director of Resources	30	39
Jonathan Belford	Chief Officer - Finance	0	1

## Governance

As at 31 March 2019, 9 members of the Pensions Committee and 6 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2018/19, Elected Members' had interests in Sport Aberdeen, Aberdeen Performing Arts and Aberdeen International Youth Festival.

## Note 21: Contractual Commitments as at 31 March 2019

As at 31 March 2019 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	<b>Contractual Commitments</b>	<b>Undrawn Commitments</b>
	<b>£'000</b>	<b>£'000</b>
HarbourVest	195,695	53,528
Standard Life	45,753	17,054
Partners Group	87,033	24,744
Maven (SLF)	6,444	181
Capital Dynamics	60,000	36,340
RCP Advisors	34,534	17,229
Unigestion	56,011	32,886
AAM Residential Property	30,000	22,398
Hermes Infrastructure	100,000	75,057
Alcentra EDL	86,171	68,930
<b>Total</b>	<b>701,641</b>	<b>348,347</b>

## Note 22: Additional Voluntary Contributions (AVC)

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

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables. Standard Life and the Prudential do not provide this information by Fund.

The amount of additional voluntary contributions paid by members during the year is shown as income in the table below:

<b>2017/2018</b>	<b>Income (AVCs Paid by Members)</b>	<b>2018/2019</b>
<b>£'000</b>		<b>£'000</b>
32	Standard Life	29
2,653	Prudential	2,730

The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation.

<b>Market Value</b>	<b>Additional Voluntary Contributions</b>	<b>Market Value</b>
<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£'000</b>		<b>£'000</b>
1,580	Standard Life	1,473
25,267	Prudential	24,313

## Note 23: Contingent Assets/Liabilities

Following a bond review in 2018 the North East Scotland Pension Fund hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation in the Scheme. These bonds are drawn up in favour of the Pension Fund and payment will only be triggered in the event of an employer default. The next bond review will be carried out by the Scheme Actuary following the completion of the 2020 valuation process.

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 24 Community Admission Bodies and Transferee Admission Bodies currently participating in the Scheme.

## Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pensions obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are imbedded within the Funding Strategy Statement. As at

31 March 2019 there are no participating employers in the process of terminating from the Fund.

### **Note 25: Investment Principles**

A summary of the Statement of Investment Principles is available on our website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

### **Note 26: Critical Judgements in applying Accounting Policies**

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

The items in the net statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumption</b>
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £262 million. Private Debt £18 million. Pooled Infrastructure (Unquoted) £24 million. There is a risk that these investments may be under or overstated in the accounts.

## Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. 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 2019, 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.

At the time of publication there were no material post balance sheet events to report.

## Note 28: Agency Arrangement for Administering Compensatory 'Added' Years

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

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

	2017/18	2018/19
	£'000	£'000
<b>Cost incurred/recovered on behalf of:</b>		
Aberdeen City Council	2,317	2,360
Aberdeenshire Council	1,341	1,364
Moray Council	703	714
Scottish Water	1,261	1,276
Other	303	307
<b>Total</b>	<b>5,925</b>	<b>6,021</b>
<b>Associated Payroll Cost</b>	<b>4</b>	<b>4</b>



## NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial Report for the Transport Fund was provided as at 31 March 2017. Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£100,000,000
Liabilities	£106,500,000
Deficit	£ 6,500,000

### Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities 94%

### Addressing the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (the funding target). In line with the Funding Strategy Statement, 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.

The average employer cost of providing member benefits (the Primary contribution rate) has been determined as 58.5% of pensionable pay. The Fund have agreed following a consultation with First Aberdeen Limited that the contribution requirement would be set as the same level as the previous valuation of 33% plus £1.5m per annum. This means that the payment towards the deficit will be around £1.1m allowing for the deficit to be recovered over 5 years.

<b>Total Contribution Rate</b> (as percentage of payroll)	<b>2018/19</b>	<b>2019/20</b>	<b>2020/21</b>
	33% plus £1,500,000	33% plus £1,500,000	33% plus £1,500,000

Within the FSS there is the option for the Fund to reassess the contribution requirement for First Aberdeen upon reaching a funding level of 105%.

Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a.
Assumed Long Term Price Inflation (CPI)	2.9% p.a.
Salary Increases – Long Term	3.4% p.a.
Salary Increases – Short Term	2.9% p.a. (to 31 March 2018)
Pension Increases in Payment	2.9% p.a.

The Transport Fund used the Attained Age method for the employing body First Aberdeen, to reflect that this Scheme was closed to new entrants from 31 March 1994.

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

### **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 £80.7m (2018 £78.0m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes of IAS 26 and has 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 can be found in Appendix 1.

**Note 2: Contributions Receivable**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
<b>Employees' Normal Contributions</b>	<b>100</b>	<b>72</b>
Employer's Normal Contributions	528	385
Employer's Deficit Recovery Contributions	1,500	1,558
<b>Total Employer's Contributions</b>	<b>2,028</b>	<b>1,943</b>
<b>Total</b>	<b>2,128</b>	<b>2,015</b>

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled Body	2,128	2,015
<b>Total</b>	<b>2,128</b>	<b>2,015</b>

**Note 3: Benefits Payable**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Pensions	3,210	3,243
Commutation and Lump Sum Retirement Benefits	914	337
Lump Sum Death Benefits	2	328
<b>Total</b>	<b>4,126</b>	<b>3,908</b>

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Scheduled Body	4,126	3,908
<b>Total</b>	<b>4,126</b>	<b>3,908</b>

**Note 4: Payment to and on Account of Leavers**

There were no payments to and on Account of Leavers.

## Note 5: Management Expenses

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Pension Fund Staffing Costs – Administration	32	33
Information Technology*	10	11
Supplies and Services*	5	3
Accommodation*	3	2
Printing and Publications	1	1
<b>Administration Expenses Total</b>	<b>51</b>	<b>50</b>
Pension Fund Staffing Costs – Investment	6	5
Pension Fund Committee	1	0
External Audit Fee	1	1
Actuarial Fees	61	20
General Expenses	3	5
<b>Oversight and Governance Expenses Total</b>	<b>72</b>	<b>31</b>
Investment Management	825	212
Custody Fees	43	19
<b>Investment Management Expenses Total</b>	<b>868</b>	<b>231</b>
<b>Management Expenses Grand Total</b>	<b>991</b>	<b>312</b>

\*Note – Previously under the heading ‘Support Services including IT’

**Note 6: Investment Income**

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
Fixed Interest Securities	687	7
Pooled Investments	95	108
Interest on Cash Deposits	3	14
Other (including P/L from Currency and Derivatives)	27	(25)
<b>Total</b>	<b>812</b>	<b>104</b>
<b>Tax -</b>		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Pooled	0	0
<b>Total Tax</b>	<b>0</b>	<b>0</b>
<b>Net Total</b>	<b>812</b>	<b>104</b>

## Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	1,117	25,095	0	1,581	27,793
Pooled Investments	97,060	26,402	(52,714)	5,444	76,192
	<b>98,177</b>	<b>51,497</b>	<b>(52,714)</b>	<b>7,025</b>	<b>103,985</b>
<b>Other</b>					
Cash	1,621				4,321
Investment Income Due	0				3
Investment Sales Amount Receivable	0				918
Investment Purchases Amount Payable	0				(3,999)
<b>Net Investment Assets</b>	<b>99,798</b>				<b>105,228</b>

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	7,527	0	(6,313)	(97)	1,117
Pooled Investments	88,705	32,608	(26,312)	2,059	97,060
	<b>96,232</b>	<b>32,608</b>	<b>(32,625)</b>	<b>1,962</b>	<b>98,177</b>
<b>Other</b>					
Cash	3,638				1,621
Investment Income Due	0				0
Investment Sales Amount Receivable	0				0
Investment Purchases Amount Payable	0				0
<b>Net Investment Assets</b>	<b>99,870</b>				<b>99,798</b>

## Note 8: Analysis of Investments

	<b>2017/18</b>	<b>2018/19</b>
	<b>£'000</b>	<b>£'000</b>
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	<b>1,117</b>	<b>27,793</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	38,126	28,569
Unit Trusts	25,629	25,750
<b>Overseas</b>		
Unit Trusts	33,305	21,873
<b>Subtotal Pooled Funds</b>	<b>97,060</b>	<b>76,192</b>
Cash Deposits	1,621	4,321
Investment Income Due	0	3
Investment Sales Amount Receivable	0	918
<b>Investment Assets Total</b>	<b>99,798</b>	<b>109,227</b>
<b>Investment Liabilities</b>		
Investment Purchases Amount Payable	0	(3,999)
<b>Investment Liabilities Total</b>	<b>0</b>	<b>(3,999)</b>
<b>Net Investment Assets</b>	<b>99,798</b>	<b>105,228</b>

## Note 9: Investments Analysed by Fund Manager

<b>Investment Assets</b>	<b>31 March 2018</b>	<b>%</b>	<b>31 March 2019</b>	<b>%</b>
	<b>£'000</b>		<b>£'000</b>	
Schroders	99,627	99.8	105,000	99.8
ACC Loans Fund Deposit	171	0.2	228	0.2
<b>Net Investment Assets</b>	<b>99,798</b>	<b>100.0</b>	<b>105,228</b>	<b>100.0</b>

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

<b>Security</b>	<b>Market Value 31 March 2018</b>	<b>% of Net Investment Assets</b>	<b>Market Value 31 March 2019</b>	<b>% of Net Investment Assets</b>
	<b>£'000</b>		<b>£'000</b>	
Blackrock Asset Management UK Aquila Life Currency Work Ex UK Equity	15,768	15.8	6,286	6.0
SIF Diversified Completion CLS P Accumulation	10,584	10.6	10,556	10.0
Schroder Investment Management Lux Spec Sits STG Liquidity	5,540	5.6	3,032	2.9
Schroder Matching Plus Synthetic Index Linked Gilt Fund	8,352	8.4	339	0.3
SSGA Lux MG GL Treasury Bond Index GBP	11,645	11.7	11,984	11.4
Vanguard Investment series Global Stock Index FD-INST USD SHS	13,879	13.9	5,660	5.4
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,045	15.1	15,194	14.4
Schroder Pension Management Life Risk	0	0.0	8,393	8.0
Schroder Matching Plus Synthetic Index Linked Gilt FDI ACC	4,493	4.5	7,116	6.8
UK Gilt 0.125% IL 10/8/2048	0	0	10,149	9.6
UK Treasury 0.125% IL 22/3/2044	0	0	8,802	8.4
UK Treasury 0.125% IL 22/3/2058	0	0	6,175	5.9



**Note 10: Stock Lending**

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

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

There was no stock lending in operation as at 31 March 2019.

**Note 11: 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 net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2018				31 March 2019		
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
			<b>Financial Assets</b>			
1,117			Fixed Interest	27,793		
97,060			Pooled	76,192		
	1,621		Cash		4,321	
	0		Other Investment Balances		921	
	638		Debtors		488	
<b>98,177</b>	<b>2,259</b>	<b>0</b>	<b>Subtotal</b>	<b>103,985</b>	<b>5,730</b>	<b>0</b>
			<b>Financial Liabilities</b>			
			Other Investment Balances			(3,999)
		(365)	Creditors			(416)
<b>98,177</b>	<b>2,259</b>	<b>(365)</b>		<b>103,985</b>	<b>5,730</b>	<b>(4,415)</b>
		<b>100,071</b>	<b>Financial Instruments Total</b>			<b>105,300</b>
<b>0</b>			<b>Non-Financial Instruments</b>	<b>0</b>		
<b>98,177</b>	<b>2,259</b>	<b>(365)</b>		<b>103,985</b>	<b>5,730</b>	<b>(4,415)</b>
		<b>100,071</b>	<b>Net Assets of the Fund</b>			<b>105,300</b>

**Note 12: Net Gains and Losses on Financial and Non-Financial Instruments**

<b>31 March 2018</b>		<b>31 March 2019</b>
<b>£'000</b>		<b>£'000</b>
	<b>Financial Assets</b>	
1,962	Fair Value through Profit and Loss	7,025
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
	<b>Net Gains and Losses on Financial Instruments</b>	
<b>1,962</b>		<b>7,025</b>
	<b>Non-Financial Instruments</b>	
0	Fair Value through Profit and Loss	0
	<b>Net Gains and Losses of the Fund</b>	
<b>1,962</b>		<b>7,025</b>

## **Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

The values of the investments in unquoted private equity/debt and infrastructure are based on valuations provided by the general partners to the funds in which 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 13a: 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.

<b>Description of Asset</b>	<b>Valuation Hierarchy</b>	<b>Basis of Valuation</b>	<b>Observable and Unobservable Inputs</b>	<b>Key Sensitivities affecting the Valuations Provided</b>
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published.  Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
<b>Values at 31 March 2019</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Financial Assets at Fair Value through Profit and Loss	103,985	0	0	<b>103,985</b>
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	<b>0</b>
<b>Net Investment Assets (Fair Value)</b>	<b>103,985</b>	<b>0</b>	<b>0</b>	<b>103,985</b>

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
<b>Values at 31 March 2018</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Financial Assets at Fair Value through Profit and Loss	98,177	0	0	<b>98,177</b>
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	<b>0</b>
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	<b>0</b>
<b>Net Investment Assets (Fair Value)</b>	<b>98,177</b>	<b>0</b>	<b>0</b>	<b>98,177</b>

### **Note 13b: Transfers between Levels 1 and 2**

There were no transfers between Level 1 and 2.

### **Note 13c: Reconciliation of Fair Value Measurements within Level 3**

There are no Fair Value Measurements at Level 3 within the ACC Transport Fund. Therefore, no reconciliation is required.

### **Note 13d: Sensitivity of Assets Valued at Level 3**

There are no assets valued at Level 3 within the ACC Transport Fund. Therefore, no sensitivity analysis is required.

### **Note 14: Risk arising from Financial and Non-Financial Instruments**

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

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

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

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

### **Market Risk**

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

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

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

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

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Funds	12.5%

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

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

Asset Type	Value as at 31 March 2019	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	56,362	7.5	60,589	52,135
UK Equities	15,194	16.0	17,625	12,763
Overseas Equities	21,873	20.5	26,357	17,389
Pooled – Diversified Growth Funds	10,556	12.5	11,876	9,236
<b>Total</b>	<b>103,985</b>		<b>116,447</b>	<b>91,523</b>



<b>Asset Type</b>	<b>Value as at 31 March 2018</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
UK Bonds	39,243	5.6	41,441	37,045
UK Equities	15,045	16.0	17,452	12,638
Overseas Equities	33,305	20.5	40,132	26,478
Pooled – Diversified Growth Funds	10,584	12.0	11,854	9,314
<b>Total</b>	<b>98,177</b>		<b>110,879</b>	<b>85,475</b>

### **Interest Rate Risk**

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset type</b>	<b>As at 31 March 2018</b>	<b>As at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	1,621	4,321
Cash Balances	1	1
Fixed Interest Securities	39,243	56,362
<b>Total</b>	<b>40,865</b>	<b>60,684</b>

### **Interest Rate Risk Sensitivity Analysis**

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	4,321	4,364	4,278
Cash Balances	1	1	1
Fixed Interest Securities	56,362	56,926	55,798
<b>Total</b>	<b>60,684</b>	<b>61,291</b>	<b>60,077</b>

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	1,621	1,637	1,605
Cash Balances	1	1	1
Fixed Interest Securities	39,243	39,635	38,851
<b>Total</b>	<b>40,865</b>	<b>41,273</b>	<b>40,457</b>

### Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous period end:

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2018</b>	<b>Asset Value as at 31 March 2019</b>
	<b>£'000</b>	<b>£'000</b>
Overseas Unit Trusts	33,305	21,873
<b>Total Overseas Assets</b>	<b>33,305</b>	<b>21,873</b>

### **Currency Risk – Sensitivity Analysis**

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% 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 follows:

<b>Assets Exposed to Currency Risk</b>	<b>Asset Value as at 31 March 2019</b>	<b>Potential Market Movement</b>	
		<b>+10.2%</b>	<b>-10.2%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Unit Trust	21,873	24,104	19,642
<b>Total</b>	<b>21,873</b>	<b>24,104</b>	<b>19,642</b>

<b>Assets Exposed to Currency Risk</b>	<b>Asset Value as at 31 March 2018</b>	<b>Potential Market Movement</b>	
		<b>+11.6%</b>	<b>-11.6%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Unit Trust	33,305	37,168	29,442
<b>Total</b>	<b>33,305</b>	<b>37,168</b>	<b>29,442</b>

### **Credit Risk**

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits

are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2019 was £4,322,000 and at 31 March 2018 £1,622,000. This was held with the following institutions:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2018</b>	<b>Balance as at 31 March 2019</b>
		<b>£'000</b>	<b>£'000</b>
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	171	228
BNP Paribas	AAAm	1,450	0
HSBC	AA-	0	4,093
<b>Subtotal</b>		<b>1,621</b>	<b>4,321</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	1	1
<b>Total</b>		<b>1,622</b>	<b>4,322</b>

### 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 in to cash. There were no illiquid assets as at 31 March 2019 and 31 March 2018.

### Note 15a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	£'000
Lifetime Tax Allowance	324	296
<b>Total Long Term Assets</b>	<b>324</b>	<b>296</b>

### Note 15b: Current Assets

	31 March 2018	31 March 2019
	£'000	£'000
Employees' Contributions due	2	1
Employer's Contributions due	11	5
Sundry Debtors	300	185
<b>Subtotal</b>	<b>313</b>	<b>191</b>
Bank	1	1
<b>Total Current Assets</b>	<b>314</b>	<b>192</b>

### Note 15c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry Creditors	232	132
Benefits Payable	133	284
<b>Total Current Liabilities</b>	<b>365</b>	<b>416</b>

### Note 16: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The cost of these services for the Aberdeen City Council Transport Fund was £41,893 (2017/18 - £42,941).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £228,000 (2017/18 - £171,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,584 (2017/18 - £674) for the Aberdeen City Council Transport Fund.

### **Note 17: Key Management Personnel**

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However, they are not members of the Aberdeen City Council Transport Fund.

### **Note 18: Investment Principles**

A summary of the Statement of Investment Principles is available on the Pension Fund's website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

### **Note 19: Critical Judgements in applying Accounting Policies**

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

The items in the net asset statement at 31 March 2019 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumptions</b>
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

**Note 20: Events after the Balance Sheet Date**

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. 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 2019, 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.

At the time of publication there were no material post balance sheet events to report.

# Appendix 1 – Statement by the Consulting Actuary

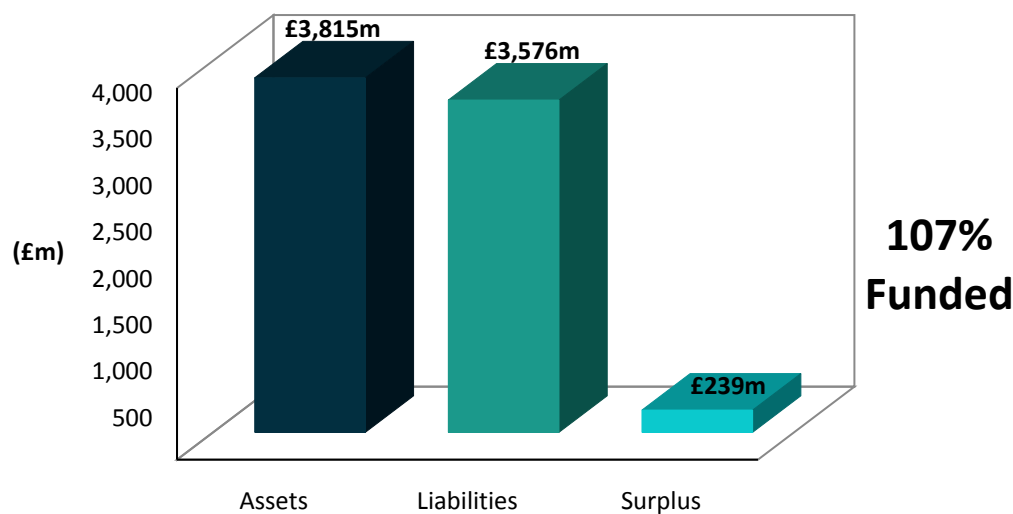
## ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

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 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

Based on the assumptions adopted, the Fund's assets of £3,815 million represented 107% of the Fund's past service liabilities of £3,576 million (the "Funding Target") at the valuation date. The surplus at the valuation was therefore £239 million.



The valuation also showed that a Primary contribution rate of 22.0% 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 then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At this



actuarial valuation the average spread/recovery period adopted is approximately 24 years and the total initial surplus reclaimed on a whole fund level (the “Secondary rate” for 2019/20) is approximately £12.8 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

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

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

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

	<b>For both past and future service liabilities (Funding Target and Primary rate of contribution)</b>
Rate of return on investments (discount rate)	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.4% per annum

\* allowance was also made for short term public sector pay restraint over a 3 year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2021.

## 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. 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 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short term public sector pay restraint

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £4,892 million. Interest over the year increased the liabilities by c£128 million and allowing for net benefits accrued/paid over the period then increased the liabilities by c£67 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then an increase in liabilities of £292 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £5,379 million.

## **The McCloud Case**

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to “McCloud”), relating to the Firefighter unfunded pension Schemes and the Judicial pension arrangements. The Court held that the transitional protections, which were afforded to older members when the reformed Schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases, then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service Schemes and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary’s Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a “roll-forward” of the 2017 actuarial valuation results rather than being a full recalculation and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

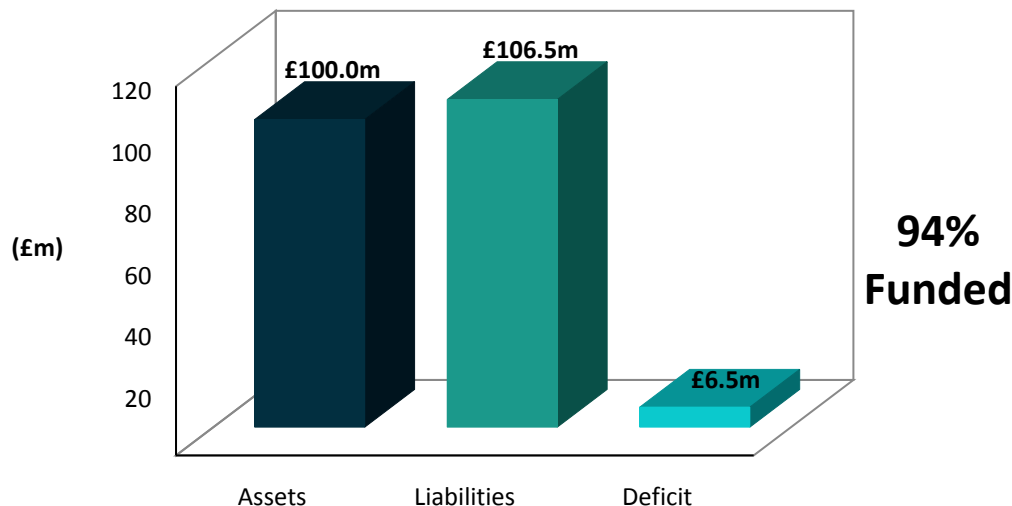
## **GMP Equalisation**

UK and European law require 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. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing Schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector Schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment”, clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension Schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

## Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

Based on the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million.



The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. 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 a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. 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.

The FSS sets out the process for determining the recovery plan. At this valuation, the Administering Authority and First Aberdeen Limited have agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation which are 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.2m p.a. On this basis the deficit would be expected to be removed in about 5 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

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

	<b>For both past and future service liabilities (Funding Target and Primary rate of contribution)</b>
Rate of return on investments (discount rate)	1.6% per annum
Rate of pay increases (short term)	2.9% per annum to 31 March 2018
Rate of pay increases (long term)	3.4% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.9% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.9% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2021.

## **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. 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 2019 (the 31 March 2018 assumptions are included for comparison):

	<b>31 March 2018</b>	<b>31 March 2019</b>
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	2.6% per annum	2.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

\* includes a corresponding allowance to that made in the latest formal actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £78.0 million. Interest over the year increased the liabilities by c£2.0 million, though allowing for net benefits accrued/paid over the period then decreased the liabilities by c£3.4 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of £4.1 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £80.7 million.

### **The McCloud Case**

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension Schemes and the Judicial pension arrangements. The Court held that the transitional protections, which were afforded to older members when the reformed Schemes were introduced in 2015, constituted unlawful age discrimination. The Government is attempting to appeal the cases, but it is not known at this stage whether an appeal will even be possible. If the Government ultimately loses these cases, then remedial action in the form of increases in benefits for some members is likely to be required. There may well also be knock-on effects for the other public service Schemes and the LGPS might therefore also be required to take some action. At this stage it is uncertain whether remedial action will be required, nor is it clear what the extent of any potential remedial action might be.

The LGPS Scheme Advisory Board has commissioned the Government Actuary's Department (GAD) to calculate some indicative costs on an LGPS-wide basis so that Funds can give some consideration to the overall issue and form a view on whether any more detailed work is required. Whilst GAD have not yet reported on their findings, initial indications are that the impact on liabilities could be of the order of 0.5% to 1% of liabilities. This is well within the approximations inherent in the liability calculation shown above, which is based on a "roll-forward" of the 2017 actuarial valuation results rather than being a full recalculation and in any case is within normal acceptable tolerances for this type of work given the general approximations which need to be made. We have therefore not included a specific provision for the potential additional liabilities arising from the McCloud case.

## **GMP Equalisation**

UK and European law require 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. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing Schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector Schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment”, clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension Schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman  
Fellow of the Institute and Faculty of Actuaries  
Mercer Limited  
**May 2019**

# Appendix 2 – Schedule of Employers

## North East Scotland Pension Fund

	Employers as at 31 March 2018	New Admissions	Ceased	Employers as at 31 March 2019
<b>Scheduled Bodies</b>	11	0	0	11
<b>Transferee Bodies</b>	15	0	1	14
<b>Admission Bodies</b>	28	0	3	25
<b>Total</b>	<b>54</b>	<b>0</b>	<b>4</b>	<b>50</b>

### Participating Employers as at 31 March 2019:

1.	Aberdeen City Council (Administering Authority)	Scheduled
2.	Aberdeenshire Council	Scheduled
3.	The Moray Council	Scheduled
4.	Scottish Water	Scheduled
5.	Grampian Valuation Joint Board	Scheduled
6.	Scottish Fire and Rescue Service	Scheduled
7.	Scottish Police Authority	Scheduled
8.	North East Scotland College	Scheduled
9.	Moray College	Scheduled
10.	Visit Scotland	Scheduled
11.	NESTRANS	Scheduled
12.	Robertson Facilities Management (Shire)	Transferee
13.	Bon Accord Care Ltd	Transferee
14.	Bon Accord Support Services Ltd	Transferee
15.	Aberdeen Heat & Power Ltd	Transferee
16.	Station House Media Unit	Transferee
17.	Aberdeen Sports Village	Transferee
18.	Sport Aberdeen	Transferee
19.	Robertson Facilities Management (City)	Transferee
20.	Forth & Oban Ltd	Transferee
21.	Alcohol and Drugs Action	Transferee
22.	Idverde UK	Transferee
23.	Citymoves Dance Agency	Transferee
24.	Xerox (UK) Ltd	Transferee
25.	Forth and Oban Ltd (Shire)	Transferee
26.	Aberdeen Endowments Trust	Admitted
27.	North East Sensory Services	Admitted
28.	Aberlour Child Care Trust	Admitted
29.	Fraserburgh Harbour Commissioners	Admitted
30.	Peterhead Port Authority	Admitted
31.	Robert Gordon University	Admitted
32.	Robert Gordon's College	Admitted
33.	Aberdeen Cyrenians	Admitted



34.	Mental Health Aberdeen	Admitted
35.	Fersands & Fountain Community Project	Admitted
36.	SCARF	Admitted
37.	Inspire (Partnership Through Life) Ltd	Admitted
38.	Archway	Admitted
39.	Middlefield Community Project	Admitted
40.	St Machar Parent Support Project	Admitted
41.	Printfield Community Project	Admitted
42.	HomeStart Aberdeen	Admitted
43.	Aberdeen Foyer	Admitted
44.	HomeStart NEA	Admitted
45.	Pathways	Admitted
46.	Outdoor Access Trust for Scotland	Admitted
47.	Osprey Housing	Admitted
48.	Aberdeen Performing Arts	Admitted
49.	Sanctuary Housing Association Ltd	Admitted
50.	Scottish Lighthouse Museum	Admitted

### **Aberdeen City Council Transport Fund**

1.	First Aberdeen	Scheduled
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