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To: Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Crockett, Davidson, Henrickson, van Sweeden and two Labour vacancies and one Conservative vacancy (Pensions Committee); and Councillor Smith, Chairperson; Mr G Walters, Vice-Chairperson; Councillors Gordon and Mennie; and Mrs M Lawrence, Mr N Stirling, Mr S Thompson and Mr A Walker (Pension Board).

Town House,
ABERDEEN, 12 June 2025

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, 20 JUNE 2025 at 10.00 am**. This is a hybrid meeting and Members may also attend remotely.

The meeting will be webcast and a live stream can be viewed on the Council's website.
<https://aberdeen.public-i.tv/core/portal/home>

Please note that the Pension Board annual meeting will be held directly after this meeting.

ALAN THOMSON
INTERIM CHIEF OFFICER – GOVERNANCE

B U S I N E S S

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST AND TRANSPARENCY STATEMENTS

- 3.1. Members are requested to intimate any declarations of interest

DEPUTATIONS

- 4.1. There are no depositions at this time

MINUTES OF PREVIOUS MEETINGS

- 5.1. Minute of Previous Meeting of 21 March 2025 - for approval (Pages 5 - 10)

COMMITTEE BUSINESS PLANNER

- 6.1. Business Planner (Pages 11 - 12)

NOTICES OF MOTION

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

INTERNAL AND EXTERNAL AUDIT

- 8.1. Internal Audit Annual Report 2024/25 - IA/25/007 (Pages 13 - 26)

- 8.2. Pension Fund Payroll - IA/25/008 (Pages 27 - 44)

ANNUAL REPORT AND ACCOUNTS

- 9.1. Draft NESPF Annual Report & Accounts - PC/JUN25/ARA (Pages 45 - 160)

SCRUTINY

- 10.1. Nominations to LAPFF Executive Committee - PC/JUN25/LAPFF (Pages 161 - 170)

- 10.2. Strategy - PC/JUN25/STRAT (Pages 171 - 252)

- 10.3. Training - PC/JUN25/TRA (Pages 253 - 286)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 11.1. Investment Strategy - PC/JUNE25/INVSTRAT (Pages 287 - 292)

11.2. Asset and Investment Manager Performance Report - PC/JUN25/AIMPR
(Pages 293 - 358)

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

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PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 21 March 2025. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Cooke, Convener; Councillor MacGregor, Vice-Convener; and Councillors Davidson, Henrickson, Massey, and van Sweeden (Pensions Committee); Councillor Smith, Chairperson; Mr G Walters, Vice Chairperson; Councillors Gordon and Mennie; and Mrs M Lawrence, Mr N Stirling, Mr S Thompson and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pension Fund Manager; Graham Buntain, Investment Manager; Jamie Dale, Internal Audit; and Anne MacDonald, External Audit.

The agenda and reports associated with this minute can be found [here](#).

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

ANNOUNCEMENTS

1. The Convener began by advising Members that Councillor Crockett was now back on the Pensions Committee, as the new Independent Member on the Committee.

He further advised that the Fund had won the Pension Administration award at the Pension Age Awards on 4 March 2025, and stated that he wished to record congratulations to the team on their success.

DETERMINATION OF EXEMPT BUSINESS

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

The Committee resolved:-

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

MINUTE OF PREVIOUS MEETING

3. The Committee had before it the minute of its previous meeting of 13 December 2024 for approval.

PENSIONS COMMITTEE AND PENSION BOARD

21 March 2025

The Committee resolved:-

to approve the minute as a correct record.

BUSINESS PLANNER

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

Members heard from Jamie Dale, Internal Audit, who advised that in relation to item 8 (Pension Fund Payroll) fieldwork had been completed and the draft report was in the process of being finalised and would therefore be available for the June meeting.

The Committee resolved:-

to note the business planner.

INTERNAL AUDIT UPDATE REPORT - IA/25/004

5. The Committee had before it a report by the Chief Internal Auditor which provided an update on Internal Audit's work since the last report to Committee. The report provided details of the progress against the approved Internal Audit plans, audit recommendations follow up, and other relevant matters.

The Committee heard from Mr Dale, Chief Internal Auditor, that he had no concerns with the report and that the NESPF were always quick to close off any recommendations.

The report recommended:-

that the Committee –

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

The Committee resolved:-

to approve the recommendations.

INTERNAL AUDIT PLAN 2025-28 - IA/25/005

6. The Committee had before it a report by the Chief Internal Auditor which sought approval of the Internal Audit plan for 2025-28.

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

PENSIONS COMMITTEE AND PENSION BOARD

21 March 2025

The report recommended:-

that Committee approve the attached Internal Audit Plan for 2025-28.

The Committee resolved:-

- (i) to note that Members could contact Mr Dale with any suggestions of areas they wished Internal Audit to consider; and
- (ii) to approve the recommendation.

EXTERNAL AUDIT - ANNUAL AUDIT PLAN 2024/25

7. The Committee had before it a report by External Audit which provided an overview of the planned scope and timing of the 2024/25 audit of North East Scotland Pension Fund's (the Fund's) annual report and accounts. It outlined the audit work planned to meet the audit requirements set out in auditing standards and the Code of Audit Practice, including supplementary guidance.

Members heard from Anne MacDonald, Senior Audit Manager, Audit Scotland, in respect of the report and asked a number of questions.

The Committee resolved:-

- (i) to note that Audit Scotland would provide information to Members on the number of auditor experts that External Audit could approach when seeking advice to inform planned audit procedures; and
- (ii) to note the report.

STATEMENT OF ACCOUNTS 2024/25 - ACTION PLAN - PC/MAR25/ACCOUNTS

8. The Committee had before it a report by the Chief Officer – Finance which provided high level information and key dates in relation to the 2024/25 Statement of Accounts, including linkages to the plans and timetables of the Council's External Auditors.

The report recommended:-

that the Committee note the report for reassurance.

The Committee resolved:-

to note the report.

PENSIONS COMMITTEE AND PENSION BOARD

21 March 2025

STRATEGY - PC/MAR25/STRAT

9. The Committee had before it a report by the Chief Officer – Finance which provided an update on recent developments and made recommendations (if applicable) to any changes required to the North East Scotland Pension Fund.

The report provided an update on Local Government Pension Scheme (LGPS) pensions and Career Average Revalued Earnings (CARE) pots; the LGPS (Remediable Service)(Scotland)(Miscellaneous Amendment) Regulations 2024 which would amend the underpin rules; staff training; fraud, whistleblowing and breaches of the Bribery Act (none noted); details of the appointment of Hymans Robertson LLP as the new scheme actuary; the exit of Sanctuary Scotland from the scheme; and the latest position with pensions dashboards.

The report advised that changes had also been made to the following documents:-

- Governance Policy (some minor grammatical corrections, updates to Terms of Reference following annual governance reviews)
- Risk Management Policy (replaced references to tPR's CoP14 to GCoP)
- Cyber Security Policy (minor amendments to improve clarify, again references updated from CoP14 to CGoP, updated names of current external services providers)
- Local Contingency Plan (Added in references to new cyber security measures e.g. member contact details extracted monthly, updated wording across the document for clarity and staffing updates)
- Statement of Investment Principles (revised wording on exclusion policy)

The report recommended:-

that the Committee –

- (a) note the updates to the Fund Policy documents (item 6.2 of the main report);
- (b) note the update to the Authorised Signatory List (item 6.6 of the main report); and
- (c) note the remainder of the report for reassurance.

Members asked a number of questions on the report in respect of the risk register, relating to Committee membership, the NESPF operating model and cyber security.

The Committee resolved:-

- (i) to note that information would be circulated to Members in the event of any future changes to Pension Committee and Board membership;
- (ii) to note that there would be a report to a future meeting on the operating model for the Fund; and
- (iii) to approve the recommendations.

PENSIONS COMMITTEE AND PENSION BOARD

21 March 2025

REVIEW OF NESPF COMPLIANCE WITH THE PUBLIC SERVICE PENSIONS ACT 2013 (PSPA 2013) AND PENSION REGULATOR REQUIREMENTS - PC/MAR25/GOV

10. The Committee had before it a report by the Chief Officer – Finance which provided a review of the North East Scotland Pension Fund's (the "Fund") compliance with the Public Service Pensions Act 2013 ("PSPA") and the Pensions Regulator's ("tPR") requirements during the financial year 2024/25.

The report recommended:-

that the Committee note the assurance provided in the main report.

The Committee resolved:-

- (i) to note that officers would contact the Pensions Regulator to advise that members of the Board wished to meet with a representative; and
- (ii) to note the report.

In accordance with the decision taken under article 2 above, the following items were considered with the press and public excluded.

INVESTMENT STRATEGY UPDATE - PC/MAR25/INVSTRAT

11. The Committee had before it a report by the Chief Officer – Finance which provide an update in respect of a re-balancing change; information on the NESPF's first Task Force on Climate-related Financial Disclosures (TCFD) publication; and an update on a voting change involving passive holdings.

The report recommended:-

that the Committee note the contents of the report for assurance.

Members heard from Mr Buntain, Investment Manager, in respect of the report.

The Committee resolved:-

- (i) to note that officers would provide information to Members outwith the meeting on the date that the re-balancing came into effect; and
- (ii) to note the report.

PENSIONS COMMITTEE AND PENSION BOARD

21 March 2025

ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT - PC/MAR25/AIMPR

12. The Committee had before it a report by the Executive Director Corporate Services which presented a review of the investment activity of the North East Scotland Pension Fund for the three month period ending 31 December 2024.

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

The report recommended:-

that the Committee note the contents of the report for assurance.

The Committee resolved:-

- (i) to note that officers would follow up on the discussion around electric planes and whether any of the Fund's assets were looking into this; and
- (ii) to note the report.

- COUNCILLOR JOHN COOKE, Convener

	A	B	C	D	E	F	G	H	I
1	PENSIONS COMMITTEE BUSINESS PLANNER The Business Planner details the reports which have been instructed by the Committee as well as reports which the Functions expect to be submitting for the calendar year.								
2	Report Title	Minute Reference/Committee Decision or Purpose of Report	Update	Report Author	Chief Officer	Directorate	Terms of Reference	Delayed or Recommended for removal or transfer, enter either D, R, or T	Explanation if delayed, removed or transferred
3	20 June 2025								
4	Nominations to LAPFF Executive Committee	To determine any nominations		Laura Colliss	Finance	Corporate Services	6.1		
5	Pension Fund Payroll	To present the outcome of the audit		Jamie Dale	Internal Audit	Internal Audit	2.2		
6	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
7	Internal Audit Annual Report 2024/25	To present the annual report		Jamie Dale	Internal Audit	Internal Audit	2.2		
8	Investment Strategy	To present an update of the strategy		Laura Colliss	Finance	Corporate Services	5.2		
9	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
10	Training	To provide details of the training plan (2025/26)		Laura Colliss	Finance	Corporate Services	4.1 and 4.2		
11	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Corporate Services	3.1		
12	12 September 2025								
13	NESPF Annual Report & Accounts	To present the audited annual accounts		Laura Colliss	Finance	Corporate Services	3.1		
14	NESPF Annual Audit Report and Covering Letter	To present the External Audit annual audit report		Anne MacDonald	External Audit	External Audit	2.1		
15	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
16	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
17	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Laura Colliss	Finance	Corporate Services	1.3		
18	12 December 2025								
19	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
20	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		

	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	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Laura Colliss	Finance	Corporate Services	1.3		
22	March 2026								
23	Statement of Accounts Action Plan	To provide Elected Members with high level information and key dates to the Statement of Accounts including linkages to the plans and timetables of the Council's External Auditors		Laura Colliss	Finance	Corporate Services	3.1		
24	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Corporate Services	1.2, 1.4, 3-5		
25	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund for the latest three month period		Graham Buntain	Finance	Corporate Services	5.2		
26	Investment Strategy	To present an update of the strategy		Laura Colliss	Finance	Corporate Services	5.2		
27	Review of NESPF Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide a review of compliance for 2024/25		Mairi Suttie	Finance	Corporate Services	4.1 and 4.2		
28	Internal Audit Annual Report 2024/25	To provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2025/26		Jamie Dale	Internal Audit	Internal Audit	2.2		
29	External Audit Annual Plan 2025/26	To present the annual plan		Anne MacDonald	External Audit	External Audit	2.1		
30									
31	Service Updates								
32	Annual Effectiveness Report - Pensions Committee	To present the annual effectiveness report		Jonathan Belford	Finance	Corporate Services			

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Annual Report 2024/25
REPORT NUMBER	IA/25/007
DIRECTOR	N/A
CHIEF OFFICER	Jamie Dale Chief Internal Auditor
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to provide the Committee with Internal Audit's Annual Report for the North East Scotland Pension Fund for 2024/25.

2. RECOMMENDATIONS

It is recommended that the Committee:

- 2.1 Note the Annual Report for 2024/25;
- 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 2024/25; and
- 2.4 Note the progress that management has made with implementing recommendations agreed in Internal Audit reports.

3. CURRENT SITUATION

- 3.1 Public Sector Internal Audit Standards require that Internal Audit produce an annual report on the adequacy and effectiveness of NESPF's framework of governance, risk management and control. It is one of the functions of the Pensions Committee to review the activities of the Internal Audit function, including its annual work programme.
- 3.2 This report is designed to meet three objectives; to present to Pensions Committee, and through them, the Board:

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
 - Governance
 - Risk management
 - Internal control
- A narrative over the key findings from the assurance work undertaken by IA during 2024/25, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2024/25

3.3 This report covers the period from 1 April 2024 to 31 March 2025 and any work finalised during the 2024/25 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. MANAGEMENT OF RISK

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

8. OUTCOMES

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

8.2 However, Internal Audit plays a key role in providing assurance over, and

helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. **IMPACT ASSESSMENTS**

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

10. **APPENDICES**

- 10.1 Appendix A – Internal Audit Annual Report for the year ended 31 March 2025.

11. **REPORT AUTHOR DETAILS**

Jamie Dale, Chief Internal Auditor
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Internal Audit

North East Scotland Pension Fund Annual Assurance Report and Chief Internal Auditor's Opinion 2024/25

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1 Executive Summary

1.1 Introduction and background

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

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

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

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

1.2 Purpose of this report

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

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

- A formal opinion on the adequacy and effectiveness of the NESPF's arrangements for:
 - Governance
 - Risk Management
 - Internal Control
- A narrative over the key findings from the assurance work undertaken by IA during 2024/25, drawing out key lessons to be learned.
- An account of the assurance activities and resources of IA during the period 2024/25.

This report covers the period from 1 April 2024 to 31 March 2025 and any work finalised during the 2024/25 assurance period. It also takes account of work undertaken up to the date of the issue of this report. The report is grounded in the whole activity and work of IA, whether in terms of formal audit evidence and work, management assurance and consultancy activity, or evidence gathered throughout wider engagement across the NESPF or the Council.

1.3 Conclusion

The overall Chief Internal Auditor's opinion is:

In my opinion the NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2024 to 31 March 2025.

For further commentary see the Annual Assurance Opinion section below.

1.4 Action requested of the Pensions Committee

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

2 Annual Assurance Opinion

2.1 Basis of annual assurance opinion

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

- The results of internal audits completed up to the date of this report.
- Any follow-up action taken in respect of audits from previous periods.
- The effects of any significant changes in control environment.
- Matters arising from previous annual reports to the NESPF.
- Any limitations that may have been placed on the scope of IA – there are no restrictions to declare in this report.
- Reports issued by External Audit.
- IA's knowledge of the NESPF and the Council's Governance, Risk Management and Performance Monitoring arrangements.
- The assessment of risk completed during the formation of the 2025-28 Audit Plan.
- The results of other assurance activities completed during the year.

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

2.2 Annual assurance opinion 2024/25

IA is satisfied that sufficient audit and assurance work has been undertaken to allow a reasonable conclusion to be drawn as to the adequacy and effectiveness of the NESPF's framework for governance, risk management and control. NESPF had an adequate and effective framework for governance, risk management and control, covering the period 1 April 2024 to 31 March 2025.

2.3 Rationale for the opinion

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

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

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

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

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

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

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

During the year IA issued one specific NESPF report:

- **Pension Fund Payroll** – The North East Scotland Pension Fund (NESPF) administers the Local Government Pension Scheme (LGPS) for 41 employers in the North and North East of Scotland, including Aberdeen City Council. In 2023/24, NESPF paid out £198.3m in retirement pensions, lump sums, and death benefits. The audit assessed the control framework for the Pension Fund Payroll and found it provided reasonable assurance over the Council's approach. Key areas reviewed included ongoing pensions, new pensions, transfers out, data quality, committee oversight, breaches register, reconciliations, and exception reporting. While reasonable assurance was available in these areas, some weaknesses were identified, such as gaps in written procedures, unnecessary system access, and risks related to deceased members and bank account details. Recommendations were made to address these risks and enhance controls over pensioner identification, bank account verification, and write-offs.

Management accepted all recommendations and are working on implementation presently as part of timebound actions plans, with some already implemented.

2.4 Follow up of audit recommendations

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

As at the 31 March 2025, no audit recommendations were due.

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

3 Audit Results

3.1 In year audit results

Across the year, IA issued one audit report – Pension Fund Payroll.

3.2 2024/25 Audits

Council Area	Audit Area	Overall Rating
NESPF	Pension Fund Payroll	Moderate

3.3 Counter Fraud

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

4 IA Performance

4.1 Quality assurance and improvement plan

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

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

IA is pleased to confirm an internal review of the control framework has concluded that IA fully conforms with PSIAS.

Complete details of the QAIP (including KPIs) have been presented to the Audit, Risk and Scrutiny Committee as part of the Council's overall Annual Audit Report and Opinion. This includes details of Internal Audit's work to ensure compliance with the Global Internal Audit Standards (GIAS), which were introduced in 2025.

4.2 Staffing

At present IA is operating with a 12.8 FTE, 0.2 FTE under budget. This 0.2 variance is reflective of flexible working within the Service.

5 Appendix 1 – Grading of Recommendations

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

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

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

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2515 – Pension Fund Payroll
REPORT NUMBER	IA/25/008
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

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

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. CURRENT SITUATION

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

- 7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing

those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

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

10. BACKGROUND PAPERS

- 10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

- 11.1 Internal Audit report AC2515 – Pension Fund Payroll

12. REPORT AUTHOR CONTACT DETAILS

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Internal Audit

Assurance Review of Pension Fund Payroll

Status: Final

Date: 08 May 2025

Risk Level: Corporate

Report No: AC2515

Assurance Year: 2024/25

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

Report Tracking	Planned Date	Actual Date
Scope issued	10-Oct-24	10-Oct-24
Scope agreed	17-Oct-24	11-Oct-24
Fieldwork commenced	04-Nov-24	19-Nov-24
Fieldwork completed	29-Nov-24	21-Mar-25
Draft report issued	20-Dec-24	21-Mar-25
Process owner response	24-Jan-25	29-Apr-25
Director response	31-Jan-25	08-May-25
Final report issued	07-Feb-25	08-May-25
Pensions Committee	20-Jun-25	

Distribution	
Document type	Assurance Report
Directors	Andy MacDonald, Executive Director – Corporate Services
Process Owner	Laura Colliss, Pensions Manager
Stakeholders	Marie McLean, Benefit Administration Manager
	Duncan Kilburn, Senior Pensions Officer
	Bernadette Bularan, Deputy Chief Finance Officer
	Jonathan Belford, Chief Officer – Finance*
	Vikki Cuthbert, Interim Chief Officer – Governance*
Final Only	External Audit
Lead auditor	Kostas Minas, Auditor

1 Introduction

1.1 Area subject to review

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council.

NESPF was valued at £6.2b at the end of the 2023/24 financial year with nearly 78,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m).

1.2 Rationale for the review

The objective of this audit is to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.

This area was last reviewed in June 2021 when arrangements were found to be adequate in general with recommendations agreed to enhance written procedures, and to enhance control over trivial commutation lump sums; segregation of duties; and changes to bank details.

This has been included in 2024/25 NESPF Internal Audit Plan due to the material value of retirement and death payments and the reputational risk to the Fund should employees and pensioners suffer financially due to inadequate control over these payments.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 2 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Cluster	This issue/ risk level impacts a particular Service or Cluster. Mitigating actions should be implemented by the responsible Chief Officer.

2.2 Assurance assessment

The level of net risk is assessed as **MODERATE**, with the control framework deemed to provide **REASONABLE** assurance over the Council's approach to the Pension Fund Payroll.

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council. In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m) via the five payrolls administered by NESPF (001 - main; CLL – Councillors; 009 – Teachers Compensation (historic early retirement); N02 - First Bus Aberdeen; N01 – First Bus Strathclyde Legacy).

Reasonable assurance was available over the following areas reviewed:

- **Ongoing Pensions** – Annual inflationary increases were correctly applied to a sample of five ongoing pensions, in line with HM Treasury Revaluation Order and Guaranteed Minimum Pension (GMP) rules. Income tax was also correctly calculated for the same sample of five ongoing pensions based on the tax codes present in the pension system.
- **New Pensions** – Five new pensioners, covering early, late and ill-health retirals and a voluntary redundancy reviewed were calculated correctly based on system data and the related employer cessation forms.
- **Transfers Out** – Transfer payment values for a sample of five transfers reviewed, were accurately calculated and adequately supported.
- **Data Quality** – In compliance with the Pensions Regulator's General Code of Practice, the Pension Fund has formalised a data quality improvement plan which has actions to improve the quality of data impacting pension calculations; this was reported to the Pensions Committee in December 2024. Also, the 2023/24 annual accounts reported high data quality scores of 98.7% and 99.2% for Pensions System common data (e.g. name, NI number, date of birth) and scheme specific data (i.e. data relevant to calculation of member benefits).
- **Committee Oversight** – In accordance with regulation 57 of the LGPS (Scotland) Regulations 2018, the Pension Fund has a Pension Administration Strategy (PAS) setting out details of

target performance and service standards for the Fund. PAS key performance indicators are being reported quarterly to the Pensions Committee, covering timeliness of key pension administration tasks relevant to pension processing. In addition, a risk register is being monitored quarterly by the Pensions Committee, covering relevant risks, including those related to payment accuracy and fraud.

- **Breaches Register** – The Pension Fund maintains a Breaches Register for breaches of pension and data protection legislation (which are investigated and managed by Aberdeen City Council's Data Protection Team) and payment errors. The register includes consequences of breaches, a related risk assessment, and action to avoid a repeat and any reporting requirement. The Breaches Register is monitored by the NESPF senior management team monthly, and Pensions Committee is updated annually.
- **Reconciliations and Exception Reporting** – BACS payroll net pay payments for all five payrolls across three months in 2024/25 all reconciled to the Pensions System with no material differences (one 60p difference). In addition, relevant pre-payroll checks had been recorded as being completed on the Service's payroll checklist spreadsheet, pre-payroll exception reports were run indicating no member calculation errors were present prior to processing the same three months of payrolls reviewed, and reasons for movements in gross pay are being analysed for payment control purposes.

However, the review identified some areas of weakness where enhancements could be made to strengthen the framework of governance, risk management and control, specifically:

- **Written Procedures** – The Pension Fund has extensive payroll written procedures. However, gaps were noted in documented controls. This included bank account verification alternative evidence; i-Connect exception reporting corrective action; pension benefit and grant calculation checks; how to check the accuracy of transfer out payment values; AVC lump sum overpayment prevention; pre-payroll exception reporting checks; net pay and tax reconciliation requirements; and BACS processing. Where procedures are not clear or complete, this risks inconsistency in approach, business continuity, payment error and potentially fraud.
- **System Access** – Whilst not demonstrated during this review, the Service advised that except for four officers within the Systems team who have superuser access, the Pensions System enforces segregation of duties in creation and authorisation of new pensioner benefits. However, the Service also advised that only five officers are permitted to authorise pension benefits for inclusion on pension payrolls and approve payrolls for payment but presently a further eight officers can do so (in addition to the four Systems team superusers) as well as having the ability to amend and/or delete certain payroll processing actions and the resulting payment history. This unnecessary system access increases the risk of payment error and potentially fraud.
- **Deceased Members** – Payments to a sample of five deceased pensioners were stopped timeously, and final payments to this sample were accurate based on system data and date of death evidence i.e. Tell Us Once notice, death certificate. In addition, survivor payments were accurately calculated. However, whilst the Service advise death notifications are available by various means, including from former employers, the Tell Us Once Service, and the National Fraud Initiative (NFI), 324 members as at April 2025 live permanently abroad or in Northern Ireland, out with the scope of these death notification services. This increases the risk of continued payment of pension benefits to deceased members living abroad, where deaths are not notified by next of kin, risking potential fraud, financial loss for the Fund, and reputational damage. Weakness in current monitoring arrangements, described as taking place weekly, was demonstrated by a £5k write off reviewed during this audit resulting from a failure to detect the death of a pensioner living abroad, with this instead identified almost a year after the death by the NFI exercise.
- **Bank Account Details** – Since November 2024, bank account verification (BAV) requirements have increased with the introduction of BAV functionality within the Pensions System. However, presently the Pensions System does not enforce segregation in preparation and approval of bank account details used at the point they are entered into the Pensions System, relying instead on creation of "checker tasks" for each bank account entered and typed case

notes to indicate review which cannot be verified to the relevant officer. Where segregation in preparation and approval is not enforced, this increases the risk of payment error and fraud.

- **Pensioner Identification** – The NESPF Retirement Form includes a useful checklist of required documentation and certificates that must be submitted by a prospective pensioner prior to a pension being paid. However, the checklists permit photocopies as well as original certificates, increasing the risk of forgery. Also, UK Government Proof of Identity verification guidance indicates you cannot use a single form of identification for an individual, with separate evidence required for proof of name (e.g. original birth certificate) and proof of address (e.g. utility bill within last three months, council tax bill for current council tax year). The risk of impersonation is low at the point of retirement where employer involvement is required. However, it would be prudent to risk assess identification verification adequacy and to ensure arrangements are fit for purpose, particularly in relation to payments not corroborated by a pensioner's employer.
- **Write Offs** – Three (60%) of a sample of five 2024/25 debt write offs relating to deceased former members, ranging from £176 up to £856, were not adequately justified based on records available during the audit and were not approved by the Pension Fund Manager as required i.e. approved by Senior Pensions Officers instead. In addition, whilst two larger value write offs were appropriately approved, one for £3k was due to inadequate checks prior to paying a survivor pension to an ineligible recipient i.e. a co-habitant ineligible since the deceased was already married to another individual. The recipient of the survivor pension must now repay an additional £10k (reduced from £13k). Where survivor pension checks are inadequate, this increases the risk of financial loss as in this case and reputational damage. In addition, tax is not being recovered from HMRC for all write offs for historical reasons, which is a financial loss to the Pension Fund.

Recommendations have been made to address the above risks, including formalising written procedures and delegated payment authority; reviewing and minimising system access; establishing monitoring arrangements for pensioners living abroad. Also, recommendations have been made to enhance controls over pensioner identification; bank account verification; and write offs.

2.3 Severe or major issues / risks

No severe or major issues / risks were identified as part of this review.

2.4 Management response

See comments below each point for identified risks and actions to be taken.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Moderate
1.1	<p>Written Procedures and Training – Comprehensive written procedures are an essential element in any system of control, providing management with assurance that all staff have access to the necessary information to carry out their duties, especially in the event of an experienced employee being absent.</p> <p>The Pension Fund has many procedures in place to administer the pension payrolls. However, some gaps and areas for improvement were identified as follows:</p> <p><u>Bank Account Verification (BAV)</u></p> <p>Since August 2024, the Pensions System has been upgraded to include Bank Account Verification (BAV) functionality, which is used to verify new pensioner bank account details and any changes to bank account details.</p> <p>A basic spreadsheet procedure is in place with a “treatment” description of how officers should respond to the various “detail” warning messages from the BAV system. However, the “treatment” descriptions are not always clear, and do not always include specific alternative bank account evidence requirements, or details of who should provide this, where a bank account verification warning message appears. Examples of unclear “treatment” actions include:</p> <ul style="list-style-type: none"> • Account matched to individual at previous address - <i>“Check: Recent address change, Correspondence address, Care home. Ask if not sure. (Override if all OK and was a refer or fail)”</i>. • Unable to verify account details to address - <i>“For where a pensioner has sent in the change or returned retiral forms write out to request further information e.g. bank statement. For a bank initiated change send usual letter confirming change and note on letter that verification failed, probably due to new account”</i>. • Can’t match bank account details to person - <i>“For where a pensioner has sent in the change or returned retiral forms write out to request further information e.g. bank statement. For a bank initiated change send usual letter confirming change and note on letter that verification failed, probably due to new account. If paired with “Bank account details matched to individual for a live account at current address” override as probably joint account”</i>. <p>This lack of clarity increases the risk an incorrect bank account will be accepted leading to payment error and potentially even successful fraud.</p> <p><u>i-Connect Validation Checks</u></p> <p>Employee data relevant to pension benefit calculations is updated in the Pensions System via monthly “iConnect” transmissions from employers. This includes the relevant employee’s full name, address, national insurance number, contact details, date of birth, date joined the fund, annual pensionable pay, equivalent final pay, and superannuation contributions.</p> <p>Once a submission has been processed by an employer, procedures state NESPF is notified and if there are any rejected employee superannuation contributions, these need to be investigated, and the Pensions System manually updated for the missing contributions. The Service advises that erroneous changes to data reported via iConnect affecting pension calculations are detected via exception reporting including misreported date of births, changes to dates individuals join the pension fund, or misreported pensionable pay.</p>		

Ref	Description	Risk Rating	Moderate
	<p>However, despite the Service advising it is understood how to identify and respond to such exceptions, procedures are not formalised covering this, risking business continuity, future payment error or potential unmitigated fraud.</p> <p><u>Lump Sum Duplicate Payment Error</u></p> <p>In 2022/23 a member was paid their Additional Voluntary Contribution lump sum twice, resulting in an overpayment of £38k, and this was not identified timeously by Finance, meaning the member no longer has the lump sum to pay the Pension Fund back in full. As a result, a payment arrangement has been established which is intended to enable the outstanding amount relating to the overpaid lump sum to be recovered through future reduced pension payments over a seven-and-a-half-year period.</p> <p>However, there is a risk the pensioner concerned may not survive to fully repay what is owed, risking financial loss and reputational damage.</p> <p>The payment error arose because the AVC provider paid the pensioner their AVC lump sum directly, instead of paying the Council to pay the pensioner, and a duplicate payment was then processed by the Pension Fund without evidence the related income had been received from the AVC provider.</p> <p>The Service advises that this could not happen now since Finance monitor immediate AVC lump sum payments processed to ensure the related income has been received from the AVC provider and if not, they notify the Benefits team to prevent the payment being paid.</p> <p>However, procedures have not been formalised to ensure new control measures are always applied. In addition, it would be preferable if the immediate payment did not enter the Pensions System at all until Finance had communicated income had been received from the AVC provider, rather than the current process, which involves creating the payment and deferring it for an estimated future payment date, relying on subsequent checks that income has been received prior to payment. These issues increase the risk a future duplicate AVC lump sum payments.</p> <p><u>Pension Calculation Validation and Payroll Processing Checks</u></p> <p>The following was also noted in relation to pension benefit calculation and payroll processing procedures:</p> <ol style="list-style-type: none"> 1. Pension Details on Retirement – How to Check Figures Procedure – This details pension calculation checks. However, the procedure focuses on agreeing a system generated pension benefit and retirement grant summary back to a system screen for “Pension Details”. Whilst this may identify system calculation issues, this checking process does not verify figures back to any source documentation where relevant, such as the relevant employer form for final salary and pension service start date. 2. Transfer Out Checks – The procedures for staff require staff to check the accuracy of transfer out values without explanation of how to do so, risking payment error. 3. Pre-Payroll Processing and BACS Processing procedures - These procedures are yet to be finalised for use. 4. Reconciliations Procedure – This procedure was under review at the time of the audit. <p>The above gaps risk the identification, investigation and resolution of payroll anomalies, related payment error and financial loss.</p> <p>IA Recommended Mitigating Actions</p> <p>Pension procedures should be reviewed and where necessary formalised or updated. This should cover bank account verification; i-Connect exception reporting; AVC lump sum</p>		

Ref	Description	Risk Rating	Moderate
	overpayment prevention; pension benefit, grant and transfer out calculation checks; pre-payroll checks; reconciliations; and BACS processing.		
	Management Actions to Address Issues/Risks		
	<p><i>As previously mentioned, the bank account verification process is new and is still being understood and documented. The procedure will continue to be reviewed, and documentation updated.</i></p> <p><i>The guides held for checking errors and data for i-Connect will be reviewed and revised.</i></p> <p><i>A process is being developed for the lump sum overpayment prevention along with the Accounts team.</i></p> <p><i>The pre-payroll checks and bacs processing procedures are in the final stages and the reconciliation procedure is contained within the full Altair Payroll Procedure document although it is in the process of being reviewed and split out into a separate document.</i></p> <p><i>On the job training takes place to cover calculations however calculation procedures will also be reviewed to determine if any updates are needed.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Benefit Administration Manager	30/09/2025

Ref	Description	Risk Rating	Moderate
1.2	<p>System Access – Secure System access controls are essential over any payment system to prevent unauthorised changes affecting payments made.</p> <p>Whilst evidence was not shared during this review, the Service advised Pensions System enforces segregation of duties in creation and authorisation of new pensioner benefits, with Payroll Senior users prevented by the system from authorising pension benefits they have had any involvement in creating or amending, and Payroll Officers prevented from authorising new pensioner benefits for inclusion on future payrolls. Also, the Service advised once authorised by a Payroll Senior, changes to the pension record within the Pensions System are prevented by the system and creation of BACS files to process payments is restricted to Payroll Seniors.</p> <p>The exception to this is the four “Client” superusers within the Systems team who can undertake any task within the Pensions System.</p> <p>According to the Service, only five officers are required to authorise payroll payments (batch payments up to £12m all five officers and immediate payments – Benefits Admin Manager £550k and Senior Pensions Officers £268k). However, presently eight additional officers have the same “Payroll Senior” access, enabling payroll payments to be authorised, as well as having the ability to amend and/or delete certain payroll processing actions and the resulting payment history.</p> <p>Where access permissions for any payment system are not aligned with officer roles and responsibilities and are excessive, this increases the risk of payment error and fraud.</p>		
	IA Recommended Mitigating Actions		
	System access rights should be reviewed and minimised in line with officer delegated authority, roles and responsibilities.		
	Management Actions to Address Issues/Risks		

Ref	Description	Risk Rating	Moderate
	<i>System access roles will be reviewed to ensure that those who do not use certain access also do not have that access.</i>		
	Risk Agreed	Person(s)	Due Date
	Yes	Systems Manager	30/06/2025

Ref	Description	Risk Rating	Moderate
1.3	<p>Deceased Members – To ensure full pensions do not continue to be paid to the bank accounts of deceased former members and mitigate the associated risk of fraudulent access to such payments, it is essential deaths are adequately monitored, and payments ceased.</p> <p>Payments to a sample of five deceased pensioners were stopped timeously, and final payments to this sample were accurate based on system data and date of death evidence i.e. Tell Us Once notice, death certificate. In addition, payments to survivors were accurately calculated.</p> <p>However, whilst the Service advise death notifications are available by various means, including from former employers, the Tell Us Once Service, and the National Fraud Initiative, presently 324 Pensioner members live permanently abroad or in Northern Ireland, out with the scope of these death notification services.</p> <p>This increases the risk of continued payment of pension benefits to deceased members, fraudulent access to these overpayments, financial loss, and reputational damage.</p> <p>The Service advised there is an existing checking process done periodically. However, this system did not identify a sample overpayment of £5k reviewed relating to a deceased member living abroad which had to be written off. Whilst this was picked up by the NFI exercise, this was almost a year after the related pensioner's death.</p> <p>This increases the risk of financial loss, should similar issues occur in other death benefit cases.</p> <p>IA Recommended Mitigating Actions</p> <p>The Service should enhance death monitoring arrangements for all pensioners, including those living abroad, and ensure related monitoring activity is recorded and reviewed.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>An existence checking exercise is done periodically to check that all overseas members are still alive.</i></p> <p><i>We are looking to introduce digital identification checks and are in consultation with external parties to establish this.</i></p>		
	Risk Agreed	Person(s)	Due Date
	Yes	Benefit Administration Manager	31/03/2026

Ref	Description	Risk Rating	Moderate
1.4	<p>Bank Account Details – Bank account details used for making payments to pensioners are received by various means including via retirement forms for new pensioners or via the member's online portal or by letter for bank account changes.</p> <p>Since August 2024, the Pensions System has been upgraded to include Bank Account Verification (BAV) functionality, which is used to verify new pensioner bank account details and any changes to bank account details. The Pensions System supplier's BAV guide indicates this is achieved by using Credit Reference Agencies' live feeds, to verify bank account details are valid in combination with sort code entered, and that the account is live and matches to the individual concerned, at the current address (or otherwise).</p> <p>On submitting a BAV request, the potential result "status" options are as follows:</p> <ul style="list-style-type: none"> • Pass – The information matches records held by BAV third party data processor as described above. • Refer – Some of the information provided matches records held by BAV third party data processor e.g. account number may match to individual, but address doesn't. • Fail – No match. <p>The above results are accompanied by related "Detail" commentary, either confirming basis of a "Pass", or expanding on reasons for "Refer" or "Fail" status. The user can select "Pass (Overridden)" where a result other than "Pass" is returned to make payment with the bank account details submitted for verification.</p> <p>Four bank account changes since August 2024 were reviewed to confirm they were adequately supported, and this was confirmed to be the case.</p> <p><u>Review of Bank Account Changes</u></p> <p>The Service has advised that bank account changes are initially processed by the Systems Team, who amend the bank account details, run the BAV process and create a "checking task" for every bank change for a Senior Payroll officer to review the change.</p> <p>A Senior Pensions Officer advised that outstanding "checker tasks", including where bank account details have not been verified are run prior to processing the payroll for payment. This was evidenced in the payroll checklist (all groups) spreadsheet for 2024/25 with a related task to do so i.e. <i>"check the checker group to make sure all payroll tasks have been processed"</i>.</p> <p>All four samples reviewed that occurred since BAV was introduced, had system typed notes within the "Case Comments and Task Description" section, indicating more than one officer had been involved in the change in bank account details.</p> <p>Whilst the "checker task" helps ensure segregation of duties, there is still a risk a bank account change could be processed by an officer with privileged system access and the related "checker task" not created, circumventing the need for review of the change. If feasible, it would be preferable if the system enforced segregation in the preparation and review of bank account changes applied to member accounts to reduce the risk of payment error and fraud.</p> <p>IA Recommended Mitigating Actions</p> <p>Segregation in preparation and review of bank account changes, with review by a delegated officer, should be enforced by the Pensions System.</p> <p>Management Actions to Address Issues/Risks</p> <p><i>Presently we do not believe the system is capable of enforcing segregation in preparation and review of bank account changes / the creation of new bank accounts. However, we will liaise with the system provider and investigate.</i></p>		

Ref	Description		Risk Rating	Moderate
	Risk Agreed Yes	Person(s) Systems Manager	Due Date 31/07/2025	

Ref	Description	Risk Rating	Moderate
1.5	<p>Identification Procedures – In any payment process, adequate payee identification procedures are necessary to mitigate the risk of fraud.</p> <p>The NESPF Retirement Form includes a useful checklist of required documentation and certificates that must be submitted by a prospective pensioner prior to a pension being paid. This includes a member's birth certificate in all cases, and supplementary documentation as applicable, including a marriage/civil partnership certificate, spouse's death certificate for survivor pension and death grant, divorce decree if divorced to remove eligibility to survivor pension.</p> <p>In all sample pensioners reviewed (except those transferred out of the Fund) copy birth certificates were on file and marriage certificates where applicable. However, the checklists permit photocopies as well as original certificates, increasing the risk of forgery. Also, UK Government Proof of Identity verification guidance¹ indicates you cannot use a single form of identification for an individual, with separate evidence required for proof of name (e.g. original birth certificate) and proof of address (e.g. utility bill within last three months, council tax bill for current council tax year).</p> <p>The risk of impersonation and fraud is low on retirement where employer verification is required. However, there is a greater risk for other payments not corroborated by a pensioner's employer.</p>		
IA Recommended Mitigating Actions			
The Service should risk assess identification verification adequacy and ensure arrangements are fit for purpose, particularly in relation to payments not corroborated by a pensioner's employer, such as payment of survivor pension benefits.			
Management Actions to Address Issues/Risks			
We are currently investigating digital ID checks for our online system Engage but it is not practical to check all pensioners.			
Risk Agreed		Person(s)	Due Date
Yes		Benefit Administration Manager	31/03/2026

Ref	Description		Risk Rating	Moderate
1.6	<p>Write Offs – Depending on the timing of notification of a death to the Pension Fund, an overpayment of pension benefits may be made. In line with Aberdeen City Council's Scheme of Governance, the Pension Fund Manager is authorised to write-off unrecoverable debts up to £10k, the Chief Officer – Finance is authorised to write off debts up to £25k, and the Pensions Committee has the authority to write-off unrecoverable debt above £25k. The</p>			

¹ Bona Vacantia – Proof of identity checklist guidance (<https://www.gov.uk/government/publications/proof-of-identity-checklist/proof-of-identity-checklist>)

Ref	Description	Risk Rating	Moderate
	<p>Service's debt write-off procedure requires all debts up to £100 to be automatically written off.</p> <p>However, three (60%) of a sample of five 2024/25 debt write offs relating to deceased former members, ranging from £176 up to £856 (gross values), were not adequately justified based on records available during the audit and were not approved by the Pension Fund Manager as required. In addition, whilst two larger value write offs were appropriately approved, both highlighted control weaknesses.</p> <p>One was for £3k agreed as the Pension Fund was at fault and did not carry out necessary checks prior to paying a survivor pension to an ineligible recipient i.e. a co-habitant where the deceased was already married to another individual. The Service advises it would not be possible to mitigate this risk further however the error has resulted in a £3k write off and the recipient of the survivor pension having to repay an additional reduced amount of £10k.</p> <p>Where survivor pension checks are inadequate, this increases the risk of financial loss as in this case and reputational damage. The other write off appropriately approved was for £5k and the related control weakness is considered under 1.3 above.</p> <p>The Service advised that tax is not being recovered for all write offs for historical reasons. This should be addressed to avoid financial loss to the Pension Fund.</p>		
IA Recommended Mitigating Actions			
<p>a) The Service should ensure all write offs over £100 are appropriately justified and authorised.</p> <p>b) The Service should review and where possible enhance survivor pension controls to mitigate the risk of ineligible award of survivor pensions.</p> <p>c) The Service should recover overpaid tax from HMRC where feasible for prior unrecovered overpayments and as a matter of course for all overpaid tax in future.</p>			
Management Actions to Address Issues/Risks			
<p>a) <i>Two of the sample were both legacy First Bus members from Strathclyde. The overpayment limit for these is an inherited £250 because they are paid differently to NESPF only members. The overpayment policy has been amended to show this as it was not previously shown in the policy. The final issue within the sample was approved as required. Documentation has been put into the Teams Channel.</i></p> <p>b) <i>This is being reviewed in order to make the controls more robust.</i></p> <p>c) <i>Process is being reviewed.</i></p>			
Risk Agreed	Person(s)	Due Date	
N/A to a)	N/A	Implemented	
Yes to b) and c)	Benefit Administration Manager	31/08/2025	

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

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

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

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance review scoping document

5.1 Area subject to review

The Local Government Pension Scheme (LGPS) is a defined benefit public sector Pension Scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector Pension Schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and other nominated beneficiaries.

The North East Scotland Pension Fund (NESPF) administers the LGPS for 41 employers located throughout the North and North East of Scotland, including Aberdeen City Council.

NESPF was valued at £6.2b at the end of the 2023/24 financial year with nearly 78,000 members. The Aberdeen City Council Transport Fund was previously separate to NESPF but was merged with NESPF on 1 April 2022.

In 2023/24, a total of £198.3m was paid in retirement pensions, retirement lump sums/commutations, and lump sum death benefits (2022/23 - £172.0m).

5.2 Rationale for review

The objective of this audit is to consider whether arrangements are adequate to start and terminate payments from the pension fund payroll, and to ensure that payments are accurate.

This area was last reviewed in June 2021 when arrangements were found to be adequate in general with recommendations agreed to enhance written procedures, and to enhance control over trivial commutation lump sums; segregation of duties; and changes to bank details.

This has been included in 2024/25 NESPF Internal Audit Plan due to the material value of retirement and death payments and the reputational risk to the Fund should employees and pensioners suffer financially due to inadequate control over these payments.

5.3 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the **Cluster** level
- Individual **net risk** ratings for findings.

5.3.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas, with a focus on payroll, to be covered by this review are:

- Written Procedures, Policies and Training
- System Access
- New Pensions
- Ongoing Pensions
- Cessation and Death Benefits
- Transfer of Pensions
- Administration, Reconciliation and Payment Control
- Changes to Bank Details
- Write Offs
- Reporting, Governance and Scrutiny

5.4 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting systems, data, documentation, and paperwork. To support our work, we will review relevant legislation, policies, procedures/guidance and strategic plans.

Due to hybrid working practices, this review will primarily be undertaken remotely via electronic meetings and direct access to systems and data, with face to face contact and site visits to premises to obtain and review further records as appropriate.

5.5 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Fund Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.6 IA staff

The IA staff assigned to this review are:

- Konstantinos Minas, Auditor (**audit lead**)
- Andy Johnston, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.7 Fund key contacts

The key contacts for this review across the Fund are:

- Jonathan Belford, Chief Officer – Finance
- Laura Colliss (**process owner**)
- Marie McLean, Benefit Administration Manager

5.8 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	10-Oct-24
Scope agreed	17-Oct-24
Fieldwork commences	04-Nov-24
Fieldwork completed	29-Nov-24
Draft report issued	20-Dec-24
Process owner response	24-Jan-25
Director response	31-Jan-25
Final report issued	07-Feb-25

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Unaudited Annual Report and Accounts
REPORT NUMBER	PC/JUN25/ARA
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	3.1

1. PURPOSE OF REPORT

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

2. RECOMMENDATION

That the Committee:-

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

3. CURRENT SITUATION

- 3.1 In accordance with the Local Authority Accounts (Scotland) Regulations 2014 the unaudited Annual Report and Accounts for the North East Scotland Pension Fund are presented to the Committee at this stage for consideration, with the audited version to be presented to the 12 September 2025 meeting for consideration and signing.

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

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

- 7.1 The assessment of risk contained within the table below is considered to be consistent with the Council's Risk Appetite Statement.
- 7.2 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts to be approved no later than 30 September each year. Section 95 of the Local Government (Scotland) Act 1973 requires the Council to make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the administering authority has responsibility for the administration of those affairs. For the North East Scotland Pension Fund, that officer is the Chief Officer – Finance of Aberdeen City Council.
- 7.3 There is a risk that any issues with the Unaudited Annual Report and Accounts could impact on the ability of the administering authority to consider and approve the audited version by the September deadline.

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

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

8. OUTCOMES

8.1 N/A

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 3 rd June 2025.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDIX

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

12. REPORT AUTHOR CONTACT DETAILS

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

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North East Scotland Pension Fund

Unaudited Annual Report & Accounts

For the period 1 April 2024 to 31 March 2025

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Management Commentary

1. Foreword

As Convener of the Pensions Committee for the North East Scotland Pension Fund (NESPF), I am pleased to introduce the 2024/25 Annual Report and Accounts.

2024/25 has been another incredibly busy year for the Fund. While diligently undertaking its key function of administering pensions to its 78,991 members, the Fund has achieved several notable milestones during this year.

Despite high inflation and interest rate hikes prompting an unsettled global marketplace during much of 2024/25, the Fund's Net Asset Value increased to £6.325bn with positive investment returns delivering 2.9%. It is notable that the NESPF continues to outperform the benchmark returns over longer periods and similarly comparators such as Consumer Prices Index and Average Earnings over the longer term. This is testament to the successful planning and decision making that goes on to ensure that the Fund's Investment Strategy delivers the required returns.

As well as focusing on investment returns, NESPF takes its role as a responsible investor very seriously, as demonstrated by its commitment to Environmental, Social and Governance (ESG) initiatives. This year saw the Fund finalise its Taskforce on Climate-related Financial Disclosure (TCFD) report which illustrates metrics and targets across the Fund's investments and the portfolio as a whole.

Highlighting its unwavering commitment to ESG matters, the Fund secured a \$434m settlement against US sportswear firm, Under Armour, following a lengthy legal battle. This was a positive outcome for the NESPF and its members.

The Fund is dedicated to making the member journey straightforward and simple. Another area which has undergone major development this year has been the Fund's secure member portal, My Pension+. While the new portal was introduced in 2023, development has been ongoing, as content from the previous site was imported to the new iteration, requiring regular testing and updating. Primary developments this year include the Annual Benefit Statement area being expanded to show personalised videos and statements for more of the member cohort. The Fund will continue to utilise the technology available through My Pension+ to improve its service delivery to members.

In terms of meeting regulatory requirements, the Pensions Regulator's General Code came into force in March 2024. This resulted in a huge administrative undertaking to review the Fund's operations to ensure compliance with the revised code.

In light of all of the work completed this year, I am pleased to say the Fund was awarded the Pensions Administration Award at the Pensions Age Awards 2025 as well as being shortlisted for several other industry awards. The national awards celebrate excellence in the field and are important markers of success. With several new members of staff joining the NESPF this year, further growth and development within the team lies ahead as staff share knowledge and skillsets.

Looking ahead to 2025/26, as well as continuing to deliver core pension services, main priorities for the Fund will be achieving feature parity for the My Pension+ portal, revising administration procedures and developing the pensions dashboard.

To conclude, I would like to extend my thanks to my colleagues on the Pensions Committee and Pension Board, our advisors and Fund staff for their commitment and efforts this year.

Councillor John Cooke
Pensions Committee Convener

2. About the North East Scotland Pension Fund

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

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

NESPF has an asset value of £6.3 billion and 78,991 members. It is the third largest LGPS Fund in Scotland.

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

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

3. Administration 2024/25

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board
Chief Officer – Finance	Jonathan Belford
Actuary	Mercer, Hymans Robertson from 01/02/2025
Global Custodian	HSBC
Performance Measurement	HSBC
Banks	Virgin Money* & HSBC
AVC Providers	Prudential, Standard Life Assurance
Bulk Annuity Provider	Rothsay Life Plc
External Auditor	Audit Scotland
Internal Auditor	Aberdeenshire Council
Investment Consultant	Isio
Legal Adviser	Aberdeen City Council
Employers	For full details see Appendix 2

*Clydesdale Bank trading as Virgin Money

4. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

The Committee consists of nine elected members of Aberdeen City Council each with equal voting rights. Following a full Council meeting in February 2024, the number of Committee members was reduced from 13 to 9. As at 31 March 2025, the Committee had two vacancies.

Membership 2024/25

Name	Member as at 31 March 2024	Joined	Left	Member as at 31 March 2025
Cllr John Cooke	Yes			Yes
Cllr Neil MacGregor	Yes			Yes
Cllr Dell Henrickson	Yes			Yes
Cllr Alison Alphonse	Yes		12/03/2025	No
Cllr Derek Davidson	Yes			Yes
Cllr Duncan Massey	Yes			Yes
Cllr Kairin van Sweeden	Yes			Yes
Cllr Barney Crockett	No	06/03/2025		Yes
Total	7	0	0	7

Notes:

- On 6th March 2025 Councillor van Sweeden rejoined the Scottish National Party. As the agreed political composition of the Pensions Committee includes an Independent place, this was filled by Councillor Crockett.
- On 12 March 2025, Councillor Alphonse stepped aside to allow Councillor van Sweeden to fill one of the Partnership's places on the Pensions Committee.

Meeting Attendance in 2024/25

Name	21/06/24	13/09/24	13/12/24	21/03/25	Overall Attendance
Cllr John Cooke	✓	✓	✓	✓	100%
Cllr Neil MacGregor	✓	✓	✓	✓	100%
Cllr Dell Henrickson	✓	✓	✓	✓	100%
Cllr Alison Alphonse	✓	✓	✓	N/A	100%
Cllr Derek Davidson	✓	✓	✓	✓	100%
Cllr Duncan Massey	✓	✓	✓	✓	100%
Cllr Kairin van Sweeden	✓	✓	✓	✓	100%
Cllr Barney Crockett	N/A	N/A	N/A	X	0%

Pension Board

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

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

Membership 2024/25

Membership	Name	Member as at 31 March 2024	Joined	Left	Member as at 31 March 2025
Aberdeenshire Council	Cllr Stephen Smith (Chair)	Yes			Yes
UCATT	Gordon Walters (Vice Chair)	Yes			Yes
Unison	Morag Lawrence	Yes			Yes
Aberdeen City Council	Cllr Jessica Mennie	Yes			Yes
Unite	Alan Walker	Yes			Yes
GMB	Neil Stirling	Yes			Yes
The Moray Council	Cllr David Gordon	Yes			Yes
Robert Gordon University	Jeremy Lindley	Yes		03/10/2024	No
North East Scotland College	Stuart Thompson	No	04/11/2024		Yes
Total		8	1	1	8

Meeting Attendance in 2024/25

Name	21/06/24	13/09/24	13/12/24	21/03/25	Overall Attendance
Cllr Stephen Smith	✓	✓	✓	✓	100%
Gordon Walters	✓	X	✓	✓	75%
Morag Lawrence	✓	✓	✓	✓	100%
Cllr Jessica Mennie	✓	X	✓	✓	75%
Alan Walker	✓	✓	✓	✓	100%
Neil Stirling	X	✓	✓	✓	75%
Cllr David Gordon	✓	✓	✓	✓	100%
Jeremy Lindley	X	✓	N/A	N/A	50%
Stuart Thompson	N/A	N/A	✓	✓	100%

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

In assisting with compliance, the Board can report the Fund to The Pensions Regulator for non-compliance with guidance or regulations. In 2024/25 no issues were reported by the Board to The Pensions Regulator.

The Pensions Regulator's General Code of Practice came into force on 28 March 2024. This code details TPR's expectations of what is required to maintain an effective system of governance. The Fund has taken appropriate steps to ensure compliance with the new code.

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

Conflicts of Interest

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

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

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

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

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

Committee and Board Training 2024/25

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

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

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

Pensions Committee - Mandatory Training Record as at 31 March 2025			
Name	Hymans Robertson LOLA Version 2.0	TPR Toolkit	Completed
Cllr John Cooke	✓	✓	2/2
Cllr Neil MacGregor	✓	✓	2/2
Cllr Dell Henrickson	✓	✓	2/2
Cllr Alison Alphonse*			0/2
Cllr Derek Davidson			0/2
Cllr Duncan Massey	✓	✓	2/2
Cllr Kairin van Sweeden	✓	✓	2/2
Cllr Barney Crockett*			0/2

Pension Board – Mandatory Training Record as at 31 March 2025			
Name	Hymans Robertson LOLA Version 2.0	TPR Toolkit	Completed
Cllr Stephen Smith	✓	✓	2/2
Gordon Walters	✓		1/2
Morag Lawrence	✓	✓	2/2
Cllr Jessica Mennie	✓		1/2
Alan Walker	✓	✓	2/2
Neil Stirling	✓	✓	2/2
Cllr David Gordon	✓		1/2
Jeremy Lindley*			0/2
Stuart Thompson*	✓		1/2

Notes for Committee and Board tables above:

* Leavers/joiners during the year

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

- Introductory training delivered by Laura Colliss, Pensions Manager, for all new Committee and Board members;
- A variety of webinars covering topics from industry experts such as:
 - Government Policy for the LGPS;
 - Pension Scams;
- In Person Training Sessions including;
 - Carbon Scoring;
 - Cyber Security, Pensions Dashboards, Data Quality, Member engagement and the Pensions Regulator's General Code.

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

5. Administration and Performance

Digital Development & Engagement

Online platforms serve a vital purpose, as we strive to deliver a modern, digital service to our members which is more efficient and effective. Our primary tool for delivering this is My Pension+, our online member's portal which was upgraded in June 2023.

The site remains a hybrid system, with functionality not yet in My Pension+ available via links to the old portal. During 2024/25, the Fund continued to work with Heywood Pension Technologies on the development of outstanding functionality, with feature parity the key driver. As a result, there was a substantial amount of development completed, including:

- Introduction of SMS multi-factor authentication;
- Electronic ID verification which allows members to verify their identity when registering, removing the need for Fund intervention and reducing registration lead time;
- New Annual Benefit Statement area for deferred members including personalised video;
- Document upload for members;
- Super User, an administrative support tool that allows staff to manage member access, assist with member issues, view records as a user and configure site content;
- Newly built payroll area with access to payslips and P60s.

In addition, work commenced in Q1 2025 on a number of other features that are currently in the test phase including a fully digital end-to-end online process for retirements and refunds; an improved transfer estimate and requests feature; and improved configuration options within Super User to customise the portal.

Registration and migration statistics as at 31 March 2025 are displayed below:

	Registered for My Pension+	% Members Registered	Migrated to My Pension+	% Members Migrated
Active	16,140	66.8%	12,023	74.5%
Deferred	11,166	63.4%	7,123	63.8%
Pensioners & Dependants	10,048	40.0%	5,074	50.5%
Undecided Leavers	1,761	63.1%	1,230	69.8%
Total	34,850*		25,407	

*Number of members registered by membership does not total up to final number of registered members as some will have records in multiple categories (e.g. an Active and a Deferred record). Migrated members increased by 25% in 2024/25.

Annual Benefit Statements

Annual Benefit Statements (ABS) in 2024 were delivered online as per previous years, with both active and deferred statements accessible on My Pension+ via a regulatory compliant ABS webpage. Included within this is a personalised video, explaining pension values and highlighting key benefits of the Scheme.

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

The overall percentage achieved for providing benefit statements to more than 45,000 active and deferred members prior to the 31 August deadline was 99.92% compared with 99.78% for 2023/24.

Pension Administration Strategy (PAS)

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

The underlying objectives are:

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

Processing Performance

Key performance measurement	Target	Work Volume	Target Achieved	2024/25	2023/24
Death in service notification to dependent	5 days	36	34	94%	87%
Death of deferred/pensioner notification to dependent *	5 days	369	319	86%	
Deferred benefit Care Only statutory processing *	60 days	951	942	99%	
Deferred benefit Final Salary statutory processing *	60 days	515	488	95%	
Deferred benefit notification	10 days	1,416	1,389	98%	95%
Refund of contributions notification	10 days	581	559	96%	98%
Retirement benefit notification	10 days	1,625	1,315	81%	92%
Retirement estimate notification	10 days	480	480	100%	96%
Transfer in quotation	10 days	58	49	85%	69%
Transfer out quotation	10 days	324	255	79%	56%
Total		6,355	5,830	92%	91%

*New Key Performance Measurements for 2024/25

This year saw similar performance to 2023/24 with the overall percentage achieved above 90% for the third consecutive year.

Percentages are now reported through dashboards created in Insights data analysis software. This removes the requirement to run quarterly reports as performance is available in real time. Three new reporting measures were introduced; a 5-day target for deferred and pensioner deaths, and 60-day statutory targets for deferred processing.

The volume of retirement estimate requests remains low compared to previous years as members continue to self-serve in My Pension+. Transfer processing continues to be challenging with manual calculations still required for those impacted by McCloud however significant percentage increases were delivered in 2024/25.

McCloud Remedy

In December 2018, the Court of Appeal ruled in McCloud v Ministry of Justice that transitional protection offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal, the Government stated the difference in treatment would be remedied across all public sector Schemes. This became known as the McCloud remedy with the LGPS (Remediable Service) (Scotland) Regulations 2023 coming into force on 1 October 2023.

More than 16,000 historic calculations have been completed, all that remains are the

manual calculations for around 1,000 members with the majority being transfers. Currently the total cost identified for 68 pensioner and deceased members is £11,990, work continues to rectify the underpayments.

Final calculations will be required in the future for active and deferred members to reassess their provisionally calculated benefits when they take their retirement benefits. Currently the total future cost identified assuming members retire at Normal Pension Age is £23,339, with this potentially being paid out over the next 35 years.

Employer Data Provision

Throughout the year, good quality, timely data for all active members was provided by the participating employers through the secure online portal, i-Connect. The data uploaded directly, on a monthly basis, updates the pension administration system with starters, leavers, contributions and pay information and ensures that each member's personal details are kept up to date. More than 1 million data events were uploaded to the pension administration system in 2024/25.

The use of i-Connect for data collection provides substantial benefits and ensures the Fund is in the best position to meet the administrative and regulatory requirements of the Scheme.

The benefits include:

- Reduced administrative burden for day-to-day processing, contribution reconciliation and preparations needed in advance of issuing Annual Benefit Statements;
- Improved data quality allowing the Fund and the participating employers to have confidence in the triennial valuation results;
- Members have access to up-to-date information on their individual records through My Pension+;
- Significant advantages in respect of the future challenges faced by the Fund around being dashboard ready, completing the McCloud remedy and other regulatory requirements.

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

Data Quality

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

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

The data quality scores that are provided by the Fund as part of the Pension Regulator annual Scheme return are provided by Insights data analysis software. Dashboards and reports allow us to assess the data held against several parameters allowing for direct comparison against previous years and other LGPS Funds.

The annual Scheme return scores are as follows:

	2023	2024	Target
Common Data	98.7%	98.7%	100%
Scheme Specific Data	99.2%	98.9%	100%

The Fund's data quality improvement plan is revised annually to maintain the high quality of data held and explore options for further improvement; this is especially relevant for Pension Dashboards.

Pension Dashboards

The Pensions Dashboards Programme (PDP) will enable individuals to access all their pensions information online, securely and in one place. All Schemes will be compelled by legislation to connect to the Government's pension dashboard ecosystem and provide member data when requests are received.

The Fund procured an Integrated Service Provider (ISP) solution and is working with the supplier, Heywood Pension Technologies, to prepare for connecting to the ecosystem in 2 stages.

Stage 1 commenced in January 2025 and was completed within 10 weeks. The work focused on establishing secure data transfer from the pension administration system into the ISP test environment. This initial stage allowed the Fund to configure the ISP console, set up reporting and test matching rule combinations to determine what is best for matching members to their pension benefits held by the Fund.

Stage 2 is scheduled for Summer 2025. On completion the Fund will be ready to comply with the public service connection date of 31 October 2025.

The national dashboards will be made available to the general public at the 'dashboard available point (DAP).' All Funds will be given 6 months advance notice of the DAP.

Complaints

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

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

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

The table below is an analysis of those complaints received during 2024/25. There were 21 complaints made during the year. 13 complaints were within the Fund's scope to remedy. All complaints were resolved at the informal stage.

Complaint Analysis	Number of Complaints
Waiting Time – Correspondence	2
Processing Delay	6
Staff Knowledge	4
Processing Error	1
No NESPF Power to Remedy	8
Total Complaints	21




Complaints may not always relate to a NESPF decision or process, for example it may relate to an employer decision, e.g. ill health retirement. In these instances, the complainant may take their complaint directly to the Pensions Ombudsman. In this period, we have one complaint relating to Prudential that was forwarded on by the member to NESPF.







Not included in the above is one prior year complaint, which has since been resolved and closed.

The full complaints procedure and IDRP process is on our website:

<https://www.nespf.org.uk/about/complaints>.

6. Financial Performance

2024/25 at a Glance	
<p>£25m</p>  <p>Management Expenses</p>	<p>£212m</p>  <p>Investment Return</p>
<p>£6,325m</p>  <p>Net Assets of the Fund at the End of the Year</p>	

Key Statistics	
<p>36</p>  <p>Total Number of Employers</p>	<p>78,991*</p>  <p>Total Membership</p>
<p>1,164</p>  <p>Votes at AGMS</p>	<p>58%*</p>  <p>Members Registered for My Pension+</p>
<p>46.5</p>  <p>Staff Employed (FTE)</p>	<p>1,720</p>  <p>Members to Staff Ratio</p>

*Total membership is based on membership records as a member can have more than one record. Equivalent number in terms of member headcount is 67,374. This figure is used for the percentage of Members registered for My Pension+.

North East Scotland Pension Fund Financial Summary

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

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Withdrawals)	(51,481)	(33,048)	(34,257)	(78,570)	(129,501)
Net Investment Income Change in Market Value Net Return on Investment	1,462,128	181,752	(342,832)	532,616	211,630
Transfer In of ACCTF at Market Value	0	0	290,035	0	0
Revaluation of Insurance Buy In Contract	0	0	(35,062)	(20,924)	5,699
Net Increase/ (Decrease) in Fund	1,410,647	148,704	(122,116)	433,122	87,828
Fund Balance as at 31 March (Market Value)	5,777,189	5,925,893	5,803,777	6,236,899	6,324,727

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

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

Budget

	Note	Actual Spend 2024/25 £'000	Budget or Forecast 2024/25 £'000	Over or (Under) Spend 2024/25 £'000
Administration Expenses	1	3,207	3,408	(273)
Oversight and Governance Expenses	2	722	913	(191)
Investment Management Expenses	3	20,926	23,366	(2,440)
Management Expenses Total		24,855	27,687	(2,904)

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

1. Under spend – Pay award less than anticipated and staff vacancies.
2. Under spend – Reduction in Actuarial Fees due to change in contract.
3. Under spend – The markets have decreased in value especially during Q4 meaning that generally the assets held have reduced in value, therefore Investment Management Fees & Expenses based on Net Asset Values (NAV) have also decreased.

Membership Statistics

NESPF	2020/21	2021/22	2022/23	2023/24	2024/25
Active	26,315	26,961	27,751	27,708	26,828
Pensioners	22,692	23,854	26,146	27,171	28,183
Deferred	17,704	18,150	19,379	19,246	20,002
Frozen Leavers	2,664	3,111	3,602	3,740	3,978
Total	69,375	72,076	76,878	77,865	78,991

Active membership appears to have reduced from 2023/24 to 2024/25 and may reflect the continuing budgetary pressure faced by the Local Authorities as, in previous years, there has consistently been an increase to the active membership totals. The number of deferred members has increased indicating that members accessing their pensions and transferring their benefits has decreased the number of leavers. Pensioner numbers have increased in line with previous years despite the early retirement exercises currently being undertaken by Local Authorities. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a contributions refund or a transfer of their entitlement.

Management Expenses

	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000	2024/25 £'000
Administration	2,236	2,388	2,958	3,113	3,207
Oversight and Governance	713	615	743	872	722
Investment Management	23,820	23,901	17,767	22,039	20,926
Total Management Expenses	26,769	26,904	21,468	26,024	24,855

Unit Cost Per Member

	2020/21 £	2021/22 £	2022/23 £	2023/24 £	2024/25 £
Administrative Unit Cost per Member	32.23	33.13	38.48	39.98	40.60
Oversight and Governance Unit Cost per Member	10.28	8.53	9.66	11.20	9.14
Investment Management Unit Cost per Member	343.35	331.61	231.11	283.03	262.92
Total Cost per Member	385.86	373.27	279.25	334.21	316.99

Remuneration Report

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

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

7. Economic and Market Background

Global Market

The past financial year was marked by fluctuating global bond yields driven by mixed inflation data, central banks' cautious rate adjustments, and geopolitical factors impacting economic stability. Global bond market sentiment was positive in June due to weaker-than-expected US inflation, leading to marginally lower government bond yields, while core inflation moderated in both the US and Europe, and Japan saw below-forecast inflation figures. The Federal Open Market Committee (FOMC) kept rates steady in June, as did the Bank of England (BoE) and Bank of Japan (BoJ), while the European Central Bank (ECB) cut key rates but raised inflation forecasts, with political shifts in France affecting markets. In September, Federal Reserve (the Fed) cut rates by 50bps amid weaker job growth, the ECB cut rates by 0.25%, the BoE held rates, and Japan maintained its policy rate. Later, the Fed cut rates by 25bps, indicating mixed views on future cuts, while the ECB reduced rates to 3.00% amid lower growth forecasts and political changes in France impacted bonds. US inflation slowed to 2.8% Year on Year (YoY), below expectations, with similar downside surprises in Europe and the UK, while Japan's inflation exceeded forecasts. In March, the Fed held rates steady amid tariff-driven inflation concerns, the ECB cut rates to 2.50%, and both the BoE and BoJ maintained rates amid economic uncertainty.

US Equities

Over the last year, the S&P 500 Index rose 8.14%, the Nasdaq gained 6.29%, and the Russell 2000 Index lagged with a -4.14% decline. Large-cap U.S. equities navigated a volatile but generally upward trajectory marked by a resilient domestic economy, rising corporate earnings, Fed interest rate cuts, post-election optimism, and a challenging finish (i.e., a sharp pullback from mid-February through March 2025). Momentum faded in February 2025 due to scepticism regarding the return on investment for AI-related capital spending, while rising trade tensions eroded consumer confidence and fuelled fears of slowing economic growth and shrinking corporate profits. The technology sector was especially affected, given its sensitivity to advances in frontier models, global supply chain disruptions, and shifts in trade policy. Notably, value equities and companies believed to have stable, defensive business models assumed market leadership during this risk-off period. In aggregate, U.S. growth and value stocks delivered similar returns for the trailing one-year period, albeit with very different performance paths. Top performing sectors in the S&P 500 Index included utilities, financials, communication services and consumer staples. Finally, among the “Magnificent Seven” stocks (Alphabet, Amazon, Apple, Meta Platforms, Microsoft, NVIDIA and Tesla), performance dispersion widened as relative strength was carried by Apple, Meta Platforms, NVIDIA and Tesla during the reporting period.

UK Equities

Global equity markets experienced broad rallies early in 2024, although UK equities lagged their US counterparts, where the 'Magnificent 7' made significant advances. Despite this, takeover activity in the UK increased through the year, with bids emerging across a diverse range of sectors. In the latter half of 2024, fears surrounding the October Budget announcement subdued further UK equity market progress. The Budget introduced significant fiscal loosening reminiscent of the pandemic era, leading to a rise in gilt yields to levels last seen after the Truss-Kwarteng mini-Budget. This resulted in muted equities performance as investors digested the impacts of the Budget; the prospect of fewer-than-expected rate cuts lifted the Banks sector but depressed rate-sensitive sectors. In 2025, the UK Chancellor's Spring Statement presented a mixed economic outlook with limited fiscal headroom, although growth projections were revised upward from 2026 onwards. The first quarter of 2025 saw significant shifts in market leadership by geography, sector, and style. U.S. equities retreated while UK and European markets advanced, and the value factor outperformed growth and quality. Economic and political uncertainty spurred a rally in defensive shares across Europe, led by Aerospace & Defence, with Banks, Energy and Healthcare also benefiting. The FTSE All Share rose by 10.5%, outperforming global equity markets, with performance driven by financials due to higher-for-longer interest rate expectations throughout the period.

European Equities

Over the 12-month period, European equities delivered modest gains, with the MSCI Europe Index rising 4.1% in EUR terms. However, beneath this headline performance lay significant dispersion across styles, sectors, and geographies. A clear example of this is the divergence in performance between value and growth. Over the period, the MSCI Europe Value Index rose 13.67%, while the MSCI Europe Growth Index was nearly flat at 0.15%, reflecting a clear preference for value and defensiveness amid heightened macro and geopolitical uncertainty.

Early in the period cyclical sectors led, but sentiment shifted mid-2024 as recession fears and upcoming elections in France and Germany prompted a defensive rotation. Sectors such as Financials, particularly banks, outperformed strongly, supported by resilient earnings and rising rates. European Banks have now outperformed the S&P 500 Index on a total returns basis over 1-, 3- and 5-years. Communication Services and Utilities also performed well, reinforcing the market's cautious stance. Conversely, Technology (especially Semiconductors) and Consumer Discretionary (notably Luxury) underperformed. Semiconductors pulled back after facing headwinds from delayed semiconductor recoveries, concerns over the longevity and scale of Hyperscalers AI capex, and tougher export rules to China.

From the start of the second quarter to the end of 2024, European equity markets were essentially flat. In Q1 2025, market dynamics shifted rapidly. A surge in fiscal ambition from Germany, hopes for a Ukraine ceasefire, and a broader European "renaissance" narrative drove renewed investor interest. However, this was tempered by increased US uncertainty under President Trump's renewed "America First" stance, rising tariff threats, and fading consumer confidence, which sparked a further rotation away from growth. Growth underperformed value by over 9% in Q1 alone, intensified by extreme hedge fund de-risking in March.

Despite the near-term volatility, the longer-term outlook for European equities appears constructive. The region is benefiting from structural reforms, fiscal stimulus, and a shift toward domestic resilience, setting the stage for potentially broader and more sustainable earnings growth in the years ahead.

Emerging Markets Equities

MSCI Emerging Markets (EM) ended the period up 8.1%, outperforming MSCI Developed Markets (DM), which gained +7.0%. Whilst much of EM proved resilient, index heavyweight China had a particularly strong 12-month period, up +40.4%. China saw a significant rally following a material shift in Chinese stimulus policy announced at the September Politburo meeting. More recently, the market has been pushed higher driven by excitement around China's AI capabilities, and the return of foreign capital, particularly to the H-share market. Continued US Dollar weakness has also provided a tailwind for much of EM.

Central and Eastern Europe, Middle East, and Africa (CEEMEA) was the top performing region over the period, rising +12.9%. A collection of countries exposed to a potential resolution in the war between Russia and Ukraine did particularly well, with the Czech Republic, Hungary and Poland up +45.0%, +33.9% and +18.4%, respectively. Additionally, Emerging Europe has been a significant beneficiary of policy shifts emanating from Germany/the EU which have resulted in GDP upgrades in the region and a resurgent EUR. Latin America lagged (-13.6%), driven primarily by weakness in Mexico (-21.3%) and Brazil (-13.5%). The outcome of the presidential elections in Mexico in early June created a lot of volatility for Mexican financial assets, with the peso depreciating significantly.

Japanese Equities

Tokyo Stock Price Index (TOPIX) fell by 4% in the period. The Japanese stock market initially saw a rise in stock prices supported by the depreciation of the yen and the appreciation of the dollar, despite the Bank of Japan's announcement of the removal of negative interest rates. Subsequently, robust corporate earnings and shareholder return policies provided support, but cautious attitudes from Federal Reserve (FED) officials towards rate cuts within the year and heightened tensions in the Middle East led to

some declines. However, by early July, further depreciation of the yen and appreciation of the dollar, along with rising U.S. stock prices, led to an increase in the market. At the end of July, the Bank of Japan announced a policy rate hike and a plan to reduce government bond purchases. Coupled with a softening U.S. employment report and growing recession concerns, early August saw a historic adjustment. Following this, the market rebounded significantly due to a halt in yen appreciation and improved U.S. economic indicators, which alleviated recession concerns.

In September, the market started with a decline due to increased concerns about the U.S. economic slowdown and the appreciation of the yen against the dollar. However, mid-month, the Federal Open Market Committee (FOMC) implemented a 50-basis point rate cut, leading to a depreciation of the yen against the dollar and a subsequent rise in stock prices. Towards the end of the year, expectations for economic support measures increased due to the ruling coalition losing its majority, and aggressive shareholder return policies in corporate earnings provided support. However, early rate hike expectations from the Bank of Japan weighed on stock prices, resulting in only a slight increase. At the beginning of 2025, corporate share buybacks continued to support the market. However, the inauguration of U.S. President Donald Trump led to cautious movements to assess the economic impact of tariffs, and concerns about corporate earnings due to yen appreciation against the dollar following the Bank of Japan's rate hike led to a mixed market.

Bonds

Q2 2024 started with negative sentiment as investors reassessed their views on the future path of interest rates following the stronger-than-expected March inflation print in the US and other regions. YoY Consumer Price Index (CPI) inflation in the US accelerated by 3.5% YoY. Several macroeconomic data releases also came in above expectations. In Europe, April provisional CPI inflation data showed prices accelerating as expected, while core CPI accelerated marginally ahead of expectations. In the UK, CPI inflation surprised to the upside. Sentiment turned positive in May, thanks in part to weaker-than-expected inflation in the US. Credit spreads tightened, and risk assets performed well during the month. YoY CPI inflation in the US accelerated by 3.4%, in line with expectations. Euro area inflation exceeded expectations, both in headline and core, driven by services. Global bond market sentiment was generally positive in June, thanks in part to weaker-than-expected inflation in the US, leading to marginally declining developed market government bond yields. Credit spreads trended higher over the month. In the US, May YoY CPI inflation accelerated by 3.3%. In Europe, the European Central Bank (ECB) cut rates for the first time since 2019 in June, reducing its main interest rate from 4% to 3.75%. The UK also saw a downside surprise in inflation. In Japan, Q2 saw yields fluctuate and CPI remain stable.

Positivity continued into Q3 2024, driven by increasingly weak economic data and growing anticipation that the Fed would cut rates by their September meeting. In the US, inflation fell to 0.1% in June. In Europe, June's core CPI and CPI YoY were in line with expectations, remaining flat. Similarly, in the UK and Japan, the inflation trajectory was stable over the month. In France, the second round of elections saw inconclusive results, meaning that no major bloc secured a majority. In the UK, the General Election saw victory for the opposition Labour Party over the ruling Conservative Party. The Bank of Japan raised its policy rate to 0.25%. Global bond market sentiment was positive in August, and in the US, YoY CPI continued its disinflationary trend. In Europe, August's provisional core CPI and YoY CPI declined in line with expectations. In the UK, YoY inflation nudged higher. The Bank of England (BoE) cut rates by 25bps to 5.0%. Positivity continued throughout September, driven by key central bank actions and economic data releases. During the month, the US YoY CPI continued its disinflationary trajectory, falling to 2.5%. In Europe, headline CPI figures printed at 2.2% YoY. Meanwhile, in the UK, YoY inflation held steady at 2.2%, as expected. Later in September, the Fed announced a 50bps rate cut to 4.75%-5%, recalibrating its monetary policy in a move which marked its first-rate reduction since March 2020. In Europe, the ECB cut its key interest rates by 0.25%. Japanese Government bond yields rose over the quarter, and inflation was stable.

Heading into Q4 2024, sentiment turned negative, as fiscal policy concerns came back into focus ahead of the upcoming US elections, and geopolitical tensions heightened due to escalation of events in the Middle East. The US CPI saw an upward surprise in YoY headline inflation (2.4%) and in Europe, September's final core and headline CPI figures increased. Conversely, the UK reported lower-than-expected YoY inflation. In Europe, the ECB cut rates as expected, lowering the deposit facility rate to 3.25%. The UK's Autumn budget delivered a looser-than-expected fiscal stance, with increased spending, taxation, and borrowing, leading to a slower pace of deficit reduction. November saw mostly positive sentiment despite renewed fiscal and trade policy concerns following Donald Trump's re-election. In the US, inflation data showed YoY CPI headline inflation accelerating. The Fed cut rates by 25bps to 4.50-4.75%. In Europe, October's core inflation remained stable (2.7% YoY), while in France, the minority government faced heightened risks of collapse over budget disagreements. The UK reported an increase in October YoY inflation to 2.3%, ahead of expectations, and the BoE cut rates by 25bps to 4.75%, citing continued disinflation. Global bond market sentiment was mostly negative in December, driven by renewed fiscal and trade policy concerns. In the US, UK and Europe, inflation increased. The Fed cut rates by 25bps to 4.25-4.00%, and the ECB reduced interest rates by 25bps to 3.00%, as expected, alongside downgraded growth and inflation projections. Over the quarter in Japan, yields rose and inflation, while easing initially, ultimately finished the quarter higher.

Q1 2025 started with positive market sentiment, with credit spreads tightening and risk assets performing well, despite ongoing uncertainty surrounding the inflation outlook and fiscal policy following President Trump's inauguration. In the US, inflation data showed CPI rising as expected, while in Europe, inflation remained stable. Meanwhile, UK inflation printed slightly below expectations. The ECB cut key interest rates by 0.25%. Global bond market sentiment was mixed in February, with credit spreads widening due to a risk-off tone from heightened uncertainty and the backdrop of US tariff threats as a 10% tariff on Chinese imports took effect. In the US, inflation data showed CPI gained 3.0% YoY, above expectations. In Europe, inflation remained stable, with headline CPI at 2.4% YoY. UK inflation printed above expectations at 3.0% YoY. The German election saw the CDU/CSU bloc begin coalition talks with the centre-left SPD. In the UK, the BoE cut rates to 4.50%. Sentiment turned negative in March, as heightened uncertainty regarding US trade tariffs triggered a clear risk-off tone. US and European credit spreads widened. In the US, CPI accelerated by 2.8% YoY, below expectations. In Europe and the UK, inflation surprised to the downside printing 2.3% and 2.8% YoY, respectively. The US administration imposed 25% tariffs on imports from Canada and Mexico, followed by further tariff hikes on China, and 25% duties on steel and aluminium. In Europe, the ECB delivered a 25bps rate cut to 2.50%. Germany proposed reforms to its constitutional debt brake to allow increased defence spending, and the European Commission advanced an €800bn 'Rearm Europe' initiative. In Japan, yields rose over the quarter and CPI came in above expectations.

UK Property

Today, UK property continues to demonstrate strong fundamentals through consistent, observable valuation growth across sub-sectors, a highly favourable supply-demand imbalance due to low recent construction starts, and a limited new supply pipeline in the most attractive UK submarkets. Having already observed a ~25% price correction since June 2022, this suggests UK real estate is already well marked-to-market.

Despite global markets facing an increasingly challenging macro environment characterised by rising geopolitical uncertainty following an unprecedented escalation in global trade tensions and imposition of US tariffs, the UK economy is in a comparatively strong position relative to peer markets. UK headline inflation has been falling near to the BoE target, a stable government with a clear mandate remains focused on protecting and promoting growth, and good US relations command lower applicable tariffs. Whilst the concern of a tariff-driven global economic slowdown has heightened uncertainty, Britain's lower reliance on US exports and comparatively smaller [10%] tariffs imposed by Washington suggest any negative impact from tariffs on UK growth may be smaller relative to Britain's peers.

Historically, any slowing in GDP is typically mirrored in the real estate occupational markets, however, we remain of the opinion that the new real estate cycle will be anything but typical. Following the disruption and uncertainty of the pandemic and then the end of the great moderation, the supply response has not materialised. These strong fundamentals remain a recipe for long term sustainable rental growth, which together with marked-to-market valuations means the prospect of potential monetary policy easing—the principal tool to promote growth—may further benefit UK real estate. We continue to monitor these dynamics closely, remaining cognisant of the impact the real economy may have on occupier demand and leasing.

The heightened volatility we observe today only serves to strengthen our thesis that the new real estate cycle we are starting to observe will be defined by greater uncertainty and increased dispersion, among economies, submarkets, sectors, assets. These divergences are creating tremendous opportunity for real estate investors with the wear withal to not just withstand such change but also capture these opportunities by deploying near or at the bottom of the market into sectors and assets leveraging tailwind forces—namely changing demographics, digitalisation, and the green transition—which are set to drive in the new real estate cycle.

Presently, the logistics sector remains positioned for outperformance. Volumes in Q1 reached £1.1bn, down 40% versus last year with new supply constraints set to drive rental growth, particularly in markets where vacancy rates are already tight. What was once considered 'alternative' in real estate is quickly becoming mainstream. Increasingly, investors are allocating capital toward sectors that were traditionally viewed as alternative, such as healthcare, hospitality, childcare, senior living, data centres, and life sciences. UK residential stands out as a particularly attractive opportunity in today's environment for investors looking to build defensive cashflows into their portfolios. Residential transaction volumes in Q1 reached £1.8bn, up 8% from the same period last year.

The office market continues to face structural challenges for all but the premium new build stock. We have seen a broad reallocation away from offices as investors grapple with obsolescence risk, and challenges surrounding an increasing structural oversupply of secondary stock driven by tighter sustainability regulation. In the retail sector, we expect near term headwinds with transaction volumes reached £0.8bn in the first quarter of the year, which is 54% below the level reached in Q1 2024. Selective opportunities, however, exist in well-located, convenience-led retail and retail parks, which continue to benefit from resilient footfall.

Looking ahead, the UK remains well-positioned to navigate the rising uncertainty associated with tariffs, particularly when compared to its peer economies. The fundamentals of the UK real estate market remain robust, underpinned by constrained supply across key tailwind sectors and the most attractive submarkets. Recent events are likely to see caution restricting new supply for even longer, which we believe will help to sustain rental growth in the most attractive UK submarkets to underpin the expansion phase of the new market cycle.

Market Returns	1 yr (% p.a)	3yr (% p.a)	5yr (% p.a)
Equities			
FTSE All Share Index	10.5	7.3	11.9
FTSE All World Index	5.1	7.6	14.2
FTSE All World ex-UK Index	4.8	7.6	14.3
FTSE North American Index	5.9	9.0	17.0
FTSE European (ex UK) Index	3.0	7.8	11.6
FTSE Japan Index	-3.2	6.0	7.9
FTSE Developed Asia (ex Japan) Index	-5.8	-1.8	7.7
FTSE Emerging Markets Index	10.0	3.6	8.5
Bonds			
ICE BofA UK Gilts All Stocks Index	-1.2	-6.1	-5.8
ICE BofA Sterling Non-Gilts Index	2.4	-0.8	-0.2
FTSE Actuaries UK Index-Linked Gilts All Stocks Index	-8.0	-13.8	-7.2

Source: Bloomberg, 31/03/2025

8. NESPF Investment Strategy

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

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

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

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

Asset Structure 2024/25

Asset Class	Distribution as at 31 March 2024		Distribution as at 31 March 2025	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including alternative assets)	63.5	55.0	57.2	55.0
Bonds/Credit	17.9	22.5	21.3	22.5
Property/Infrastructure	16.4	20.0	15.5	20.0
Cash/Other	2.2	2.5	6.0	2.5
Total	100.0	100.0	100.0	100.0

NESPF has continued to grow with assets being rebalanced in line with our Investment Strategy where appropriate. Given the rise in equity markets towards the end of the financial year we decreased our equity allocation in the first quarter of 2025 and will use this to reallocate to other asset classes in the following year.

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

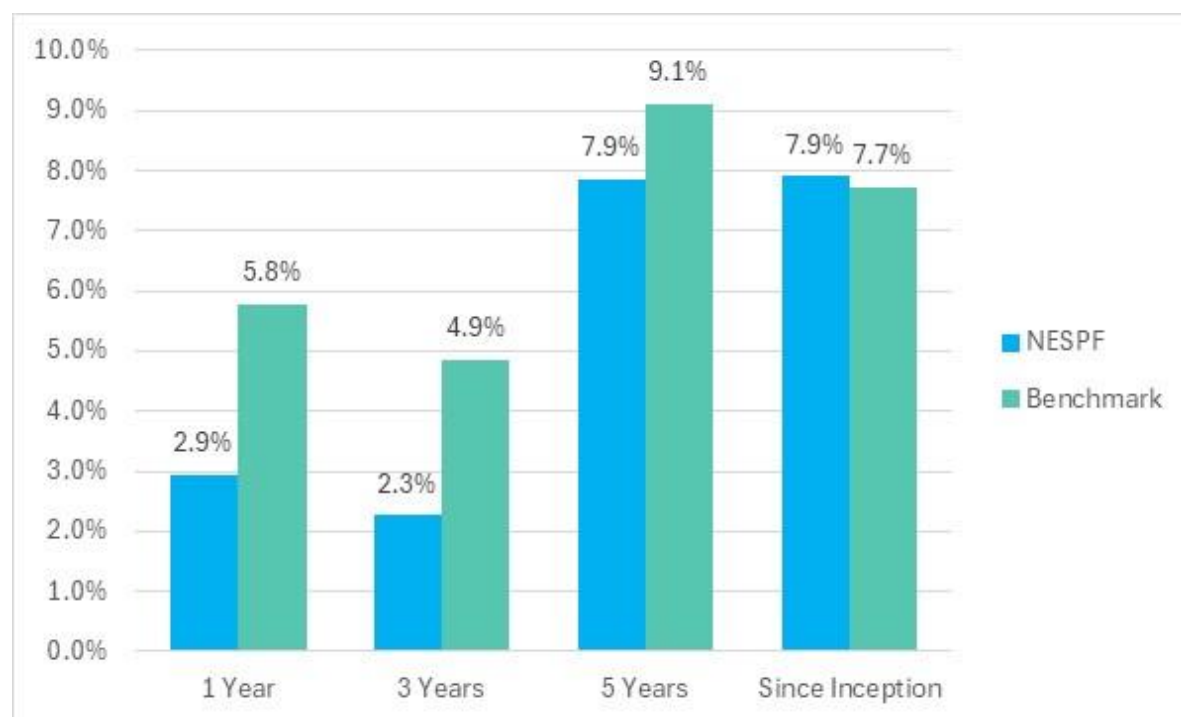
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds/Credit	22.5% (range +/- 5%)
Property/Infrastructure	20.0% (range +/- 5%)
Cash/Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been positive with the Fund returning 2.9% amidst economic and geopolitical volatility and continued changing outlook on interest rates. The cost of living crisis and investor sentiment has impacted on the Fund. Equity holdings are lagging their benchmark but being a long term investor NESPF has conviction in these positions.

Over the longer term NESPF continues to outperform the benchmark returns over these time periods and remains ahead of both the CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy works and will continue to deliver the required returns over the longer term.

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



Whilst employee contribution rates and benefits payable are set by statute, the long

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

Year Ending	2022/23	2023/24	2024/25	Since Inception Annualised
	%	%	%	%
CPI*	10.1	3.2	2.6	2.8
Average Earning*	5.8	5.7	5.5	3.4
NESPF Return	-4.1	9.5	2.9	7.9

*Source: Office of National Statistics

Investment Management Structure

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

9. Risk

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

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

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

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

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

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

Risk Management

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

10. Funding Strategy Statement

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

The purpose of the FSS is therefore:

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

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

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

11. Statement of Investment Principles

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

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

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

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

12. Environmental, Social and Governance Issues

Responsible Investment & Engagement

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

What does this look like in practice?

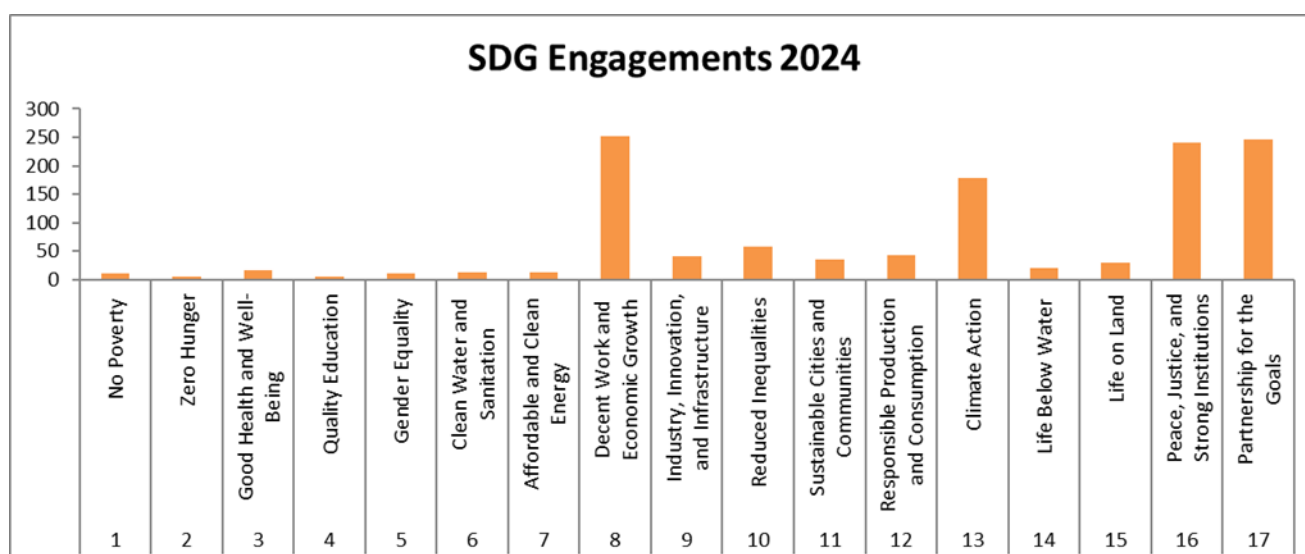
There are several things that we as an investor can do to make changes for the better.

Collaboration

There are limits to what we can achieve as individual investors, and we believe greater progress can be made through collaboration with other investors. Our primary collaboration is with the Local Authority Pension Fund Forum (LAPFF). Additionally, we regularly engage with our Fund Managers.

The Local Authority Pension Fund Forum (LAPFF) unites a diverse array of local authority Pension Funds, comprising 87 funds and 7 pools, with a collective asset base exceeding £350 billion. The Forum offers a distinctive platform for Britain's local authority Pension Funds to engage in discussions on shareholder engagement and investment matters.

The following graph illustrates the engagements carried out by LAPFF in relation to the Sustainable Development Goals (SDGs). The 17 SDGs are interconnected, acknowledging that actions in one area can influence outcomes in others, and emphasizing that development must harmonize social, economic, and environmental sustainability.



Examples of the engagement work undertaken by LAPFF are noted below:

Water Stewardship

Context – LAPFF has been engaging with companies on water stewardship to address the significant risks associated with water scarcity and quality. This engagement is part of LAPFF's broader efforts to ensure that companies manage environmental risks effectively.

Activities – LAPFF has been engaging with Chipotle on its approach to water stewardship since 2019. The initial engagement objective was met in 2022, with the company undertaking an ingredient-level water risk assessment to identify areas of water stress within its supply chain. In 2024, LAPFF continued its engagement with Chipotle, meeting with the company to discuss its progress and expectations for setting measurable and time-bound targets to reduce negative impacts on freshwater.

LAPFF also engaged with Constellation Brands, urging the company to set time-bound, science-based goals to address water availability impacts in water-scarce areas across its value chain. This engagement included filing a shareholder resolution requesting the company to issue a report assessing the feasibility of establishing such goals.

Outcomes – Chipotle published a goal to support water stewardship efforts to conserve and restore watersheds in priority regions. However, LAPFF noted that the goal lacked specificity and measurability, and will continue to work with the company to develop more robust and ambitious water goals.

At Constellation Brands, the shareholder resolution received significant support from the investor base, demonstrating the need for the company to improve its approach to managing water-related risks. LAPFF will continue to engage with Constellation Brands to ensure that it addresses these risks effectively.

Climate

Context – National Grid plays a crucial role in the UK's energy infrastructure and has been a key focus of LAPFF's climate engagement efforts for over a decade. The company is responsible for the transmission and distribution of electricity and gas, making it central to the UK's transition to a low-carbon economy.

Activities – In 2024, LAPFF continued its engagement with National Grid, focusing on the company's capital investment plans and climate transition strategy. LAPFF met with the company multiple times to discuss its updated Climate Transition Plan (CTP), which includes near-term climate targets aligned with the Science Based Targets initiative's (SBTi) 1.5°C pathway, and broader scenario analysis covering upstream Scope 3 emissions.

LAPFF also pressed National Grid for greater transparency and accountability on its direct and indirect lobbying activities. In response, National Grid published its Trade Association Review, detailing the organisations it is a member of, its assessment of whether they were aligned on climate policy, and the actions National Grid was taking to improve alignment.

Outcomes – National Grid disclosed its capital investment plan, which includes raising £7bn through the issue of over £1bn new shares and the largest UK rights issue since 2009. The plan represents a significant increase in capital investment to around £60 billion over the five-year period to 2029, with around 85%, or £51 billion, designated as “green investment.”

LAPFF's engagement led to National Grid releasing its refreshed Climate Transition Plan, setting out emission reduction targets and integrating GHG emissions reduction targets throughout the business. The company also committed to publishing a comprehensive report on its memberships of large organisations and reviewing its lobbying activities.

LAPFF will continue to engage with National Grid on the issue of gas distribution in North America and seek specific targets or actions relating to its role as an enabler of the rollout of clean energy.

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

Fund Managers

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

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

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

Biodiversity at Lake Meirama

Through one of our Infrastructure portfolios, the Fund has an asset with environmental objectives to protect and restore biodiversity and ecosystems in their areas of activity. This asset is an energy company committed to transforming sites at the end of their useful life into large areas of biodiversity. One of the most notable projects undertaken by this energy company is the creation of Lake Meirama in Spain. This project involved transforming a former open-cast lignite mine into a large artificial lake, making it one of the largest environmental restoration projects in Spain. The lake spans 2.2 km in length and is a kilometre wide - the surrounding area has been reforested to enhance biodiversity.

The Lake Meirama project has successfully created a protected space rich in biodiversity, with almost 900 animal and plant species repopulating naturally, including endemic species. The lake's high water quality allows it to serve as a water reservoir for large populations, specifically A Coruña and its area of influence, without the need for intensive water treatment. This transformation not only supports local biodiversity but also contributes to the region's economic and tourism development, showcasing a sustainable approach to post-industrial land use.

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

- Climate Action 100+
- Carbon Disclosure Project
- Bangladesh Accord on Fire and Building Safety (the Accord)
- International Sustainability Standards Board
- Global Investor Statement
- CDP Non-Disclosure Campaign
- Principles for Responsible Investment

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

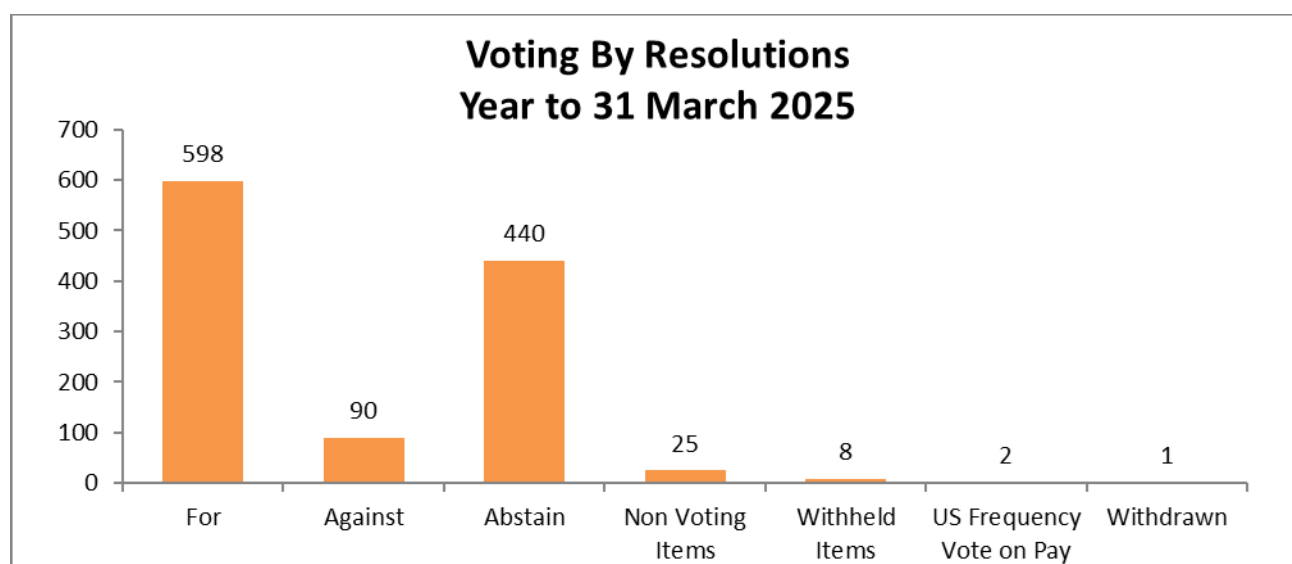
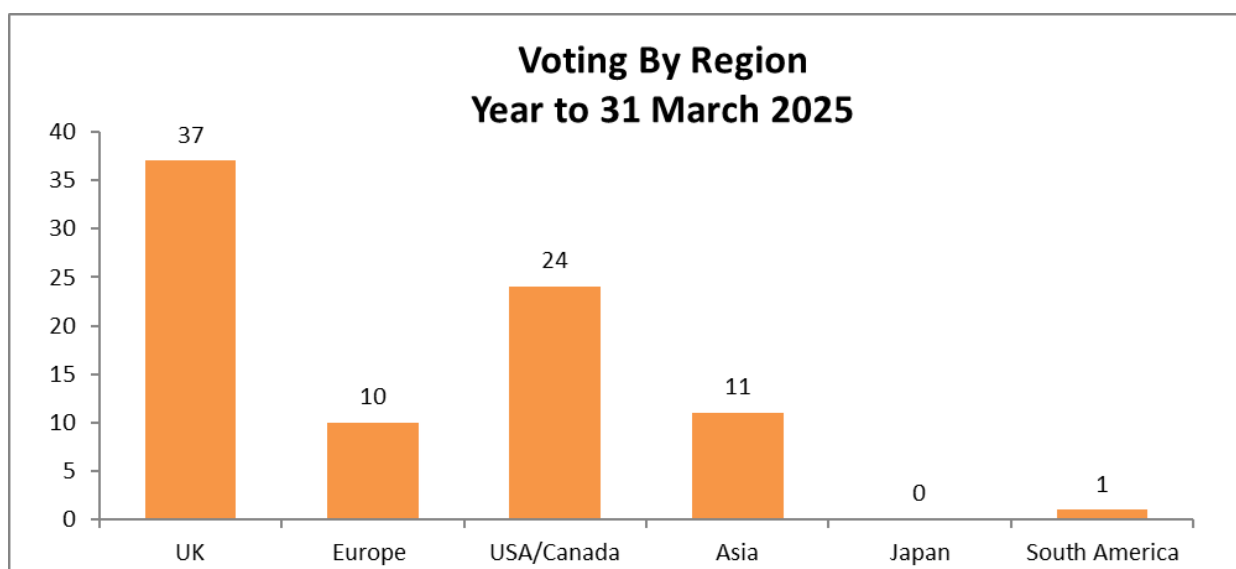
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

Voting

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

All voting on behalf of our investments, including both active and passive investments, is now conducted in-house. Over the last year we have voted at 83 Annual General Meetings/Special meetings on 1,164 resolutions. The Fund's voting advice is provided by PIRC (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

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



During the year ending 31 March 2025, the primary reasons for casting a vote against a resolution were as follows:

Directors

- Insufficient independent representation on the board.
- Inadequate Global Diversity & Inclusion efforts by the company.
- Executives who are employees should not receive additional rewards such as bonuses or Long-Term Incentive Plans for duties considered part of their job.
- The Chair cannot effectively represent two distinct corporate cultures.
- Lack of disclosed quantified targets for the performance criteria of the company's variable remuneration policy.

Share Issues/Re-purchase

- No clear justification for how this would benefit long-term shareholders.

Annual Reports

- Concerns over the company's sustainability policies and practices.

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 2024/25 Annual Report and Accounts.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council.

Statement of Responsibilities

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

- a. Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (Section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Fund, that officer is the Chief Officer - Finance for Aberdeen City Council.
- b. Manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- c. 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).
- d. Approve the Annual Accounts for signature.

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 20 June 2025.

Signed on behalf of Aberdeen City Council.

Councillor John Cooke
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

- a. Selected suitable accounting policies and then applied them consistently;
- b. Made judgements and estimates that were reasonable and prudent;
- c. Complied with legislation;
- d. Complied with the Local Authority Accounting Code (in so far as it is compatible with legislation).

The Chief Officer - Finance has also:

- e. Kept adequate accounting records which are up to date;
- f. 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 Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2025.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance

Annual Governance Statement

Scope of Responsibility

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

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

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

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

The Fund relies on Aberdeen City Council as Administering Authority to provide guidance on anticorruption, counter fraud and whistleblowing through their internal policies.

Purpose of the Governance Framework for North East Scotland Pension Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2024/25 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

- a. A training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS;
- b. Identifying the objectives of the Fund in the Funding Strategy Statement, Statement of Investment Principles and Service Plan. Quarterly updates are presented to the Pensions Committee;
- c. Monitoring the achievement of objectives by the Pensions Committee and Senior Officers;
- d. A systematic approach to monitoring service performance by the Pensions Committee, Senior Officers and stakeholders including benchmarking of services;
- e. A clear statement of risk combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;
- f. The Monitoring Officer reports on any non-compliance with laws and regulations of which the Pensions Committee are made aware;
- g. Operating within clearly established investment guidelines defined by

- the Local Government Pension Scheme Investment Regulations and the Fund's Statement of Investment Principles;
- h. Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- i. Appropriate investment custody arrangements with a Global Custodian and access to the custodian's extensive internal control framework;
- j. Monitoring of appointed fund managers and third party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

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

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

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

Review of Effectiveness

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

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

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2024/25, 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 (2016). Furthermore, in relation to statutory postholders, the effectiveness of the Council's arrangements can

be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition, the Chief Officer - Finance and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the Pensions Committee.

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

Assurance from Internal Audit

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

Towards the end of the year, Internal Audit conducted a review of the Pension Fund's Payroll with the outcome reported to the March 2025 Pensions Committee. No major issues or risks were reported.

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

At the Pensions Committee meeting on 21 March 2025, the 2025-28 three year Internal Audit plan was approved. These audits will focus on:

- 2025/26: Key Administrative Processes
- 2026/27: Pensions Investments
- 2027/28: Pensions Governance Arrangements

External Audit and Other External Scrutiny

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of the Pensions Committee. In 2024/25, there were no significant issues to highlight on the Governance Compliance Statement.

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

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2024/25 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee
Convener

On behalf of Aberdeen City Council

Governance Compliance Statement

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

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

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

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2025

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

	Notes	2023/24 £'000	2024/25 £'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	3	(39,651)	(40,654)
Employers' Contributions	3	(135,877)	(107,861)
Transfer Values	4a	(3,415)	(3,744)
Other Income		(3)	(4)
Additions		<u>(178,946)</u>	<u>(152,263)</u>
Employers' Surplus Refunds/Exit Payments	5	24,864	33,822
Retirement Pensions	6	157,148	171,686
Retirement Allowances	6	33,436	36,105
Death Gratuities	6	7,741	5,596
Contributions Refunded	7	499	717
Transfer Values	7	7,804	8,983
Withdrawals		<u>231,492</u>	<u>256,909</u>
Net (Additions)/Withdrawals from dealings with members		52,546	104,646
Management Expenses	8a	26,024	24,855
Net (Additions)/Withdrawals including Fund Management Expenses		78,570	129,501
Return on Investment			
Investment Income	9	(87,224)	(85,390)
Taxes on Income	9	530	724
Profits and Losses on Disposal of Investments and Changes in Market Value of Investments	10	(445,922)	(126,964)
Net Return on Investments		<u>(532,616)</u>	<u>(211,630)</u>
Transfer In of ACCTF at Market Value	4b	0	0
Revaluation of Insurance Buy In Contract	18c	20,924	(5,699)
Net (Increase)/Decrease in the Net Assets available for Benefits during the year		(433,122)	(87,828)
Opening Net Assets of the Fund		(5,803,777)	(6,236,899)
Closing Net Assets of the Fund		<u>(6,236,899)</u>	<u>(6,324,727)</u>

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS
Net Assets Statement as at 31 March 2025

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

	Notes	2023/24	2024/25
		£'000	£'000
Investment Assets			
Bonds		0	0
Equities		2,431,401	2,016,921
Pooled Funds	11	2,516,109	2,743,399
Direct Property	15	381,000	383,190
Private Equity		500,286	549,906
Private Debt		129,789	90,601
Funds held by Investment Managers		137,659	409,611
ACC Loans Fund Deposit	21	41,150	29,375
Investment Income Due		2,543	2,579
Investment Sales Amount Receivable		16,520	2,058
Total Investment Assets		<u>6,156,457</u>	<u>6,227,640</u>
Investment Liabilities			
Investment Purchases Amount Payable		(27,072)	(1,325)
Net Investment Assets		<u>6,129,385</u>	<u>6,226,315</u>
Insurance Buy In Contract	20a	127,000	122,379
Life Time Tax Allowance	20a	174	145
Long Term Assets		127,174	122,524
Current Assets	20b	16,607	14,348
Current Liabilities	20c	(36,267)	(38,460)
Net Current Assets/(Liabilities)		(19,660)	(24,112)
Closing Net Assets of the Fund		<u>6,236,899</u>	<u>6,324,727</u>

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance

NOTES TO THE NORTHEAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Accounting Policies

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

The Annual Accounts summarise the Fund's transactions for the 2024/25 financial year and its position at year end as at 31 March 2025.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £4,202,274 in 2024/25 (£5,618,140 in 2023/24).

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 2025 and are determined as follows:

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

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

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 (JLL), 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:

- Income approach using the Investment Method.

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2) together with the full Statement by the Consulting Actuary 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 Fund, as set out by the Scheme Actuary, a termination assessment will be made on a least risk funding basis, unless the Admission Body has a guarantor within the Fund or a successor body exists to take over the liabilities. This is to protect the other employers in the Fund as, at termination, the Admitted Body's liabilities will become "Orphan Liabilities" within the Fund.

Additional Voluntary Contributions

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

Critical Judgements in applying Accounting Policies Unquoted

Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2025 was £1,094,978,554 (31 March 2024 £1,084,758,078).

Actuarial Present Value of Promised Retirement Benefits

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

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

Insurance Buy In Contract

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

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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

IAS 21 The Effects of Changes in Foreign Exchange Rate (Lack of Exchangeability) issued in August 2023. The amendments to IAS 21 clarify how an entity should assess whether a currency is exchangeable and how it should determine a spot exchange rate when exchangeability is lacking, as well as require the disclosure of information that enable users of financial statement to understand the impact of a currency not being exchangeable.

Until this change, IAS 21 set out the exchange rate to use when exchangeability between two currencies is temporarily lacking, but not what to do when exchangeability is not temporary.

On 15 August 2023, the IASB issued amendments to IAS 21 to help entities;

- assess exchangeability between two currencies; and
- determine the spot exchange rate, when exchangeability is lacking

This amendment is not expected to have a significant impact on the financial statements.

IFRS 17 Insurance Contracts issued in May 2017. IFRS 17 replaces IFRS 4 and sets out principles for recognition, measurement, presentation and disclosure of insurance contracts. IFRS 17 affects any company that writes insurance contracts – such contracts are not written by the Council.

This amendment will not have an impact on the Pension Funds financial statements.

The changes to the measurement of non-investment assets within the 2025/26 CIPFA Code of Practice include adaptations and interpretations of IAS 16 Property, Plant and Equipment and IAS 38 Intangible Assets. These include setting out three revaluation processes for operational property, plant and equipment, requiring indexation for tangible non-investment assets and a requirement to value intangible assets using the historical cost approach.

These amendments are not likely to affect Pension Fund transactions.

IFRS 16 Leases

The lease of 2 Marischal Square is technically a finance lease under IFRS16 because “right of use “ of the asset exists. The Pension Fund has chosen not to adjust the Fund Accounts as it is deemed not material. The terms and value of the lease are set out in Appendix IV.

Note 2: Actuarial Valuation Report

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

Information from the 2023 Actuarial Valuation is detailed below:

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

Funding Level

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

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

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

Schedule to the Rates and Adjustments Certificate

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

Assumptions used to Calculate Funding Target

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

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £4,189m (2024 £4,706m).

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

- A change in financial assumptions including an increase in the discount rate resulted in a significant reduction in calculated liabilities of £699m;
- The demographic assumptions have been changed to reflect the new data available from the Continuous Mortality Investigation (CMI_2022). This has had the effect of reducing the liabilities by around £12m;
- The IAS 16 figures fluctuate as a result to changes to the assumptions used. The attached table shows the sensitivity of the results to some of the key assumptions;

Changes in assumptions as of 31 March 2025	Approximate % increase to the promised retirement benefits	Approximate monetary amount (£)
0.1% p.a. decrease in the Discount rate	2%	67
1 year increase in the member life expectancy	4%	168
0.1% p.a. increase in the Salary Increase Rate	0%	4
0.1% increase in the Rate of CPI Inflation	1%	63

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

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

Note 3: Contributions Receivable

By Category	2023/24	2024/25
	£'000	£'000
Employees' Normal Contributions	39,651	40,654
Employers' Normal Contributions	132,815	102,355
Employers' Deficit Recovery Contributions	3,062	5,506
Total Employers' Contributions	135,877	107,861
Total	175,528	148,515

By Authority	2023/24	2024/25
	£'000	£'000
Administering Authority	47,980	34,970
Scheduled Bodies	111,570	99,615
Admitted Bodies	15,978	13,930
Total	175,528	148,515

Note 4a: Transfers In from other Pension Funds

	2023/24	2024/25
	£'000	£'000
Individual Transfers	3,415	3,744
Total	3,415	3,744

Note 5: Employers' Surplus Refunds/Exit Payments

	2023/24	2024/25
	£'000	£'000
Employers' Surplus Refunds/Exit Payments*	24,864	33,822
Total	24,864	33,822

*Four employers terminated their admission agreements with the Fund and one employer transferred out. Surplus refunds/exit payments were calculated by the Scheme Actuary.

Note 6: Benefits Payable

By Category	2023/24	2024/25
	£'000	£'000
Pensions	157,148	171,686
Commutation and Lump Sum Retirement Benefits	33,436	36,105
Lump Sum Death Benefits	7,741	5,596
Total	198,325	213,387

By Authority	2023/24	2024/25
	£'000	£'000
Administering Authority	50,137	56,110
Scheduled Bodies	112,004	124,830
Admitted Bodies	36,184	32,447
Total	198,325	213,387

Note 7: Payment to and on Account of Leavers

	2023/24	2024/25
	£'000	£'000
Refunds to Members Leaving Service	503	720
Payments for Members Joining State Scheme	(4)	(3)
Individual Transfers	7,804	8,983
Total	8,303	9,700

Note 8a: Management Expenses

	2023/24	2024/25
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,787	1,836
Information Technology	556	645
Supplies & Services	192	150
Accommodation	560	571
Printing and Publications	18	5
Administration Expenses Total	3,113	3,207
Pension Fund Staffing Costs – Investment	262	246
Pension Fund Committee	2	2
Pension Board	4	2
External Audit Fee	51	51
Internal Audit Fee	12	15
Actuarial Fees	330	104
General Expenses	211	302
Oversight and Governance Expenses Total	872	722
Investment Management*	14,395	14,319
Performance Fees*	5,618	4,202
Direct Operating Property Expenses	761	1,143
Transaction Costs	1,095	1,122
Custody Fees	170	140
Investment Management Expenses Total	22,039	20,926
Management Expenses Grand Total	26,024	24,855

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

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

Note 8b: Investment Management Expenses by Asset Class

2024/25	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Bonds	0				0
Equities	4,878	0		1,122	6,000
Pooled Funds	2,874	612			3,486
Property	825		1,143		1,968
Private Equity	998	2,926			3,924
Private Debt	1,129	664			1,793
Subtotal	10,704	4,202	1,143	1,122	17,171
				Custody Fees	165
				Grand Total	17,336

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

Note 8c: Analysis of Transaction Costs

Commission £'000	Fees/ Tax £'000	2023/24 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2024/25 Total £'000
384	711	1,095	Equities	362	420	782
0	0	0	Pooled Funds	340	0	340
384	711	1,095	Total	702	420	1,122

Note 9: Investment Income

	2023/24	2024/25
	£'000	£'000
Bonds	186	0
Equity Dividends	24,544	23,359
Property Rental Income	20,333	22,590
Interest on Cash Deposit	8,911	7,362
Pooled Funds	20,704	16,317
Private Equity	585	377
Private Debt	12,206	16,110
Other (including P/L from Currency & Derivatives)	(245)	(725)
Total	87,224	85,390
Tax		
Withholding Tax – Equities	(530)	(724)
Total Tax	(530)	(724)
Net Total	86,694	84,666

Note 10: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2024	Purchases	Sales	Change in Market Value	Market Value 31 March 2025
	£'000	£'000	£'000	£'000	£'000
Bonds	0	0	0	0	0
Equities	2,431,401	657,224	(1,092,575)	64,127	2,060,178
Pooled Funds	2,519,691	314,825	(122,816)	31,700	2,743,399
Property	381,000	22,504	(19,680)	(634)	383,190
Private Equity	536,556	49,380	(55,578)	19,548	549,906
Private Debt	132,524	(39,365)	0	(2,558)	90,601
	6,001,172	1,004,568	(1,290,649)	112,183	5,827,274
Other					
Cash	178,705				438,986
Investment Income Due	2,360				2,579
Investment Sales Amount Receivable	15,499				2,058
Investment Purchases Amount Payable	(25,236)				(1,325)
Net Investment Assets	6,195,203				6,269,572

Reconciliation of Movements in Investment and Derivatives (continued):

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

Note 11: Analysis of Investments

	2023/24	2024/25
	£'000	£'000
Bonds	0	0
Equities - UK	392,251	296,697
Equities - Overseas	2,039,150	1,763,481
Equities	2,431,401	2,060,178
Pooled Funds Breakdown:		
Bonds	840,348	1,111,450
Equities	1,125,612	1,103,770
Infrastructure - Unit Trust	95,466	57,766
Infrastructure - Limited Partnership	454,683	470,413
Pooled Funds	2,516,109	2,743,399
Direct Property	381,000	383,190
Private Equity	500,286	549,906
Private Debt	129,789	90,601
Other Investments	1,011,075	1,023,697
Funds held by Investment Managers	137,659	409,611
ACC Loans Fund Deposit	41,150	29,375
Investment Income Due	2,543	2,579
Investment Sales Amount Receivable	16,520	2,058
Other Balances	197,872	443,623
Investment Assets Total	6,156,457	6,270,897
Investment Liabilities		
Investment Purchases Amounts Payable	(27,072)	(1,325)
Investment Liabilities Total	(27,072)	(1,325)
Net Investment Assets	6,129,385	6,269,572

Note 12: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2025.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2025.

Note 13: Investments Analysed by Fund Manager

	31 March 2024		31 March 2025	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,468,479	23.5	1,511,569	23.8
Baillie Gifford	1,291,963	20.7	1,051,063	16.6
BlackRock Asset Management	1,161,225	18.6	1,030,719	16.2
BlackRock Renewable Power III	62,552	1.0	75,895	1.0
Abrdn (Property)	391,347	6.3	390,139	6.1
Abrdn (Property Residential)	28,123	0.5	28,906	0.4
HarbourVest	330,500	5.3	380,066	6.1
ACC Loans Fund Deposit	41,150	0.7	29,375	0.4
Global Custodian	97,404	1.5	383,789	6.1
Partners Group	35,815	0.6	32,167	0.5
Maven Capital	22	0.0	8	0.0
Unigestion	81,411	1.3	84,204	1.2
Russell Multi Asset Credit	116,939	1.9	332,176	5.2
Aviva Infrastructure	95,466	1.5	57,766	1.0
Hermes Infrastructure	82,651	1.3	85,039	1.3
Alcentra	62,133	1.0	52,345	0.8
Hayfin Direct Lending	67,656	1.1	38,725	0.6
Insight Credit	380,542	6.1	371,476	5.8
Allianz Home Equity	24,420	0.4	24,558	0.4
IFM Global Infrastructure	309,587	5.0	309,587	5.0
Schroders	0	0.0	0	0.0
	6,129,385	98.3	6,269,572	98.5
Net Long and Current Assets				
Bank Account	10	0.0	15	0
Long Term and Current Debtors Less Creditors	107,504	1.7	95,947	1.5
Net Assets	6,236,899	100.0	6,365,534	100.0

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

Security	Market Value 31 March 2024	% of Net Investment Assets	Market Value 31 March 2025	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund*	611,736	9.98	548,367	8.77
MPF UK Equity Pooled Fund*	513,875	8.38	555,403	8.88
Insight Investment Mgt Global Funds*	380,542	6.21	371,476	5.94
MPF UK Index Linked Gilts*	342,868	5.59	407,799	6.52
IFM Global Infrastructure	308,067	5.03	318,497	5.09
HarbourVest Tranche L	265,487	4.33	243,173	3.89

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

Note 14: Stock Lending

	31 March 2024	Collateral Percentage	31 March 2025	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	537,669		246,142	
Total Exposure	537,669		246,142	
Total Collateral	573,243	107%	260,856	106%

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 106% in respect of each borrower, consisting of Government Debt, UK and Overseas Equities.

Note 15: Property Holdings

	2023/24	2024/25
	£'000	£'000
Opening Balance	367,200	381,000
Purchases	35,150	21,774
Construction	5,092	481
Subsequent Expenditure	55	55
Disposals	(12,012)	(19,661)
Net Increase/(Decrease) in Market Value	(14,485)	(459)
Closing Balance	381,000	383,190

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

The valuation has been prepared in accordance with the current UK national supplement (the RICS Red BOOK) published by the Royal Institution of Chartered Surveyors on the basis of the IFRS 13 definition of Fair Value.

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

	2023/24	2024/25
	£'000	£'000
Within One Year	19,304	19,214
Between One Year and Five Years	60,591	59,661
Later than Five Years	88,631	127,182
Total	168,526	206,057

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

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2024-25 has seen no adjustment being required for a credit loss allowance.

Note 16: Financial and Non-Financial Instruments

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

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

31 March 2024				31 March 2025		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
0			Bonds	0		
2,431,401			Equities	2,060,178		
2,516,109			Pooled Funds	2,743,399		
500,286			Private Equity	549,906		
129,789			Private Debt	90,601		
	178,809		Cash		438,986	
	19,063		Other Investment Balances		4,637	
	143,781		Debtors		134,422	
5,577,585	341,653		Subtotal	5,444,084	578,045	
			Financial Liabilities			
		(27,072)	Other Investment Balances			(1,325)
		(36,267)	Creditors			(38,460)
		(63,339)				(39,785)
5,577,585	341,653	(63,339)	Financial Instruments Total	5,444,084	578,045	(39,785)
			Non-Financial Instruments			
381,000			Property	383,190		
5,958,585	341,653	(63,339)		5,827,274	578,045	(39,785)
		6,236,899	Net Assets of the Fund			6,365,534

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

31 March 2024		31 March 2025
£'000	Financial Assets	£'000
460,407	Fair Value through Profit and Loss	112,818
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
460,407	Net Gains and Losses on Financial Instruments	112,818
	Non-Financial Instruments	
(14,485)	Fair Value through Profit and Loss	(634)
445,922	Net Gains and Losses of the Fund	112,184

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

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 18a: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year end using the investment method of valuation by Valuers under the supervision of Tom Priest MRICS and Claire Magowan MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for existing	

		in accordance with the <i>RICS Valuation Professional Standard</i>	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</i> (2018)	Earnings Before Interest, Taxes, Depreciation, and Amortisation (EBITDA) multiple Revenue multiple Discount for lack of marketability Control Premium	Valuations could be affected by material events occurring between the date of the Financial Statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between audited Accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2025	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,333,164		1,110,920	5,444,084
Non Financial Assets at Fair Value through Profit and Loss			383,190	383,190
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,333,164	0	1,494,110	5,827,274

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,492,827		1,084,758	5,577,585
Non Financial Assets at Fair Value through Profit and Loss			381,000	381,000
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,492,827	0	1,465,758	5,958,585

Note 18b: Transfers between Levels

There were no transfers between levels 1 and 2.

However, in 2024/25 £0m (£381m 2023/24) of Direct Property was transferred between levels 2 and 3, as a result of the basis of valuation used by the Fund's valuer.

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

	Market Value 31 March 2024	Purchases during the year & Derivatives Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2025
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Property	381,000	22,504	(19,680)	3,081	(3,715)	383,190
Infrastructure – Limited Partnership	458,265	13,334	0	0	(1,187)	470,413
Private Equity	536,555	49,380	(55,578)	30,086	(10,537)	549,906
Private Debt	132,524	(39,365)	0	0	(2,558)	90,601
Total	1,508,344	45,854	(75,258)	33,167	(17,997)	1,494,110

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

Bulk Annuity Insurance Buy In Contract

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

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

	Total
	£'000
Transfer from ACCTF of Insurance Buy In on 1 April 2024	127,000
Level Pensions Paid by Insurer	(10,320)
Actuarial Revaluation	5,699
Closing Market Value as at 31 March 2025	122,379

Note 18d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2025.

	Assessed Valuation Range (+/-)	Value at 31 March 2025	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Direct Property	13%	383,190	433,005	333,375
Infrastructure – Limited Partnership	26%	465,493	586,521	344,465
Private Equity	26%	542,617	683,697	401,537
Private Debt	26%	86,869	109,455	64,283
Total		1,478,169	1,812,678	1,143,660

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

		Valuation 31 March 2025	Valuation Increase	Valuation Decrease
Change in Assumptions	Adjustment	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	122	127	118
Life Expectancy Adjustment	(+/-) 1 Year	122	127	118

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

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

Note 19: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Adviser, the Fund has determined that the following movements in market price risk are possible for the 2024/25 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	9%
Overseas Bonds	9%
UK Equities	16.1%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13%
Infrastructure - Limited Partnership	26%
Private Equity	26%
Private Debt	26%
Property	13%
Cash	2.0%

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 Adviser's most recent review. This analysis assumes that all other variables, particularly foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value as at 31 March 2025	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	407,799	9.0	444,501	371,097
Overseas Bonds	703,651	9.0	766,980	640,322
UK Equities	296,697	16.1	344,465	248,929
Overseas Equities	2,867,251	20.5	3,455,037	2,279,464
Infrastructure - Other	57,766	13.0	65,276	50,256
Infrastructure - Limited Partnership	465,493	26.0	586,521	344,465
Private Equity	542,616	26.0	683,696	401,536
Private Debt	86,869	26.0	109,455	64,283
Total	5,428,142		6,455,931	4,400,352

Asset Type	Value as at 31 March 2024	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	342,867	7.5	368,582	317,152
Overseas Bonds	497,481	7.5	534,792	460,170
UK Equities	906,127	16.0	1,025,438	742,558
Overseas Equities	2,650,886	20.5	3,220,983	2,125,047
Infrastructure - Other	95,466	13.0	107,877	83,055
Infrastructure - Limited Partnership	454,683	26.0	572,901	336,465
Private Equity	500,286	26.0	630,360	370,212
Private Debt	129,789	26.0	163,534	96,044
Total	5,577,585		6,624,467	4,530,703

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 2024 and 31 March 2025 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at 31 March 2024	As at 31 March 2025
	£'000	£'000
Cash and Cash Equivalents	178,809	438,986
Cash Balances	10	15
Bonds	840,348	1,111,450
Total	1,019,167	1,550,451

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2025	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	438,986	443,376	434,896
Cash Balances	15	15	15
Bonds	1,111,451	1,122,566	1,100,336
Total	1,550,452	1,565,957	1,534,947

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

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 2025 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2024	Asset Value as at 31 March 2025
	£'000	£'000
Overseas Quoted Securities	966,194	781,579
Overseas Unquoted Securities	640,063	662,929
Overseas Unit Trusts	1,109,217	1,807,422
Total Overseas Assets	2,715,474	3,251,930

Currency Risk – Sensitivity Analysis

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

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

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

Assets Exposed to Currency Risk	Asset Value as at 31 March 2025	Potential Market Movement	
		10.4%	10.4%
	£'000	£'000	£'000
Overseas Quoted Securities	781,579	862,863	700,295
Overseas Unquoted Securities	662,929	731,873	593,984
Overseas Unit Trust	1,807,422	1,995,394	1,619,450
Total	3,251,930	3,590,130	2,913,729

Assets Exposed to Currency Risk	Asset Value as at 31 March 2024	Potential Market Movement	
		+10.4%	-10.4%
	£'000	£'000	£'000
Overseas Quoted Securities	966,194	1,066,678	865,710
Overseas Unquoted Securities	640,063	706,630	573,496
Overseas Unit Trust	1,109,217	1,224,576	993,858
Total	2,715,474	2,997,884	2,433,064

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2025 was £439,000,000 (31 March 2024 was £178,819,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2024 £'000	Balance as at 31 March 2025 £'000
Liquidity Funds			
HSBC Liquidity Funds	AA-	115,566	397,449
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	41,150	29,375
HSBC	AA-	22,093	12,161
Subtotal		178,809	438,985
Bank Current Accounts			
HSBC Bank	AA-	0	0
Virgin Money*	A-	10	15
		10	15
Total		178,819	439,000

*Clydesdale Bank trading as Virgin Money.

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2025 the value of illiquid assets was £1,478,169 which represented 23.5% of the Total Net Assets of the Fund (31 March 2024 £1,465,758,078 which represented 22.3% of the Total Net Assets of the Fund).

Note 20a: Long Term Assets

	31 March 2024	31 March 2025
	£'000	£'000
Insurance Buy In Contract	127,000	122,379
Life Time Tax Allowance	174	145
Total Long Term Assets	127,174	122,524

Note 20b: Current Assets

	31 March 2024	31 March 2025
	£'000	£'000
Employees' Contributions due	3,215	3,247
Employers' Contributions due	9,526	6,999
Sundry Debtors	3,856	4,087
Subtotal	16,597	14,333
Bank	10	15
Total Current Assets	16,607	14,348

Note 20c: Current Liabilities

	31 March 2024	31 March 2025
	£'000	£'000
Sundry Creditors	28,154	28,916
Benefits Payable	8,113	9,544
Total Current Liabilities	36,267	38,460

Note 21: Related Party Transactions

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

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

	31 March 2024	31 March 2025
	£'000	£'000
Income:		
Contributions Receivable	43,031	30,646
Loans Fund Interest	5,234	1,329
Excess Pensions	2,522	2,632
Strain on Fund	2,426	1,692
Expenditure:		
Central Support Services	2,267	2,270
Accommodation – 2 Marischal Square	387	392
Debtors:		
Contributions Due	3,576	2,539
Excess Pensions Due	347	363
Creditors:		
Central Support Services Payable	635	616
Cash Balances:		
ACC Loans Fund Deposit	41,150	29,375

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

Note 22: Key Management Personnel

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

		Accrued Pension 2023/24	Accrued Pension 2024/25
		£'000	£'000
Steven Whyte	Director of Resources	56	0
Andrew MacDonald	Director of Resources	0	48
Jonathan Belford	Chief Officer - Finance	49	54

Steven Whyte retired from his position on 31/03/2024.

Governance

As at 31 March 2025, 7 members of the Pensions Committee and 8 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

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

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

2024/25	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Aberdeen Endowments Trust	22	0	2
Aberdeen Heat & Power	40	0	3
Aberdeen Performing Arts	90	5	7
Aberdeen Sports Village	42	0	4
Grampian Valuation Joint Board	471	25	41
NESTRANS	104	0	10
NESCOL	1,924	46	152
NESS	143	0	10
Robert Gordon University	4,960	57	386
Sport Aberdeen	197	0	17

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

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

Note 23: Contractual Commitments as at 31 March 2025

As at 31 March 2025 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios. The undrawn commitments are outstanding call payments £437.893m (£430.249m 31 March 2024):

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	628,194	227,636
Partners Group	67,004	17,461
Maven (SLF)	6,585	23
Unigestion	137,990	69,222
AAM Residential Property	29,533	26,889
Hermes Infrastructure	90,552	9,447
Alcentra EDL	56,038	27,918
Hayfin DLF	100,000	48,129
Blackrock Renewable	66,102	11,168
Allianz Home Equity	25,000	0
IFM Global Infrastructure	150,000	0
Total	1,356,998	437,893

Note 24: Additional Voluntary Contributions (AVC)

Additional Voluntary Contributions are not included in the Pension Fund's Accounts. Members of the North East Scotland Pension Fund are included in the following tables.

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

2023/24	Income (AVCs Paid by Members)	2024/25
£'000		£'000
9	Standard Life	10
4,465	Prudential	5,955

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

Market Value	Additional Voluntary Contributions	Market Value
31 March 2024		31 March 2025
£'000		£'000
983	Standard Life	810
27,254	Prudential	24,161

Note 25: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently holds one cash bond in respect of the participating employers within the fund. The bond guards against the possibility of being unable to recover pension liabilities from this Admission Body should they terminate their participation of the Scheme. A high level review of the bond requirements for the participating employers within the Fund was undertaken by the Scheme Actuary in 2025 following the completion of the triennial valuation to determine if any bonds needed to be put into place for the protection of the Scheme guarantors and the other participating employers as a whole. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made at this time. A new review of any bond requirement will be carried out following completion of the next valuation in 2026

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 addition the Fund has secured guarantors for some of the Community Admission Bodies who provide services within local authorities. In total, the Fund has secured guarantees for 19 Admission Bodies currently participating in the Scheme.

Note 26: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2024/25 four admission bodies exited from the Fund. All four were a managed exit. One Scheduled body transferred out of the scheme as a result of consolidating their liabilities into one administering authority with a payment made to the new Fund that represented the level of assets held for that employer at the date of transfer. Following these termination events, the assets and liabilities for each employer were assessed by the Scheme Actuary. The Actuary's assessment is to determine the funding level and the deficit or surplus held at the date of exit, in accordance within the regulations. The Fund paid exit credits to four of the exiting employers as a surplus was identified upon exit. Termination certificates, signed by the Scheme Actuary, were issued to the employers to confirm that the liabilities had been discharged.

Note 27: Investment Principles

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

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

Note 28: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2025 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial Present Value of Promised Retirement Benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 2.
Direct Property 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.	Direct Property £383m. Private equity £542m. Private Debt £87m. Pooled Infrastructure (Unquoted) £523m. There is a risk that these investments may be under or overstated in the accounts.
Insurance Buy In Contract	The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note 18d Sensitivity Analysis.

Note 29: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 20 June 2025. 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 2025, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 30: Agency Arrangement for Administering Compensatory ‘Added’ Years

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

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

	2023/24	2024/25
	£'000	£'000
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,522	2,632
Aberdeenshire Council	1,442	1,483
Moray Council	730	738
Scottish Water	1,390	1,460
Other	297	287
Total	6,381	6,600

	2023/24	2024/25
	£	£
Associated Payroll Cost	4	4

Independent Auditor's Report

Independent auditor's report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the Accounts Commission

Appendix 1 – Statement by the Consulting Actuary

North East Scotland Pension Fund (“the Fund”) Actuarial Statement for 2024/25

This statement has been prepared in accordance with Regulation 55(1)(d) of the Local Government Pension Scheme (Scotland) Regulations 2018. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy (FSS), dated March 2024. In summary, the key funding principles are as follows:

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

In accordance with the FSS, if a funding shortfall is calculated at the valuation date, a deficit recovery plan will be implemented, necessitating additional contributions to address the shortfall. Conversely, if there is a funding surplus, it may be appropriate to use this surplus to offset contributions for future service, potentially leading to a reduction in contributions required from employers. Any deficit recovery or surplus offsetting contributions are referred to as the “secondary rate”

The FSS outlines the procedure for establishing the recovery plan for each employer in the Fund. At the 2023 valuation, the weighted average recovery period was 13 years. The secondary rate for 2023-26 (ie the surplus offset) was an average of 6.2% of payroll per annum.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 60 of the Local Government Pension Scheme (Scotland) Regulations 2014 was as at 31 March 2023. This valuation revealed that the Fund's assets, which at 31 March 2023 were valued at £5,804 million, were sufficient to meet 126% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting surplus at the 2023 valuation was £1,190 million.

Each employer had contribution requirements set at the valuation. Individual employers' contributions for the period 1 April 2024 to 31 March 2027 were set in accordance with the Fund's funding policy as set out in its FSS

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2023 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth and inflation to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2023 valuation were as follows:

Financial assumptions (% p.a.)	For past service liabilities	For future service liabilities
Discount rate	4.60%	4.10%
Salary increase assumption	4.10%	4.10%
Benefit increase assumption (CPI)	2.60%	2.60%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the SAPs tables with appropriate weightings as set out in the 2023 valuation report. Future improvements are set in line with the CMI 2022 model, with a 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0% and a long term rate of 1.75% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	20.8 years	23.1 years
Future Pensioners*	22.4 years	25.2 years

*Currently aged 45

Copies of the 2023 valuation report and Funding Strategy Statement are available on request from the Administering Authority to the Fund.

Experience over the period since 31 March 2023

Markets reflected wider volatility during 2023, impacting on investment returns achieved by the Fund's assets. However, asset performance improved in 2024 and early 2025. The recent increase in US tariffs on imports has caused significant market volatility. The peak of this market volatility was experienced immediately after 31 March 2025, however generally lower than expected asset returns were experienced in the month immediately prior to this.

Continued high levels of inflation in the UK also resulted in a higher than expected LGPS benefit increase of 6.7% in April 2024. However, inflation has begun to return towards historical levels and the Bank of England's target (2% pa), with LGPS benefit increases lowering to 1.7% in April 2025. Overall, the funding level of the Fund is likely to be slightly higher than reported at the previous formal valuation at 31 March 2023.

The next actuarial valuation will be carried out as at 31 March 2026. The Funding Strategy Statement will also be reviewed at that time.

Prepared by:-

Greer Flanagan FFA C.Act

For and on Behalf of Hymans Robertson LLP

15 May 2025

Appendix 1a – Additional Considerations

Pension Fund Accounts Reporting Requirement

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2024/25 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the North East Scotland Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of promised retirement benefits

Year ended	31 March 2025	31 March 2024
Active members (£m)	1,615	1,779
Deferred members (£m)	693	820
Pensioners (£m)	1,845	2,107
Total (£m)	4,189	4,706

The promised retirement benefits at 31 March 2025 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2023. I have not been provided with an exact split of the £4,706m promised retirement benefits by membership class at 31 March 2024 (as calculated by the previous Actuarial Advisor). As such, I have estimated this using information from the most recent triennial funding valuation.

The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable at 31 March 2025. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2025 and 31 March 2024. I estimate that the impact of the change in financial assumptions to 31 March 2025 is to decrease the actuarial present value by £3,800m. I estimate that the impact of the change in demographic assumptions is to decrease the actuarial present value by £12m.

Financial Assumptions

Year ended	31 March 2025	31 March 2024
	% p.a.	% p.a.
Pension Increase Rate (CPI)	2.75%	2.80%
Salary Increase Rate	4.15%	4.20%
Discount Rate	5.80%	0.00%

Demographic assumptions

The longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Life expectancy is based on the S3PA tables (with appropriate weighting), with improvements in line with the CMI 2023 model, with a 15% weighting of 2023 (and 2022) data, 0% weighting of 2021 (and 2020) data, standard smoothing (Sk7), initial adjustment of 0.25% and a long term rate of improvement of 1.5% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current pensioners	20.9 years	23.3 years
Future pensioners (assumed to be aged 45 at the latest valuation date)	22.2 years	25.1 years

All other demographic assumptions have been updated since last year and are as per the latest funding valuation of the Fund. For details of the mortality table weightings and other demographic assumptions used, please refer to the formal 31 March 2023 valuation report.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the obligations are set out below:

Change in assumption at 31 March 2025	Approximate % increase to promised retirement benefits	Approximate monetary amount (£m)
0.1% p.a. decrease in the Discount Rate	2%	67
1 year increase in member life expectancy	4%	168
0.1% p.a. increase in the Salary Increase Rate	0%	4
0.1% p.a. increase in the Rate of CPI Inflation	1%	63

Professional notes

This paper accompanies the 'Accounting Covering Report – 31 March 2025' which identifies the appropriate reliances and limitations for the use of the figures in this paper, together with further details regarding the professional requirements and assumptions.

Prepared by:-

Adrian Loughlin FFA C.Act

For and on Behalf of Hymans Robertson LLP

16 May 2025

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2024	New Admissions	Ceased	Employers as at 31 March 2025
Scheduled Bodies	10	0	(1)	9
Admission Bodies	31	0	(4)	27
Total	41	0	(5)	36

Ceased during 2024/25

1. Scottish Fire and Rescue*	Scheduled
2. HomeStart NEA	Admitted
3. Sanctuary Scotland Housing Association	Admitted
4. SCARF	Admitted
5. Xerox (UK) Ltd	Admitted

Participating Employers as at 31 March 2025

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

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

*Scottish Fire and Rescue transferred their assets and liabilities held with the NESPF to Strathclyde Pension Fund with effect from 31 October 2024

Appendix 3 – Declared Interests

In 2024/25 Members/Key Management Personnel had disclosed an interest that is included within the following list:

Aberdeen Council for Voluntary Organisations
Association of Public Service Excellence (APSE)
Aberdeen Agency
Aberdeen Airport Consultative Committee
Aberdeen Bulawayo trust
Aberdeen City Council
Aberdeen City Heritage Trust
Aberdeen Civil Service Curling Club
Aberdeen Endowments Trust
Aberdeen Football Club
Aberdeen Gornel Trust
Aberdeen Heat and Power
Aberdeen International Airport
Aberdeen Lads Club
Aberdeen Performing Arts
Aberdeen Science Centre
Aberdeen Sports Village
Aberdeen Water Safety Group
Aberdeenshire Council
AREG
BAE Systems
Bridge of Don Thistle Football Club
Bridge of Don Thistle Juniors Football Club
Champions Board
Chris Anderson Trust
Carbon Reduction Analysts Ltd
Care and Repair Initiative Scotland
Conservation Area Regeneration Scheme Project
COSLA Health and Social Care Board
Cruden Bay Golf Club
East Grampian Coastal Partnership
Enquest Britain Limited
Etion
Fersands Area Forum
Friends of the Gordon Highlanders Museum
George, James and Alexander Chalmers Trust
Glover House Trust
GMB
Gordon Highlanders Advisory Group
Grampian Valuation Joint Board
Grampian Housing Association
Grampian Regional Equality Council
Grampian Valuation Joint Board

Granite City Speakers Club
Highland Reserve Forces and Cadets Association
Historic Scotland
Hopeville Social Club
Institute of Chartered Accountants Scotland
Joint Valuation Board
Kellas Midstream Ltd
LLP Board
Longhaven District Hall Association
Longhaven Social Club
MacDonald Art Committee
Mennico Ltd
Mitchell Hospital
Modern Money Scotland
Moray Council
NESS
NESTRANS
North East Agricultural Committee
North East Agriculture Advisory Committee
North East Scotland College
North East Scotland Fisheries Development Partnership
Northern Roads Collaboration Joint Committee
Oakbank School
Printfield
Printfield Community Project
Proctor Orphanage Trust
Punk Anatomist Personal Training and Yoga
Robb's Trust
Robert Gordon University Aberdeen
Royal Society for Public Health
Rubislaw Field Committee
Scotch Malt Whisky Society
Scotland Excel Joint Committee
Scotonomics Podcast Youtube Show
Scottish National Party
Seven Incorporated Trades - Shoe Makers
SNP
Sport Aberdeen
St Johns Scotland
The Integration Joint Board
The Royal Environment Health Institute
The Vestry
UCATT
UHI Foundation
UNISON
UNITE
Veteran Champions
William Harvey Trust
Woodside Neighbourhood Community Planning and Re-generation Network
World Energy Cities Partnership

Appendix 4 – IAS16 Note to Account

Lease of 1st Floor, 2 Marischal Square, Broad Street, Aberdeen

Year	Quarter 1	Quarter 2	Quarter 3	Quarter 4	Total
1	71,647.50	71,647.50	71,647.50	71,647.50	286,591.00
2	71,647.50	71,647.50	71,647.50	71,647.50	286,592.00
3	71,647.50	71,647.50	71,647.50	71,647.50	286,593.00
4	71,647.50	71,647.50	71,647.50	71,647.50	286,594.00
5	71,647.50	71,647.50	71,647.50	71,647.50	286,595.00
6	75,229.88	75,229.88	75,229.88	75,229.88	300,925.52
7	75,229.88	75,229.88	75,229.88	75,229.88	300,926.52
8	75,229.88	75,229.88	75,229.88	75,229.88	300,927.52
9	75,229.88	75,229.88	75,229.88	75,229.88	300,928.52
10	75,229.88	75,229.88	75,229.88	75,229.88	300,929.52
11	78,991.37	78,991.37	78,991.37	78,991.37	315,976.48
12	78,991.37	78,991.37	78,991.37	78,991.37	315,977.48
13	78,991.37	78,991.37	78,991.37	78,991.37	315,978.48
14	78,991.37	78,991.37	78,991.37	78,991.37	315,979.48
15	78,991.37	78,991.37	78,991.37	78,991.37	315,980.48
Total					4,517,495.00

Notes:

Lease Starts 01/07/2020

Increase of at least 5% after year 5

Increase of at least 5% after year 10

Lease ends 30/06/2035

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	LAPFF Nomination
REPORT NUMBER	PC/JUN25/LAPFF
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	6

1. PURPOSE OF REPORT

- 1.1 To seek approval for nomination of an Elected Member representative or Fund Officer to the Local Authority Pension Fund Forum (LAPFF) on behalf of the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 agree whether to nominate a Member of the Committee or a Fund Officer to the LAPFF Executive; and
- 2.2 that if a nomination is to be made, consider those nominated and agree a nominee; and
- 2.3 if the nominee is accepted by LAPFF, approve the detailed travel costs associated with the membership of the Executive.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 There will be financial costs for travel costs associated with membership of the LAPFF Executive as set out in the main report. Necessary costs will be met by the Pension Fund.

5. LEGAL IMPLICATIONS

- 5.1 Aberdeen City Council has a range of statutory responsibilities in respect of its role as administering authority for the North East Scotland Pension Fund. There are no direct legal implications arising from the recommendations in this report.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	The Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.	L	Yes
Compliance	No significant risks identified.	N/A	N/A	N/A
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	There will be travel costs associated with LAPFF participation.	These costs will be included within the Pension Fund budget.	L	Yes
Reputational	Failure to nominate an Executive member could have a negative impact on the reputation of	The Pension Fund will seek to agree a nomination before the deadline set by LAPFF in future.	L	Yes

	the Pension Fund.			
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 3 rd June 2025.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 None

12. REPORT AUTHOR CONTACT DETAILS

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Tel	01224 067109

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North East Scotland Pension Fund

nespf

LAPFF Executive Nomination

June 2025

1. Background

1.1 Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries and to maximise their influence as stakeholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 87 Local Authority Pension Funds and seven pools in the UK with combined assets of over £350 billion.

For LAPFF and its members, corporate responsibility and long-term shareholder value are two sides of the same coin. LAPFF's members have investments in many of the largest global companies. Working together with the majority of the UK's local authority pension funds and pool companies, LAPFF leads the way on issues such as executive pay, reliable accounting and a just transition to a net zero economy, along with significant and tangible improvements in the practices of some of the world's biggest corporations.

Each year the Forum engages with hundreds of companies, many directly with company chairs. This is made possible by building trust and having a two-way dialogue about corporate responsibility. LAPFF's focus is on improving the policies and practices of companies, which they believe is best achieved by having constructive but robust conversations. This approach is not always successful and progress can be too slow. When this happens the LAPFF escalate their engagements. This may include providing voting recommendations to members for company AGM proposals directly to effect change. To leverage engagement outcomes, LAPFF often work with other asset owners and managers.

The Forum participates in several multi-trillion pound collaborations to amplify their voice and accelerate change. LAPFF's understanding of problems facing companies and ability to voice concerns is enhanced by also engaging with company stakeholders.

For LAPFF's responsible investment objectives to be relevant in a rapidly changing economy they have to stay ahead of emerging trends, which alongside the provision of training supports members in their own responsible investment activities.

2. LAPFF Executive

LAPFF protects member pension funds by promoting the highest standards of corporate governance. Being part of the executive enables members to play a prominent role in delivering that mission. Executive membership provides the opportunity to shape the strategic direction of LAPFF as an organisation and to participate in engagements with companies on issues ranging from climate change to employment standards and human rights to executive pay.

Executive members oversee and contribute to the work of LAPFF through quarterly executive meetings, participating in meetings with company chairs and attending AGMs, and more generally supporting initiatives undertaken by LAPFF. The work of the executive is supported by LAPFF's research and engagement partner who provides executive members with materials to give information and insights into responsible investment and engagement issues and to reduce the time pressures on the executive.

The executive committee is a management body comprised of members, including councillors and other pension committee members, officers from funds and pool representatives. The executive sets the strategic priorities for LAPFF, promotes and protects LAPFF's reputation, and provides oversight of LAPFF's work.

The executive discusses and agrees materials, including on engagement priorities, before they go to the membership at business meetings. It also has the power to make decisions on behalf of the Forum that do not need to go to wider membership, including regarding approval of AGM voting alerts. The executive's role also includes ensuring that LAPFF activities are delivering the agreed workplan within the budget.

LAPFF is marked out as an investor organisation because it is led by its member funds. Rather than third parties engaging companies on its behalf, LAPFF does the engagement work itself as asset owners. That way, LAPFF can manage and lead engagements according to its priorities. Being part of the executive provides members with the opportunity to represent the Forum in engagement meetings with investee companies. Following these meetings executive members have the opportunity to give feedback to the membership at business meetings.

The executive meets at least four times a year and there are a further four business meetings and an AGM with the wider membership. Those elected to the executive are expected to attend the majority of those meetings. Executive members are expected to maintain appropriate skills in responsible investment and stewardship and abide by the Forum's conflicts of interest policy. Members are also encouraged, depending on individual's availability, to participate in LAPFF initiatives and company engagements. The LAPFF Business meetings are currently held in a hybrid manner.

Executive members are supported by the LAPFF's research and engagement partner, PIRC. The PIRC team provides members with reports for the executive meetings, which cover policy issues (engagement themes and sectors), updates on engagement activity and progress against the workplan. Executive members undertaking policy-related or company engagement meetings will be provided with a briefing document and supported by a member of the PIRC team in the meeting. For a new executive member's first engagement meeting, another member of the LAPFF executive will lead the meeting and provide advice. For a collaborative meeting with other investors, support will be provided by the lead investor or organiser, as well as by PIRC staff.

Executive Committee Member Role Specification

1. Role of the Executive Committee

- Set LAPFF's strategic goals and ensure the necessary financial and human resources are in place to meet LAPFF's objectives.
- Make recommendations and provide advice to the Business Meeting regarding work priorities and manage the annual research and engagement work programme.
- Coordinate the work of all contractors undertaking work for LAPFF.
- Promote the work of LAPFF among colleagues in the pensions, investment and local authority communities, where appropriate.
- Oversee the governance of LAPFF. For more information on the governance aspects of LAPFF and the Executive Committee, please consult the LAPFF Constitution.

2. Role of Executive Members

- Allocate sufficient time to read and reflect on meeting papers and attend Executive Committee and Business meetings.
- Contribute to Executive Committee discussions and decisions regarding LAPFF strategy, the annual work plan and budget, recommendations in papers for discussion and responses to consultations.
- Consider and suggest new ideas and strategies for engagement. Participate in appropriate training sessions as required.
- Monitor and identify key risks or trends that may affect LAPFF's work, brand or reputation.
- Represent LAPFF in company engagement meetings, at annual general meetings, or external events, where practicable.
- Assist the Forum Officer with recruitment and retention of LAPFF members.
- Protect and enhance LAPFF's brand and reputation as the leading collaborative shareholder engagement group in the UK.
- Be familiar with LAPFF's policies with regard to environmental, social and corporate governance issues and make efforts to promote these policies where appropriate.
- Declare any conflicts of interest.
- Agree that all LAPFF Executive Committee and Business meeting documents and papers, as well as all company correspondence (letters and meeting notes) remain strictly confidential, unless otherwise agreed by the Executive Committee.

3. Composition of the Executive

There shall be elected at each AGM from the organisations in the Forum membership the following Office-holders, each of whom shall become members of the Executive:

- a. a Chair of the Forum (Councillor on a LGPS Pension Fund Committee/Panel or trustee equivalent candidate);
- b. two Vice Chairs of the Forum (Councillor on a LGPS Pension Fund Committee/Panel or trustee equivalent, or non-executive member of a Publicly Accountable Body); and
- c. an Honorary Treasurer of the Forum (Officer working for a local authority or Publicly Accountable Body).

At each AGM there shall also be elected to the Executive:

- a. six Authorised Representatives of LAPFF member funds, who are Councillors or trustee equivalent, of whom at least two shall be women.;
- b. three Authorised Representatives of LAPFF member funds, of whom at least one shall be a woman, who are Officers of a LAPFF member fund.
- c. two authorised pool representatives;
 - i. one Authorised Representative who is a Councillor, or trustee equivalent, or non-executive member of a Publicly Accountable Body;
 - ii. one Authorised Representative who is an officer of a LAPFF member fund or executive officer of a Publicly Accountable Body.

3. Recommendation

The LAPFF are seeking a nomination to the Executive and we are seeking this in advance of their deadline. In June 2024, following recommendation, members of the Pensions Committee nominated a Fund Officer to be put forward. Following successful nomination, the Pensions Manager was appointed to the Executive.

We now ask for members to:

- approve putting forward a representative to the Executive, as per Term of Reference 6;

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

- agree the nominated individual to put forward to the Executive, giving consideration to the composition of the Executive as set out in item 2 above; and
- approve detailed travel costs associated with the membership

Each of the roles on the Executive will be up for election when the LAPFF issues nomination forms to the membership in mid August.

As stated earlier, Executive meetings are currently being held virtually and Business meetings being held in a hybrid manner. There will be travel costs associated with membership for travel to London and Bournemouth for the AGM. These costs will be met in full by the Pension Fund.

ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Strategy
REPORT NUMBER	PC/JUN25/STRAT
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss & Mairi Suttie
TERMS OF REFERENCE	1.4, 4-5

1. PURPOSE OF REPORT

- 1.1 To inform the Committee and provide recommendations (if applicable) to changes to the North East Scotland Pension Fund.

2. RECOMMENDATIONS

That the Committee:-

- 2.1 Approve the updates to the Fund policy documents as set out in 6.2 of the main report;
- 2.2 Approve the updated Termination Policy as set out in 7.2 of the main report; and
- 2.3 Note the remainder of the report for reassurance.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

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

Appendix I, Copy of Risk Register (May 2025)

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	Lack of effective risk controls in relation to the Fund Strategy.	The Fund maintains its own Risk Management Policy and regularly updates its Risk Register in line with change. This is reported quarterly to the Pensions Committee.	L	Yes
Compliance	No significant risks identified.	N/A	N/A	N/A
Operational	No significant risks identified.	N/A	N/A	N/A
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	No significant risks identified.	N/A	N/A	N/A
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 3 rd June 2025.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Copy of Risk Register (May 2025)
Appendix II, PAS Report Q4
Appendix III, Termination Policy

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

nespf

Strategy Report

Quarterly Reporting June 2025

1. Background

1.1 Quarterly Report to June 2025

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

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

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

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

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

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

2. Investment

2.1 Asset & Investment Manager Performance Report Investment Strategy Update Report

Separate reports, provided

2.2 Local Authority Pension Fund Forum (LAPFF)

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

LAPFF Executive Nomination

Separate report, provided

3. Accounting

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

Separate report, provided

4. Benefit Administration

4.1 IT Issues

Payslips

Each April the Pension Fund is required to send paper payslips to each pensioner to advise them of their new rate of pension for the year, following the annual pensions increase award.

On 8 April 2025 when files were sent to the printer, Officers were made aware of an ongoing issue which was causing ACC files to arrive corrupted. There were no issues with files from other clients and ACC IT were already investigating. This meant the Fund's payslips could not be printed and posted in advance of the pension payment on 15 April.

Officers chased this several times with ACC IT and on 28 April, were advised the issue had been resolved. ACC IT suspect the issue was caused by coding within the files, although this can not be confirmed. April payslips were successfully posted on 1 May 2025 and the May payslips have also subsequently been sent out without further issue.

This printing issue resulted in a delay in receiving payslips to around 26,000 pensioners. However pension payments were not impacted and communications were issued via the NESPF website, phone line and social media to advise members throughout.

Pension Payments

In February 2025 Officers were advised by Bottomline (software provider for the BACs payments) that the software used for sending the Fund's BACs payments would no longer work following an update at the end of April, without a change being made. ACC IT were advised and requests were made to allow the new software to be downloaded and installed.

Officers chased ACC IT in March and April in advance of the deadline with no success. On 28 April, Officers were advised that some users were unable to use the new software. At the date of writing (13 May), the issue has still not been resolved. However Bottomline have extended the deadline to 20 May which allowed May pension payments to be made.

This software issue poses a significant risk to the Fund's ability to make monthly pension payments going forward, therefore this has been reflected in the Risk Register (NESPFO08).

4.2 Regulation Updates

HM Treasury laid the Public Service Pension Schemes (Rectification of Unlawful Discrimination)(Tax) Regulations 2025 on 3 April 2025. These regulations came into force on 24 April 2025 and modify the existing rules to prevent adverse tax consequences when implementing the McCloud remedy e.g. around annual allowance, individual and fixed protection.

5. Systems

5.1 Performance Reporting

Performance is reported using new business intelligence and analytics software (Insights).

In addition to quarterly performance, the new PAS reporting also includes comparison against the previous quarter, information on data quality and progress on large scale exercises required by regulations e.g. McCloud and Pension Dashboards.

Appendix II, Pension Administration Strategy Report

6. Governance

6.1 Scheme Advisory Board

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

6.2 Document Updates

- Fire Safety (Local) Policy (*minor amendments for formatting/clarity, and addition of new Teams Channel*)
- Communications Policy (*new section added covering Social Media, amended frequency of Committee & Board bulletin to quarterly and re-inserted same for Employer bulletin, added other publications from website*)
- Corporate Governance & Corporate Social Responsibility Policy (*updated reference to latest fiduciary duty guidance, updated Fund value and reference to voting, both passive and active, being carried out in-house*)

- Compliance with Myners Principles (*expanded CIPFA acronym for clarity, added references to Appointment and Management of Advisers and Service Providers Policy, updated frequency of Employer Bulletin to quarterly, updated documents available on website*)
- Record Keeping Policy (*minor grammatical amendments, updated PAS version*)
- Data Protection Policy (*very minor amendments for clarification/grammar*)
- Training Policy (*very minor amendments for clarification on training requirements and grammar*)
- Overpayments Policy (*added in paragraph covering ex Strathclyde Firstbus members, minor corrections for clarification*)
- Systems Access Policy (*updated Altair password section and appendix*)
- Statement of Investment Principles (*minor updates to direct investment figure, voting paragraph and additional footnote to table*)

Copies of the draft policy documents can be found in the secure member area of the website (www.nespf.org.uk) or copies can be requested from the Governance Team. Any significantly revised or new documents will be included as appendices to this report.

6.3 Breaches of Law

A breach of law occurs where a duty imposed by virtue of an enactment or rule of law; and relevant to the administration of the scheme, has not been, or is not being complied with. There were 13 breaches of law recorded in the NESPF Breaches Register during 2024/25. Four of the breaches were scheme employers failing to meet their statutory obligations e.g. late payment of pension contributions, and one related to the Annual Benefit Statements which is explained in more detail below. The remainder were personal data breaches resulting mostly from human error. These were reported to the ACC Data Protection Officer in line with our Breaches Policy and a lessons learned report produced.

The Pension Fund will continue to engage with scheme employers during 2025/26 and build on the training and support already provided. Officers complete mandatory information governance training annually and receive further training and reminders to reinforce this throughout the year.

One report was made to The Pensions Regulator during 2024/25, following guidance from the Scottish Public Pensions Agency (SPPA) in relation to the provision of McCloud underpin information within the Annual Benefit Statements. This breach was out with NESPF control as the amended Regulations which removed the requirement to provide this information were not in place prior to the 31 August ABS deadline. Although formally reported, no further action was taken by tPR.

In line with the UK Data Protection legislation certain data breaches must be reported to the Information Commissioners Office i.e. where there is likely to be a risk to the individual(s) rights and freedoms. There were no reports made to the ICO in 2024/25.

6.4 Pensions Committee and Board Training

Separate report, provided

7. Employer Relationship

7.1 AVC Review

Under the Local Government Pension Scheme (LGPS) regulations, each LGPS Fund is required to provide access to an Additional Voluntary Contributions (AVC) arrangement where Fund members can elect to pay additional contributions to increase retirement savings.

The Pensions Regulator's Code of Practice states that Defined Contribution schemes, including AVC arrangements for Defined Benefit schemes such as the LGPS, should meet certain aims. They should be efficient, effective and give "value for members". These aims should be regularly evaluated to ensure this continues to be the case.

The market of AVC providers is limited and provision for the LGPS, which requires administrative functions to deal with large volumes of employers, is dominated by the Fund's current provider Prudential who were appointed in 1996. The Fund also has legacy arrangements with Standard Life.

With increased scrutiny of governance arrangements, pension dashboards on the horizon, changes to pension taxation limits and well documented service issues with some AVC providers, this is the ideal time for NESPF to review their existing AVC arrangements. A further update will be provided to Committee following completion of the review.

7.2 Termination Policy

As a result of a change to the scheme regulations around exit credits and 90 day guarantees for indicative termination calculations the Fund have revised the NESPF Termination Policy (embedded within the NESPF Funding Strategy Statement).

In conjunction with the scheme actuary the Fund have outlined the suggested approach for both of the changes above to ensure that the risk to the Fund and the remaining participating employers is mitigated as best as possible.

In addition to consulting with the Pensions Committee and Pension Board, the Policy will be subject to a consultation with participating employers of the Fund.

The updated Termination Policy is attached at **Appendix III**.

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Risk Register



Pensions Dashboard

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

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

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

Risk Scoring Process

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

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

Current Heat Map (where risks NESPF001 through 029 fall)

4	Very Serious	<div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>
3	Serious	<div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>
2	Marginal	<div><div></div></div>	<div><div></div><div></div><div></div></div>	<div><div></div><div></div><div></div><div></div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>
1	Negligible	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>	<div><div></div></div>
Impact 							

Red = High Priority (urgent action required)

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

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

Last Update: May 2024

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Pension Fund Level									
NESPFO01	Risk: Lack of effective risk controls	<ul style="list-style-type: none"> NESPF risk register is reviewed and updated quarterly by senior management team Consideration by Pensions Committee & Board at quarterly meetings NESPF specific Risk Management Policy in place and reviewed annually 	4	1	4	↔	TREAT		Ongoing
	Causes: Failure to implement risk management framework								
	Potential Impact: Operational, financial and reputational issues								
NESPFO02	Risk: Poor Governance	<ul style="list-style-type: none"> Annual review of Funds Governance Compliance Statement and supporting policies and procedures Adherence to Council’s Scheme of Governance Committee Effectiveness Service Update to support good governance 	3	2	6	↔	TREAT	ACC Scheme of Governance annual review approved by Council April 2025.	Ongoing
	Causes: Lack of robust and effective governance framework and supporting policies and procedures								
	Potential Impact: Regulatory compliance issues, inability to determine policies and make effective decisions leading to poor service delivery and reputational risk								
NESPFO03	Risk: Lack of performance measures	<ul style="list-style-type: none"> Statutory and local KPI’s Pension Administration Strategy published quarterly Investment performance (against benchmark) 	3	2	6	↔	TREAT	KPI review ongoing and new PAS reporting from Sept’24.	Ongoing
	Causes: Failure to develop performance reporting framework								
	Potential Impact: Lack of transparency, poor								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	performance could go unaddressed	reported to Committee quarterly in AIMP report							
NESPFO04	Risk: Failure of Pensions Committee and Pension Board to operate effectively	<ul style="list-style-type: none"> Publication of Pension Board Annual Report Training Policy reviewed annually and training register in place Nomination & Appointment procedure Annual Committee Effectiveness Service Update Quarterly Committee & Board Bulletin Monthly Hymans LOLA Progress Report 	3	3	9	↔	TREAT	Pension Board Annual Report and Training Policy due to June 2025 meetings. Hymans Knowledge Progress Assessment completed in 2023. 2 long term Committee vacancies.	Ongoing
	Causes: Poor attendance/commitment to role, high turnover of members, lack of training								
	Potential Impact: Non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk								
NESPFO05	Risk: Operational Disaster; unable to access the workplace	<ul style="list-style-type: none"> ACC Disaster Recovery policy in place NESPF Business Continuity Plan to address loss/disruption to benefit administration system 	3	2	6	↔	TOLERATE	Disaster Recovery Testing ongoing.	Ongoing
	Causes: Major incident, natural disaster								
	Potential Impact: Loss of service delivery, staff downtime								
NESPFO06	Risk: Failure to recruit, retain and develop staff	<ul style="list-style-type: none"> All staff have individual development plans, reviewed regularly through CR&D 	3	2	6	↔	TREAT	Operational Effectiveness report by Hymans. Structure review ongoing, reviewing	Ongoing
	Causes: Limited pool of resources/competition with private sector, lack of training/development								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	opportunities, resource drain from wider priorities Potential Impact: Loss of service delivery, risk to succession planning	<ul style="list-style-type: none"> • Training register to monitor • 3 dedicated training & development staff • Internal 2 year training programme for benefit admin staff • Future-focused staffing structure, subject to ongoing review • TEC Module adopted in Altair 						existing and anticipating future requirements of the Fund. New TEC Module to assist staff training within Altair implemented May'25.	
NESPF007	Risk: Pay and price inflation valuation assumptions either higher or lower Causes: Economic factors Potential Impact: Potential increase in employer contribution rates and liabilities	<ul style="list-style-type: none"> • Quarterly funding updates to Committee (using PFaroe) • Tri-ennial valuation • Individual employer contribution rates 	2	3	6	↔	TOLERATE	Healthy funding position, prudent assumptions in 2023 valuation led to decreased risk score at last review.	Ongoing
NESPF008	Risk: Over reliance on services provided by the Administering Authority (e.g. HR, Payroll, Legal, IT) Causes: VS/ER exercise leading to loss of knowledge and expertise, recruitment freeze, poor service provision, cost constraints Potential Impact: Ability to meet regulatory and tPR requirements, staff	<ul style="list-style-type: none"> • Internal controls including policies and procedures • Pensions Administration Strategy in place • Communication between Pensions Manager and ACC Chief Officers 	4	4	16	↑	TREAT	Operating Model review by Hymans ongoing. Recent IT issues caused significant disruption to April payslip delivery and payment authorisation, in addition to the wider operational	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	downtime, loss of service delivery/delays and staff time, cyber and IT risk, legal and reputational risk							issues being experienced. Risk rating has been increased accordingly.	
Governance									
NESPFO09	Risk: Failure to adhere to relevant pensions legislation and guidance	<ul style="list-style-type: none"> Six monthly compliance review, with annual reporting to Pensions Committee and Board Active participation at LGPS events, Testing Working Party for administration software updates Established processes for staff training Oversight by Pensions Board Regular benefit admin team meetings to share knowledge 	3	2	6	↔	TREAT	Six monthly compliance review due Jun'25. Review completed against TPR's new General Code. Work underway to ensure compliance with National Pensions Dashboard requirements.	Ongoing
	Causes: Political and legislative changes, increased administrative complexity, staff training issue								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial loss and tPR action								
NESPFO10	Risk: Failure to comply with FOI or SAR requests	<ul style="list-style-type: none"> Internal written procedures in place FOI/SAR log to record & monitor Online process through GovServices 	3	1	3	↔	TREAT		Ongoing
	Causes: Missed statutory deadlines due to training or resource issues								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO11	Risk: Conflicts of Interest		2	3	6	↔	TREAT		Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Causes: Competing professional and personal interests of staff, Committee and Board members	<ul style="list-style-type: none">• Standing agenda item at meetings• Regular discussions between CO-Finance and Pension Fund Manager• Conflicts policy & register in place, with conflicts declarations issued annually						Updated COI Policy to Committee meeting Dec’24.	
	Potential Impact: Audit criticism, legal challenge, reputational risk								
Benefit Administration									
NESPF012	Risk: Fraud/Negligence	<ul style="list-style-type: none">• Segregation of duties for benefits staff authorising/submitting lump sum payments• Pension payments signed off by benefits senior• Enhanced Admin to Pay and Arrears Modules to provide calculation checks• Participation in National Fraud Initiative exercise• Overseas pensioner existence checking• Breaches Policy & register• Internal Audit control reviews	3	2	6	↔	TREAT	Internal Audit Pension Fund Payroll during 2025. NFI exercise participation early 2025.	Ongoing
	Causes: Dishonesty or human error by staff, scheme members								
	Potential Impact: Overpayment/unauthorised payments, system corruption, audit criticism, legal challenge, reputational risk								
Investments									

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO13	Risk: Insufficient assets to meet the Funds long term liabilities	<ul style="list-style-type: none"> Quarterly assessment of investment performance and funding updates Tri-ennial valuation and investment strategy review Diversification of assets Due diligence of fund managers External advisor for specialist guidance on strategy 	4	1	4	↔	TREAT	Tri-ennial valuation process completed, Fund in very healthy position (126% funded) and valuation approach continues to ensure high level of prudence. Investment strategy approved at June'24 meeting.	Ongoing
	Causes: Failure of investment strategy or fund managers to produce expected returns								
	Potential Impact: Increase in employer contribution rates, investment risk, audit criticism, financial loss								
NESPFO14	Risk: Failure to monitor investment managers and assets	<ul style="list-style-type: none"> Quarterly assessment and reporting of asset performance Regular meetings with investment managers 	3	2	6	↔	TREAT		Ongoing
	Causes: Lack of internal procedures								
	Potential Impact: Audit criticism, legal challenge, reputational risk								
NESPFO15	Risk: Failure of world stock markets	<ul style="list-style-type: none"> Diversification of Scheme assets Tri-ennial valuation and investment strategy review 	4	2	8	↔	TOLERATE	Tri-ennial valuation completed, investment strategy approved at June'24 meeting.	Ongoing
	Causes: Systemic								
	Potential Impact: Increase in employer contribution rates, financial loss								
NESPFO16	Risk: Negligence/Fraud/Default	<ul style="list-style-type: none"> Due diligence on appointment and appropriate clause in legal agreements 	2	1	2	↔	TOLERATE		Ongoing
	Causes: Dishonesty by fund managers, lack of care or human error								

Last Update: May 2022

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Financial loss, reputational damage	<ul style="list-style-type: none"> Fund management monitoring SAS 70 reports 							
NESPFO17	Risk: Failure of Global Custodian	<ul style="list-style-type: none"> Regular meeting with custodian 	4	2	8	↔	TOLERATE	Global Custodian tender process underway.	Ongoing
	Causes: Financial market crisis, regulatory/political	<ul style="list-style-type: none"> Service Level Agreement in place 							
	Potential Impact: Loss of assets or control of assets	<ul style="list-style-type: none"> Receipt of SAS 70 reports and monitoring 							
NESPFO18	Risk: Failure to implement ESG policy	<ul style="list-style-type: none"> Member training on roles and fiduciary duties 	3	2	6	↔	TREAT		Ongoing
	Causes: Lack of skills/knowledge, lack of transparency on practices or clear policy	<ul style="list-style-type: none"> Policy incorporated within SIP PRI membership, annual signatory assessment 							
	Potential Impact: Reputational damage	<ul style="list-style-type: none"> Monitor impact of climate change Adoption of TCFD Quarterly reporting to Committee/Board on voting, carbon footprinting and engagement work. Risk assessments with Fund Managers and Investment Consultant including Climate Scenario Analysis 							
Accounting									

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO19	Risk: Poor financial reporting	<ul style="list-style-type: none">Comprehensive policies and procedures in place and review of <i>the Code</i>Attending CIPFA meeting and reviewsRegular reconciliations e.g. fund managers, custodianInternal/External Audits	3	2	6	↔	TREAT	Draft unaudited annual accounts to June 2025 meeting.	Ongoing
	Causes: Lack of internal policies and procedures, failure to keep up to date with changes in the Code of Practice and other overriding changes, training issues								
	Potential Impact: Qualified accounts								
	Systems								
NESPFO20	Risk: Failure to secure and manage personal data in line with data protection requirements	<ul style="list-style-type: none">Annual information governance training for staffPolicies and procedures in place and reviewed regularly (Breaches, Data Protection, Systems Access and Retention Schedule)Secure physical storage measuresAdmin system providers implement range of protections against cyber threats including encryption, firewalls, annual 3rd party penetration testing etc	4	2	8	↔	TREAT	Staff complete annual information governance refresher training underway. Cyber training for Committee & Board delivered Nov’24. Cyber Incident Tabletop Exercise completed by NESPF Incident Response Team in Jan’25 and Cyber Incident Response Plan updated.	Ongoing
	Causes: Cyber-attack, human processing error								
	Potential Impact: Audit criticism, legal challenge, reputational risk, financial penalties								
NESPFO21	Risk: Failure of the Fund’s administration system		4	2	8	↔	TOLERATE	Increased risk of cyber-attacks	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Causes: Outages, hardware and software failures and cyber attacks Potential Impact: Staff downtime, loss of service delivery	<ul style="list-style-type: none"> Administration system is hosted externally with back up in separate location Regular software updates Business continuity and disaster recovery plans in place 						globally, mitigations in place. Local Contingency Plan and Systems Access Policy reviewed early 2025. Heywood Cyber Security Testing for 2025 completed and no major issues identified.	
NESPF022	Risk Failure to track member status and trace information Causes: Poor record keeping Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, tPR action	<ul style="list-style-type: none"> Tracing service in place (ATMOS) Use of 'Tell Us Once' service Data quality improvement plan including measures to trace Existence checking 	2	3	6	↔	TREAT	New mortality tracing. Data uploaded and checked against national death records, automatically creates cases on Altair administration database with output dashboard with lower priority matches. Review of new process ongoing.	Ongoing

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
Employer Relationship									
NESP023	Risk: Failure to monitor employer covenant	<ul style="list-style-type: none">Continued implementation of Covenant Assessment and Monitoring Policy (within FSS)Online liability monitor which tracks funding levels and liabilities for each individual employer	2	2	4	↔	TREAT		Ongoing
	Causes: Failure of internal procedures								
	Potential Impact: Orphaned liabilities could fall on remaining employers								
ESPF024	Risk: Changes in early retirement strategies by employers	<ul style="list-style-type: none">Management through Covenant Assessment and Monitoring Policy (within FSS)	2	3	6	↔	TREAT	Increasing budget constraints are leading more employers to redundancy/early retirement exercises. Employers are aware of cost implications. Strain on Fund factors reviewed by scheme actuary in 2023.	Ongoing
	Causes: Public service cuts to funding								
	Potential Impact: Pressure on cash flows								
NESP025	Risk: Employers leaving Scheme or closing to new members	<ul style="list-style-type: none">Management through Covenant Assessment and Monitoring Policy (within FSS)	2	4	8	↔	TREAT	New flexibilities, guarantors in place, new Termination Policy and current funding position.	Ongoing
	Causes: Public service cuts to funding, increased pension contribution costs								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
	Potential Impact: Orphaned liabilities could fall to remaining employers	<ul style="list-style-type: none"> Cost Cap mechanism introduced in LGPS regulations Termination Policy reassessed in line with the 2023 Fund Valuation 							
NESPFO26	Risk: Longevity	<ul style="list-style-type: none"> Tri-ennial valuation undertakes scheme specific analysis including review of life expectancy/mortality assumptions which are set with some allowance for increases 	2	2	4	↔	TOLERATE	Demographic assessment carried out by the scheme actuary in 2022/23 which was fed into 2023 valuation.	Ongoing
	Causes: Increasing life expectancy rates								
	Potential Impact: Increase in employer contribution rates and liabilities								
NESPFO27	Risk: Employer contributions not received, collected or recorded accurately	<ul style="list-style-type: none"> Internal escalation procedures Breaches policy and register Monthly data submission reconciled by ERT Quarterly PAS reporting to Committee & Board Ongoing training provided by dedicated ERT to scheme employers Employer Briefings 	2	3	6	↔	TREAT	LGPS (Scotland) Regulations delivered Summer 2022 to help manage risk. New employer contribution rates put in place following 2023 valuation. All employer contribution requirements reduced for inter-valuation period 2024-27.	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Orphaned liabilities could fall to remaining employers								

Code	Risk Description	Mitigating Controls	Current Risk				Approach	Additional Actions/Latest Notes	Owner & Timescale
			Impact	Likelihood	Score	Movement			
NESPFO28	Risk: Failure to maintain member records; data incomplete or inaccurate	<ul style="list-style-type: none"> Monthly data from employers which is reconciled by ERT Quarterly PAS reporting to Committee & Board Data quality improvement plan implemented Data readiness assessment for Pensions Dashboard Project 	3	2	6	↔	TREAT	Work is ongoing to ensure records are as up to date as possible in readiness for Pensions Dashboard connection by 2026.	Ongoing
	Causes: Lack of staff resources, training issues								
	Potential Impact: Incorrect pension payments, incorrect assessment of actuarial liabilities, reputational damage, tPR action								
NESPFO29	Risk: The Fund is unable to adequately comply with required administrative processes owing to McCloud judgement	<ul style="list-style-type: none"> SAB and other industry guidance Early and ongoing communication with employers McCloud project team created 	2	2	4	↔	TREAT	Now "Live" with McCloud. Majority of historic recalculations completed.	Ongoing
	Causes: Not having the required historic data, adequate resources, sufficient guidance								
	Potential Impact: Breaches and potential action by tPR, increase in liabilities, incorrect pension entitlements, damage to Fund reputation								

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Pension Administration Strategy

Quarterly Reporting to 31st March 2025

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

1.1 Key administration tasks

Measuring performance is essential to evidence the efforts made by both the Pension Fund and Scheme employers to comply with statutory requirements and deliver a high-quality pension administration service.

Measurement and Target	Cases completed	Within target	Percentage achieved	Outwith target	Average days over target	Previous period percentage	Percentage movement
Death In Service notification within 5 working days	36	34	94.4%	2	1.50	96.6%	-2.2%
Death of Deferred/Pensioner notification within 5 working days New	369	319	86.4%	50	8.54	97.0%	-10.6%
Deferred Benefit Care Only within 60 days New	951	942	99.1%	9	13.78	99.2%	-0.1%
Deferred Benefit Final Salary within 60 days New	515	488	94.8%	27	23.18	96.2%	-1.4%
Deferred Benefit notification within 10 working days	1,416	1,389	98.1%	27	9.37	98.6%	-0.5%
Refund within 10 working days	581	559	96.2%	22	10.09	97.5%	-1.3%
Retirement Benefit within 10 working days	1,625	1,315	80.9%	310	4.90	78.5%	2.4%
Retirement Estimate within 10 working days	480	480	100.0%	0		100.0%	0.0%
Transfer In quotation within 10 working days	58	49	84.5%	9	25.78	82.1%	2.4%
Transfer Out quotation within 10 working days	324	255	78.7%	69	31.07	75.0%	3.7%
Totals	6,355	5,830	91.7%			91.5%	0.2%

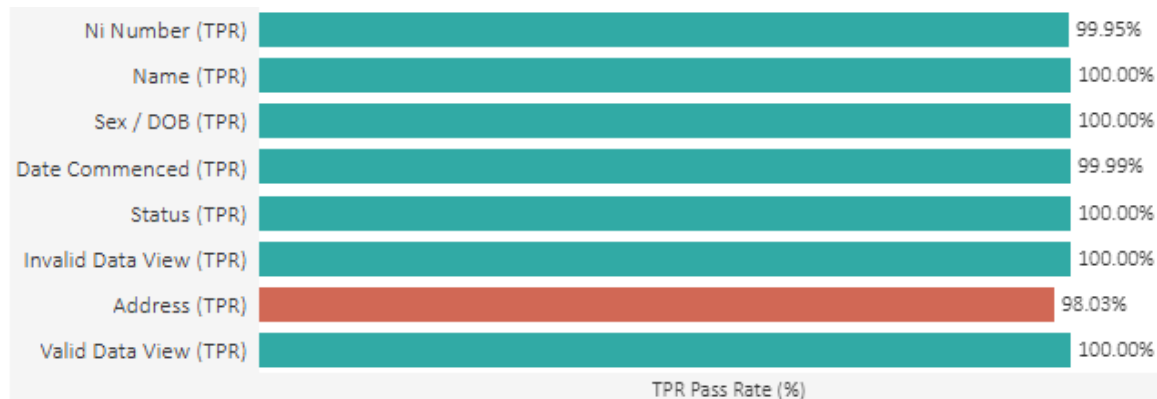
Percentage Analysis

- Overall percentage achieved at 91.7% is up 0.2% on previous quarter
- Overall percentage achieved for 2024/25 is up 1.2% on previous year.

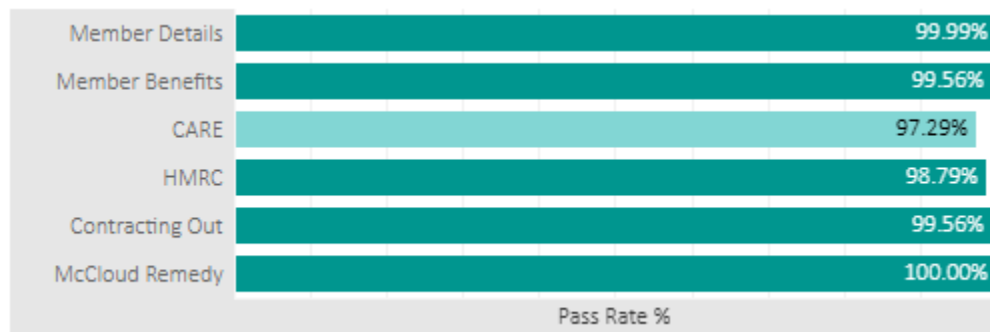
1.2 Data quality

The Pension Regulator (TPR) requires Common and Scheme Specific data to be measured and reported annually in October.

Common Data Score = 98.7% (TPR target 100%)



Scheme Specific Data Score = 98.4% (TPR target 100%)

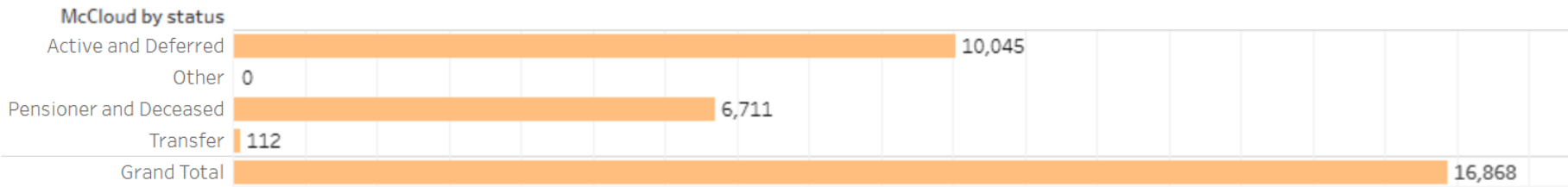


1.3 McCloud remedy

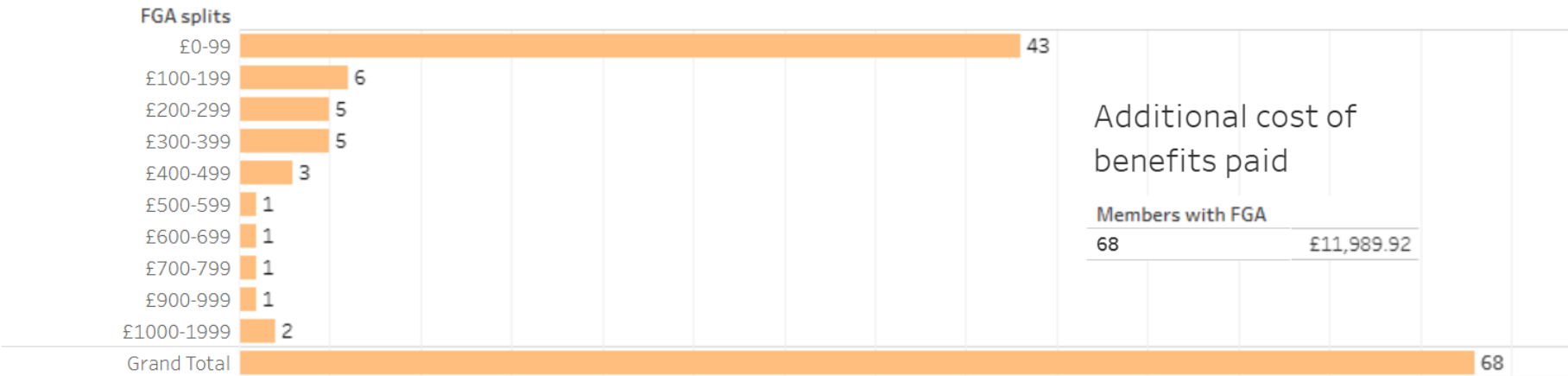
In December 2018 the Court of Appeal ruled in McCloud v Ministry of Justice that "transitional protection" offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector schemes.

This dashboard provides results of extending protections by recalculating benefits for all eligible members in accordance with The Local Government Pension Scheme (Remedial Service) (Scotland) Regulations 2023.

Recalculations



Cost Analysis



1.4 Members online

My Pension+

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

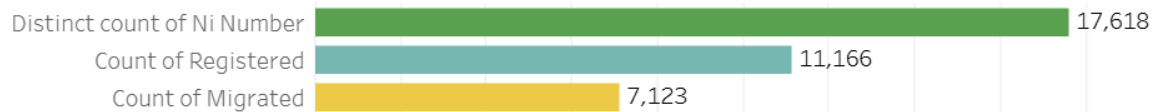
Actives



Percentages

Registered members	66.8%
Migrated members	74.5%

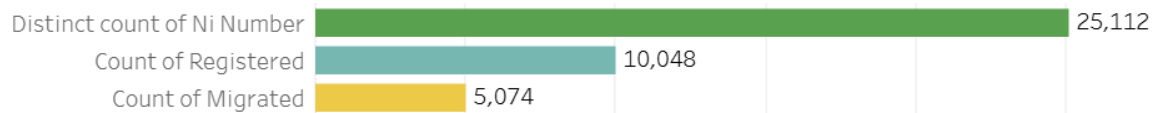
Deferreds



Percentages

Registered members	63.4%
Migrated members	63.8%

Pensioners & Dependants



Percentages

Registered members	40.0%
Migrated members	50.5%

Undecided Leavers



Percentages

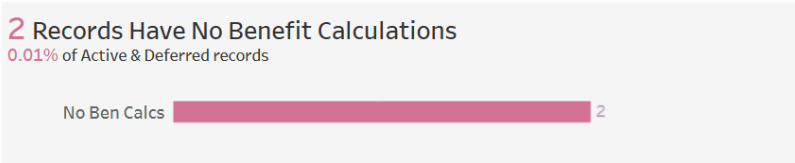
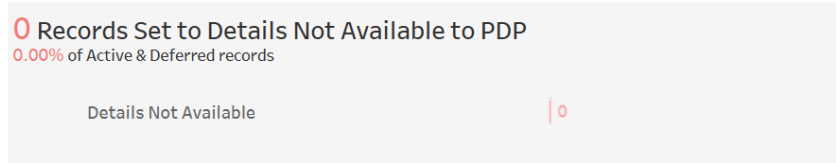
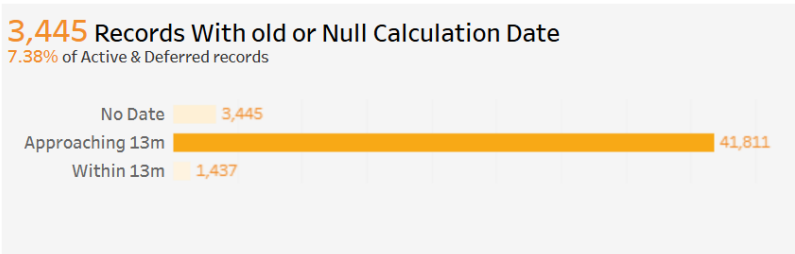
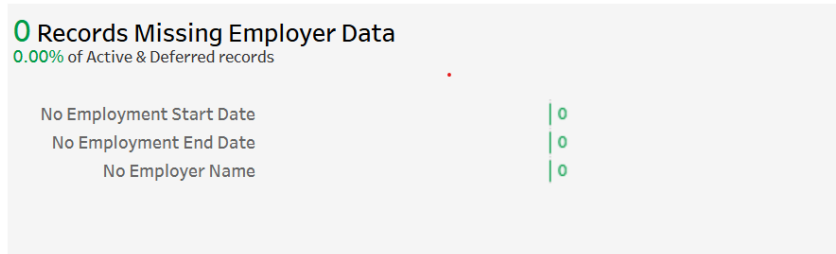
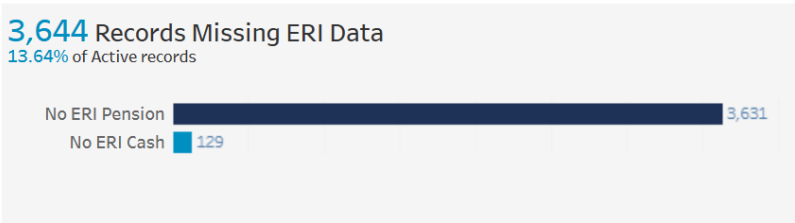
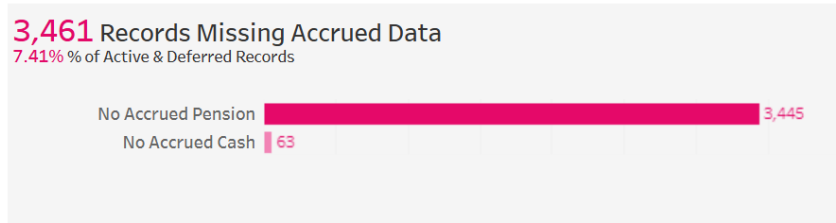
Registered members	63.1%
Migrated members	69.8%

1.5 Pension dashboards

This dashboard shows current position with data transferred into our ISP Test environment that will be used for onboarding to the governments ecosystem later this year which is a requirement for all public sector pension schemes. The NESPF will be required to provide Pension Data for all active and deferred pensioners within the Fund.

Member Records	Active	Deferred
46,693	26,708	19,985

The 3,000+ members relates to new members who joined the scheme after 31 March 2024 and therefore do not have annual benefits state ments attached to their records.



FUNDING STRATEGY STATEMENT



North East Scotland Pension Fund

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

May 2025

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

This Funding Strategy Statement has been prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund (the "Fund"), in accordance with Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

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

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

1. Actuarial Method and Assumptions (Appendix A)

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

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

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

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

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

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

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

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

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

6. Covenant Assessment and Monitoring Policy (Appendix F)

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

7. Glossary (Appendix G)

A glossary of the key terms used throughout is available at the end of this document [here](#).

2. Background

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

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

The details contained in this FSS will have a financial and operational impact on all participating employers in the Fund.

It is therefore imperative that each existing or potential employer is aware of the details contained in this statement.

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

Integrated Risk Management Strategy

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

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

The Regulations

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

The Solvency Objective

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

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

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

Long Term Cost Efficiency

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

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

Employer Contributions

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

3. Key Funding Principles

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Purpose of the FSS

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

The purpose of this FSS is therefore:

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

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

The aims of the Fund are to:	The purpose of the Fund is to:
<ul style="list-style-type: none">• manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due• enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and Admitted Bodies, while achieving and maintaining Fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes• maximise the returns from investments within reasonable risk parameters taking into account the above aims.	<ul style="list-style-type: none">• receive monies in respect of contributions, transfer values and investment income, and• pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the Regulations.

Responsibilities of the key parties

The efficient and effective management of the Fund can only be achieved if all parties (including pensions committee, investment managers, auditors and legal advisors, investment advisors, pension board etc) exercise their statutory duties and responsibilities

conscientiously and diligently. The key parties and their roles for the purposes of the FSS are set out below:

Key parties to the FSS

The Administering Authority should:	The Individual Employer should:
<ul style="list-style-type: none"> • operate the pension Fund • collect employer and employee contributions, investment income and other amounts due to the Fund as stipulated in the Regulations • pay from the Fund the relevant entitlements as stipulated in the Regulations • invest surplus monies in accordance the Regulations • ensure that cash is available to meet liabilities as and when they fall due • take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default • manage the valuation process in consultation with the Fund's Actuary • prepare and maintain a FSS and a Statement of Investment Principles ("SIP), both after appropriate consultation with interested parties • monitor all aspects of the Fund's performance and funding, amending the FSS/SIP as necessary • effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and a scheme employer, and • support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice. 	<ul style="list-style-type: none"> • deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations), unless they are a Deferred Employer • pay all contributions, including their own, as determined by the Actuary, promptly by the due date (including any exit payment upon ceasing participation where applicable) • provide the Fund with accurate data and understand that the quality of the data provided to the Fund will directly impact on the assessment of their liabilities and their contributions. In particular, any deficiencies in their data may result in the employer paying higher contributions than otherwise would be the case if their data was of high quality. • undertake administration duties in accordance with the Pension Administration Strategy. • develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework • make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain • have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context • notify the Administering Authority promptly of any changes to membership or their financial covenant to the Fund, which may affect future funding and comply with any particular Breaches of Law policy specified by the Fund. • understand the pension impacts of any changes to their organisational structure and service delivery model, and • comply with Regulations in the case of a bulk transfer of staff.

The Fund Actuary should:	A Guarantor should:
<ul style="list-style-type: none"> • prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency after agreeing assumptions with the Administering Authority and having regard to its FSS and the Regulations • prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as such as pension strain costs, ill health retirement costs etc. • provide advice and valuations on the termination of admission agreements • provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default • assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations • advise the Administering Authority on the funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the SIP, and • ensure the Administering Authority is aware of any professional guidance or other professional requirements, which may be of relevance to the Fund Actuary's role in advising the Fund. 	<ul style="list-style-type: none"> • notify the Administering Authority promptly of any changes to its guarantee status, as this may impact on the treatment of the employer in the valuation process or upon termination. • provide details of the agreement, and any changes to the agreement, between the employer and the guarantor to ensure appropriate treatment is applied to any calculations. • be aware of all guarantees that are currently in place • work with the Fund and the employer in the context of the guarantee • receive relevant information on the employer and their funding position in order to fulfil its obligations as a guarantor.

Solvency Funding Target

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

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

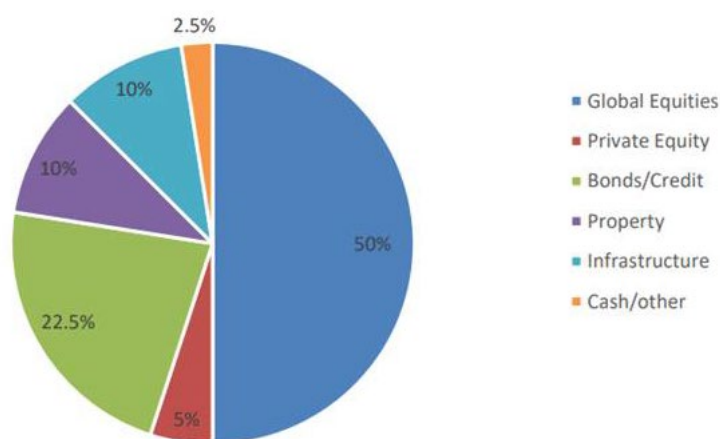
Link to Investment Policy

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

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

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

Growth Assets 55% (+/- 5%), Income/Protection Assets 45% (+/- 5%)



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

Risk Management Strategy

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

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

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

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

First Aberdeen Limited

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

Identification of Risks and Counter-Measures

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

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

Financial	Demographic
<p>The financial risks are as follows:-</p> <ul style="list-style-type: none"> Investment markets fail to perform in line with expectations Protection and risk management policies fail to perform in line with expectations Market outlook moves at variance with assumptions Investment Fund Managers fail to achieve performance targets over the longer term Asset re-allocations in volatile markets may lock in past losses Pay and price inflation significantly more than anticipated Future underperformance arising as a result of participating in the larger asset pooling vehicle therefore restricting investment decisions An employer ceasing to exist without prior notification, resulting in a large exit credit requirement from the Fund impacting on cashflow requirements. 	<p>The demographic risks are as follows:-</p> <ul style="list-style-type: none"> Future changes in life expectancy (longevity) that cannot be predicted with any certainty. Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, potentially result in a greater liability for pension funds. Potential strains from ill health retirements, over and above what is allowed for in the valuation assumptions for employers Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations. The Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy <p>Early retirements for reasons of redundancy and efficiency do not affect the solvency of the</p>

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

Governance	Regulatory
<p>Governance risks are as follows:-</p> <ul style="list-style-type: none"> • The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated • Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level • Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates • An employer ceasing to exist with insufficient funding or adequacy of a bond. • Changes in the Committee membership. <p>For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored but in most cases the employer, rather than the Fund as a whole, bears the risk.</p>	<p>The key regulatory risks are as follows:-</p> <ul style="list-style-type: none"> • Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to the Fund, • Changes to national pension requirements and/or HMRC Rules <p>Membership of the Local Government Pension Scheme is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.</p>

Monitoring and Review

A full review of this Statement will occur no less frequently than every 3 years, to coincide with completion of a full statutory actuarial valuation and every review of employer rates or

interim valuation. Any review will take account of the current economic conditions and will also reflect any legislative changes.

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

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

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

Appendix A –

Actuarial method and assumptions

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

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

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

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

Demographic Assumptions

Mortality/Life Expectancy

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

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

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

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

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

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

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

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

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

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

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

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

Method

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

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

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

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

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

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

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

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

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

Employer asset shares

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

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

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

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

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

Appendix B – Deficit recovery and surplus spread periods

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

Contribution Plans – Key Principles

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

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

The key principles when considering surplus offsets are as follows:

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

The objective is to remove any surplus over a reasonable timeframe, and this will be periodically reviewed.
2. **For the 2023 valuation the Fund has set a funding buffer.** For those employers assessed to be in surplus at the valuation date, a surplus buffer (expressed as a percentage of the employer's liabilities) will apply meaning surplus offsets will not be available to those with a funding level of less than the buffer. For those with funding levels greater than the buffer (typically [115%]), surplus offsets will be based on the surplus above the buffer only. Surplus below the buffer is to be retained within the Fund as a reserve against future adverse asset and liability experience, to increase the long-term stability of contributions. The size of the buffer will be reviewed at each valuation and may differ between employers for reasons set out above.
3. Where an employer is expected to exit the Fund then consideration of the appropriate contribution rate between now and exit would be given. This may mean that contributions are based on the termination funding assumptions as opposed to the

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

4. For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans.
5. Notwithstanding the above principles, the Administering Authority, in consultation with the Actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

Appendix C – Employer types and admission policy

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Introduction

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

- Admission bodies are required to have an “admission agreement” with the Fund. In conjunction with the Regulations, the admission agreement sets out the conditions of participation of the admission body including which employees (or categories of employees) are eligible to be members of the Fund.
- Scheme Employers have a statutory right to participate in the LGPS and their staff therefore can become members of the LGPS at any time, although some organisations (Part 2 Scheme Employers) do need to designate eligibility for its staff.

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

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

Entry to the Fund

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

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

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

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

Admitted bodies providing a service

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

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

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

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

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

Pre-Funding for Termination

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

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

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

Exiting the Fund

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

Aims and objectives

The Administering Authority's aims and objectives related to this policy are as follows:

- To confirm the approach for the treatment and valuation of liabilities under Regulation 61 (2) for employers leaving the Fund.
- To confirm the approach for the treatment and valuation of liabilities for employers who have requested an indicative valuation under Regulation 61 (2A).
- To provide information about how the Fund may apply its discretionary powers when managing employer cessations.
- To outline the responsibilities of (and flexibilities for) exiting employers, the Administering Authority, the Actuary and, where relevant, the original ceding scheme employer (usually a letting authority).

Background

A scheme employer may become an exiting employer when a cessation event is triggered e.g. when the last active member stops participating in the Fund. On cessation from the Fund, the Administering Authority will instruct the Fund Actuary to carry out a valuation of assets and liabilities for the exiting employer to determine whether a deficit or surplus exists under Regulation 61 (2). The Fund has full discretion over the repayment terms of any deficit, and the extent to which any surplus results in the payment of an exit credit.

A scheme employer may also propose to become an exiting employer at a future date and request an indicative valuation at a specific date under Regulation 61 (2A). If the employer ceases participation in the Fund within a 90- day period of the indicative cessation date, the results of the indicative cessation valuation must be used to determine whether a deficit or surplus exists. As in the case of a cessation valuation under Regulation 61 (2) the Fund has full discretion over the repayment terms of any deficit, however is liable for any surplus through the payment of an exit credit. For more information see section entitled "Approach for Indicative Valuations"

Policies

On considering an exit from the Fund, an employer may request the Fund to instruct the Actuary to carry out an indicative valuation to determine whether there is a surplus or

deficit at the proposed date of exit. A period of at least 12 months must have elapsed since any such previous request from the employer.

On exit from the Fund and in the event where an indicative valuation has not been carried out, the Administering Authority will instruct the Fund Actuary to carry out a cessation valuation to determine whether there is any deficit or surplus as defined in the FSS and in this policy.

Where there is a deficit following a cessation or indicative valuation, payment of this amount in full would normally be sought from the exiting employer. The Fund's normal policy is that this deficit, known as the cessation debt, is paid in full in a single lump sum within 28 days of the employer being notified or within 28 days of exit from the Fund in the event that an indicative valuation has been carried out.

However, the Fund will consider written requests from employers to spread the payment over an agreed period, in the exceptional circumstance where payment of the debt in a single immediate lump sum could be shown by the employer to be materially detrimental to the employer's financial situation.

In circumstances where there is a surplus, the Administering Authority will determine, at its sole discretion, the amount of exit credit (if any) to be paid to the exiting employer (see policy on Exit Credits below).

Approach to cessation valuations

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

	Employers with no guarantor in the Fund / only a guarantee of last resort	Employers with a guarantor
Financial assumptions	<p>The minimum risk termination basis (unless the Administering Authority agrees otherwise, based on the advice of the Actuary).</p> <p>Adjustments may also be made to the inflation assumption to reflect the level of overall hedging in the Fund. This is to protect the other employers in the Fund as, at termination, the employing body's liabilities will become orphan liabilities within the Fund, and there will be no recourse to it if a shortfall emerges in the future (after participation has terminated). The assumptions will be based on a full yield curve and will take into account the duration of the employer's projected cashflows/liabilities.</p> <p>For an indicative cessation under Regulation 61 2(A), the discount rate determined by the</p>	<p>If the employing body has a guarantor within the Fund or a successor body exists, either of which would take over the employing body's liabilities, the Fund's policy is that the ongoing funding basis will be used for the termination assessment (unless the guarantor informs the Fund otherwise).</p> <p>For the avoidance of doubt this includes any variation to assumptions for those employers whose assets are invested in alternative strategies.</p>

	Employers with no guarantor in the Fund / only a guarantee of last resort	Employers with a guarantor
	minimum risk termination basis less 0.25% p.a. will be used.	For an indicative cessation under Regulation 61 2(A), the ongoing funding basis will be used
Demographic Assumptions	In line with the assumptions adopted for the 2023 valuation with the exception of a higher level of prudence in the mortality assumptions to further protect the remaining employers. The rate of improvement in the mortality rates will therefore be increased to 2.25% p.a. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.	In line with the assumptions adopted for the 2023 valuation for ongoing funding and contribution purposes. This will be reviewed from time to time to allow for any material changes in life expectancy trends and will be formally reassessed at the next valuation.
McCloud	A reasonable estimate for the potential cost of McCloud will be included. This will be calculated for all scheme members of the outgoing employer (reflecting the data made available). For the avoidance of doubt, there will be no recourse for an employer with regard to McCloud, once the final termination has been settled and payments have been made.	
Additional Costs	A reasonable allowance for expenses may also be made at the discretion of the Administering Authority, in relation administration and other expenses. This will be allowed for in the final termination assessment.	
Default policy once the termination certificate has been provided	<ul style="list-style-type: none"> In the case of a surplus - the Fund pays the exit credit (as determined by the Fund) to the exiting employer following completion of the termination process (within 6 months of the exit date, or within 6 months of the completion of the cessation assessment by the Actuary (if later), providing no appeals have been raised with the Fund during this time). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date. In the case of a deficit - the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process. 	The guarantor or successor body will then subsume the assets and liabilities (and any surplus or deficit) of the employing body within the Fund under the default policy. (For Admission Bodies, this process is sometimes known as the “novation” of the admission agreement.) In some instances an exit debt may be payable by an employer before the assets and liabilities are subsumed by the guarantor, this will be considered on a case-by-case basis. No payment of an exit credit will be payable unless representation is made as set out below.

If the guarantor refuses to take responsibility, then the residual deferred pensioner and pensioner liabilities should be assessed on the termination basis. In this situation the size of the termination payment would also depend on what has happened to the active members e.g. if they all transferred back to the original Scheme Employer (or elsewhere)

and aggregated their previous benefits. As any transfer would normally be effected on a "fully funded" valuation basis the termination payment required would vary depending on the circumstances of the case. Where this occurs, the exiting employer would then be treated as if it had no guarantor as per the policy above and the termination assessment will assume that the liabilities are orphaned and the termination basis would apply.

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

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

Approach for indicative valuations

If an employer requests an indicative valuation under Regulation 61 (2A) the following principles will apply:

- For employers with no guarantor/guarantee of last resort, the Fund will adopt a future investment return assumption that has been calculated as defined in the Minimum Risk Termination Basis less 0.25% p.a.. For those employers with a guarantor, the future investment return will be calculated on the ongoing funding basis.
- An estimate of any additional liability that will be earned by current employees of the employer over 90 days will be included within the calculations, by comparing the cost of accrual against the expected contributions payable.
- Any increases in liability that occur following the indicative valuation that arise in respect of early retirements, benefit augmentations, ill-health early retirements or salary increases in excess of those assumed within the indicative valuation will be charged to the employer in addition to any cessation debt (or deducted from any cessation surplus)
- The specific date of the indicative valuation must be no earlier, and within 1 month of, the date of the employer's request.
- Allowance for actual pension increases and CARE revaluation (where known).

Review of the Termination Policy

As set out in the table above, for employers without a guarantor, the financial assumptions are currently related to the yields on Government debt (known as Gilts). The principle of the termination policy and the assumptions used is to ensure (as far as possible) there is

sufficient monies to pay all the benefits due in relation to the “orphan” members of the outgoing employer as otherwise the remaining employers would potentially have to fund this via their contributions at subsequent valuations. This is why the Fund take a more cautious view as set out in this policy. For other employers, the policy is to use the appropriate ongoing funding assumptions if the orphaned liabilities are to be wholly subsumed by a guarantor in the Fund (once any exit payment is paid to/from the employer depending on the circumstances).

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

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

Future Terminations

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

Consideration can be given as to whether an indicative valuation under Regulation 61(a) is appropriate in these circumstances - see approach on indicative valuations above.

Determination notices (Employers with a guarantor)

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

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

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

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

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

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

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

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

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

1. The default position is for exit payments to be paid immediately in full unless there is a risk sharing arrangement in place with a guaranteeing Scheme employer in the Fund whereby the exiting employer is not responsible for any exit payment. In the case of an exit credit the determination process set out above will be followed.
2. At the discretion of the Administering Authority, instalment plans over an agreed period or a Deferred Debt Agreement will only be agreed subject to the policy in relation to any flexibility in recovering exit payments.
3. The Administering Authority may in exceptional circumstances, issue written notice called a “suspension notice” to an employer to suspend that employer’s liability to pay an exit payment starting from the date when that employer would otherwise become an exiting employer. If this occurs, the employer must continue to make such contributions towards the liabilities of the Fund in respect of benefits for the employer’s current and former employees until a new and satisfactory valuation is carried out and the suspension notice is withdrawn.

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

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

Where an indicative valuation has been carried out to determine the exiting surplus or deficit no flexibility will be offered on repayment.

POLICY FOR SPREADING EXIT PAYMENTS

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

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation and any other relevant information to use as part of their covenant review. If this information is not provided then the default policy of immediate payment will be adopted.
2. Once this information has been provided, the Administering Authority (in conjunction with the Fund Actuary, covenant and legal advisors where necessary) will review the covenant of the employer to determine whether it is in the interests of the Fund to allow them to spread the exit debt over a period of time. Depending on the length of the period and also the size of the outstanding debt, the Fund may request security to support the payment plan before entering into an agreement to spread the exit payments.
3. The payment plan could include non-uniform payments e.g. a lump sum up front followed by a series of payments over the agreed period. The payments required will include allowance for interest on late payment.
4. The initial process to determine whether an exit debt should be spread may take up to 6 months from receipt of data so it is important that employers who request to spread exit debt payments notify the Fund in good time
5. If it is agreed that the exit payment can be spread then the Administering Authority will engage with the employer regarding the following:
 - a. The spreading period that will be adopted.
 - b. The initial and annual payments due and how these will change over the period
 - c. The interest rates applicable and the costs associated with the payment plan devised
 - d. The level of security required to support the payment plan (if any) and the form of that security e.g. bond, escrow account etc.

- e. The responsibilities of the employer during the exit spreading period including the supply of updated information and events which would trigger a review of the situation
 - f. The views of the Fund Actuary, covenant, legal and any other specialists necessary
 - g. The covenant information that will be required on a regular basis to allow the payment plan to continue.
 - h. Under what circumstances the payment plan may be reviewed or immediate payment requested (e.g. where there has been a significant change in covenant or circumstances)
6. Once the Administering Authority has reached its decision, the arrangement will be documented and any supporting agreements will be included.

EMPLOYERS PARTICIPATING WITH NO CONTRIBUTING MEMBERS (DDA)

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

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

1. The Administering Authority will request updated financial information from the employer including management accounts showing expected financial progression of the organisation. If this information is not provided then a DDA will not be entered into by the Administering Authority.
2. Once this information has been provided, the Administering Authority will firstly consider whether it would be in the best interests of the Fund and employers to enter into such an arrangement with the employer. This decision will be based on a covenant review of the employer to determine whether the exit debt that would be required if the arrangement was not entered into is affordable at that time (based on advice from the Actuary, covenant and legal advisor where necessary).
3. The initial process to determine whether a Deferred Debt Agreement should apply may take up to 6 months from receipt of the required information so an employer who wishes to request that the Administering Authority enters into such an arrangement needs to make the request in advance of the potential exit date.
4. If the Administering Authority’s assessment confirms that the potential exit debt is not affordable, the Administering Authority will engage in discussions with the employer about the potential format of a Deferred Debt Agreement. As part of this, the following will be considered and agreed:
 - a) What security the employer can offer whilst the employer remains in the Fund. In general the Administering Authority won’t enter into such an arrangement unless they are confident that the employer can support the arrangement on an ongoing basis. Provision of security may also result in a review of the recovery period and other funding arrangements.

- b) The investment strategy that would be applied to the employer e.g. the standard, medium or lower risk strategy which could support the arrangement.
- c) Whether an upfront cash payment should be made to the Fund initially to reduce the potential future debt.
- d) What the updated Secondary rate of contributions would be required up to the next valuation.
- e) The financial information that will be required on a regular basis to allow the employer to remain in the Fund and any other monitoring that will be required.
- f) The advice of the Actuary, covenant, legal and any other specialists necessary.
- g) The responsibilities that would apply to the employer while they remain in the Fund.
- h) What conditions would trigger the implementation of a revised deficit recovery plan and subsequent revision to the Secondary contributions (e.g. provision of security).
- i) The circumstances that would trigger a variation in the length of the deferred debt agreement (if appropriate), including a cessation of the arrangement (e.g. where the ability to pay contributions has weakened materially or is likely to weaken in the next 12 months). Where an agreement ceases an exit payment (or credit) could become payable. Potential triggers may be the removal of any security or a significant change in covenant assessed as part of the regular monitoring.
- j) Under what circumstances the employer may be able to vary the arrangement e.g. a further cash payment or change in security underpinning the agreement.

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

- 5. For employers that are successful in entering into a Deferred Debt Agreement, contribution requirements will continue to be reviewed as part of each actuarial valuation or in line with the Deferred Debt Agreement in the interim if any of the agreed triggers are met.
- 6. The costs associated with the advice sought and drafting of the Deferred Debt Agreement will be passed onto the employer and will be invoiced to the employer by the Fund.

POLICY ON EXIT CREDITS

The Administering Authority's entitlement to determine whether exit credits are payable in accordance with these provisions shall apply to all employers ceasing their participation in the Fund.

The results of an indicative valuation carried out under Regulation 61 (2A) will not be used for the purposes of determining an exit credit. The surplus of assets in excess of liabilities will be assessed via a cessation valuation carried out under Regulation 61 (2).

The Administering Authority may determine the amount of exit credit payable to be zero, however, in making a determination, the Administering Authority will take into account the following factors;

- a. the extent to which there is an excess of assets in the Fund relating to that employer over the liabilities,

- b. the proportion of this excess of assets which has arisen because of the value of the employer's contributions,
- c. any representations to the Administering Authority made by the exiting employer and, where that employer participated in the scheme by virtue of an admission agreement, any body listed in paragraphs 8(a) to (d)(ii) of Part 2 of schedule 2 of these Regulations,
- d. Any guidance or statement specified under Regulation 56(4) of these Regulations, or any other guidance relating to the preparation of a funding strategy statement issued or endorsed by the Scottish Ministers;
- e. Any other relevant factors

Admitted bodies

- a) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Administering Authority) of the admission body ceasing participation in the Fund.
- b) In the absence of this information or if there is any dispute from either party with regards interpretation of contractual or risk sharing agreements as outlined in b), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.
- c) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- d) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies) and the size of any cessation surplus.

- e) If an Admitted Body leaves on a minimum risk termination basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.
- f) The decision of the Fund is final in interpreting how any arrangement described under b), d), e) and f) applies to the value of an exit credit payment.

Scheduled bodies

- a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.
- c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.
- d) If a scheduled body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.
- e) If a scheduled body leaves on a minimum risk termination basis (because no guarantor is in place), then any exit credit will normally be paid in full to the employer.

General

- i. The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 61 (2D).
- ii. Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

- iii. The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.
- iv. The final decision will be made by the Chief Financial Officer of the Administering Authority, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.
- v. The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.
- vi. Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the Administering Authority and the exiting employer may agree. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.
- vii. The guidelines above at point d) in the 'Admitted Bodies' section, and at points a) and b) in the 'Scheduled bodies' section, make reference to the Fund 'considering the approach to setting contribution rates during the employer's participation'. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have always been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined within this policy). Equally, a shorter than usual funding time horizon or lower than usual probability of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

Disputes

In the event of any dispute or disagreement on the amount of any exit credit paid and the process by which that has been considered, the appeals and adjudication provisions contained in Regulations 69-73 of the LGPS (Scotland) Regulations 2018 would apply.

Appendix E – Review of employer contributions between valuations

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

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

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

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

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

- A contribution review due to a change in membership profile would not be undertaken in the 6 months leading up to the next valuation Rates and Adjustments Certificate.
- However, where there has been a material change in covenant, a review will be considered on a case by case basis, which will determine if it should take place and when any contribution change would be implemented. This will take into account the proximity of the actuarial valuation and the implementation of the contributions from that valuation.

Situations where contributions may be reviewed

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

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

1) Significant changes in the employer's liabilities

This includes but is not limited to the following scenarios:

- a) Significant changes to the employer's membership which will have a material impact on their liabilities, such as:
 - i. Restructuring of an employer
 - ii. A significant outsourcing or transfer of staff to another employer (not necessarily within the Fund)
 - iii. A bulk transfer into or out of the employer
 - iv. Other significant changes to the membership for example due to redundancies, significant salary awards, ill health retirements or a large number of withdrawals
- b) Two or more employers merging including insourcing and transferring of services
- c) The separation of an employer into two or more individual employers

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

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

2) Significant changes in the employer's covenant

This includes but is not limited to the following scenarios:

- a) Provision of, or removal of, or impairment of, security, bond, guarantee or some other form of indemnity by an employer against their obligations in the Fund. For the avoidance of doubt, this includes provision of security to any other pension arrangement, which may impair the security provided to the Fund.
- b) Material change in an employer's immediate financial strength or longer-term financial outlook (evidence should be available to justify this) including where an employer ceases to operate or becomes insolvent.
- c) Where an employer exhibits behaviour that suggests a change in their ability and/or willingness to pay contributions to the Fund.
- d) The Fund becoming subordinate behind other creditors of the employer such as banks or other pension funds.

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

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

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

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

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

Process and potential outcomes of a contribution review

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

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

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

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

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

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

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

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

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

Appendix F – Covenant Assessment and Monitoring Policy

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

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

RISK CRITERIA

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

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

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

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

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

Participating Employers

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

ASSESSING EMPLOYER COVENANT

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

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

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

FREQUENCY OF MONITORING

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

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

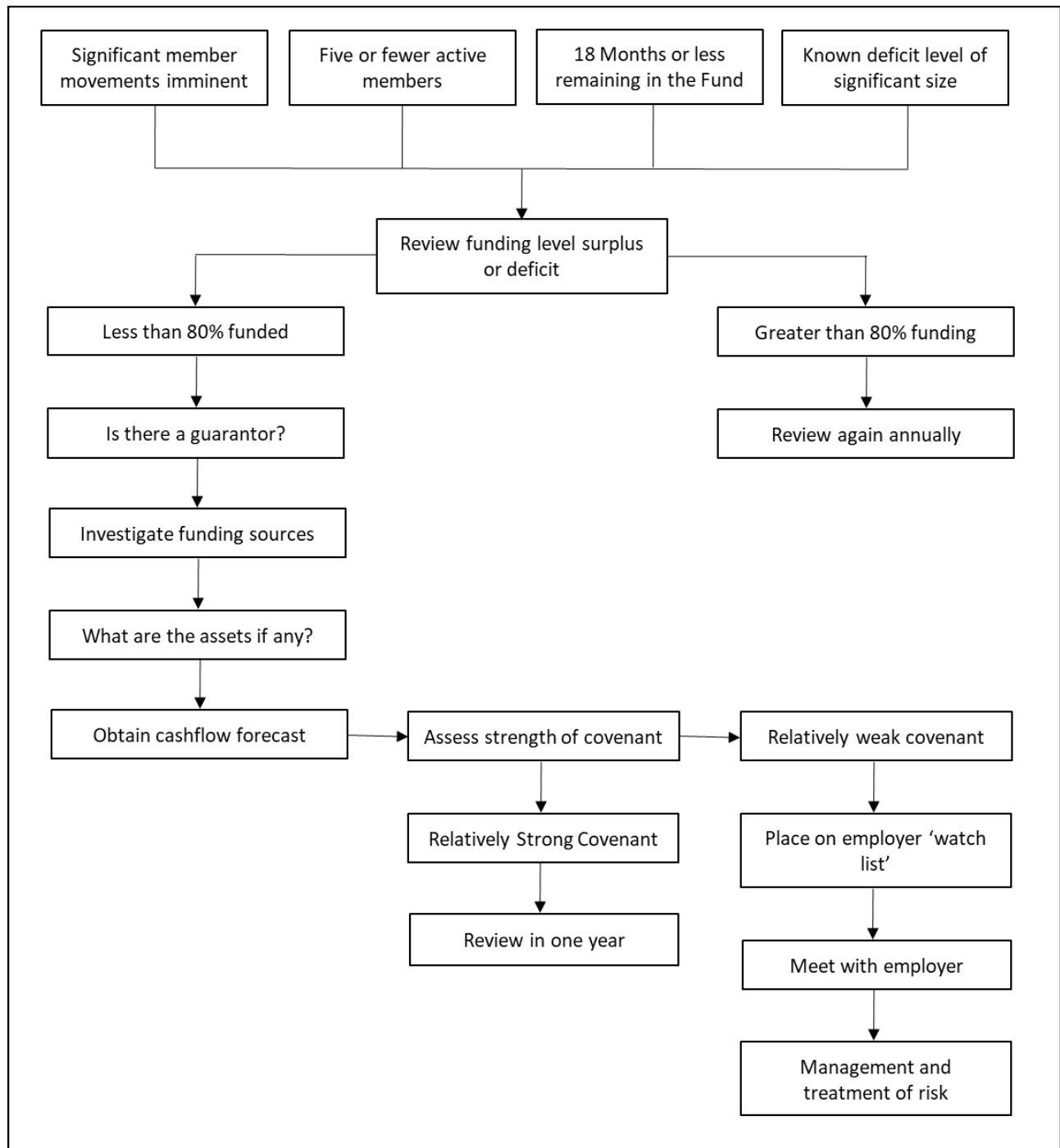
In some circumstances, employers will be required to agree to notify the Administering Authority of any material changes in covenant. Where this applies, employers will be notified separately.

COVENANT RISK MANAGEMENT

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

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

FLOW CHART GUIDE TOWARDS MONITORING OF THE EMPLOYER COVENANT



Appendix G – Glossary of terms

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Actuarial Valuation

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

Administering Authority

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

Admission bodies

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

Benchmark

A measure against which fund performance is to be judged.

Benefits

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

Best Estimate Assumption

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

Bonds

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

Career Average Revalued Earnings Scheme (CARE)

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

CMI

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

Contingent Assets

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

Covenant

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

CPI

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

Deferred Debt Agreement (DDA)

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

Debt Spreading Agreement (DSA)

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

Deferred Employer

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

Deficit

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

Deficit recovery / Surplus spread period

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

Derivatives

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

Discount Rate

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

Early Retirement Strain

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

Employing bodies

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

Employer's Primary Contribution Rate ("Future Service Rate")

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

Equities

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

Exit Credit

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

Fund / Scheme Employers

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

Funding or Solvency Level

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

Funding Strategy Statement

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

Gilts

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

Government Actuary's Department (GAD)

GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / Guarantor

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

Guarantee of Last Resort

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

Hedging

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

Index-Linked Gilts

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

Investment Strategy

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

Letting Employer

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

LGPS

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

Liabilities

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

Long-term cost efficiency

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

Maturity

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

McCloud Judgment

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

Members

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

Minimum Risk Termination Basis

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

Ongoing Funding Basis

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

Orphan liabilities

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

Payment Plans

Include DDA's and DSA's as defined above.

Phasing/stepping of contributions

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

Pooling

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

Prepayment

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

Present Value

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

Primary Rate of the Employers' Contribution

See definition of Employer's Primary Contribution Rate.

Profile

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

Prudent Assumption

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

Rates and Adjustments Certificate

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

Real Return or Real Discount Rate

A rate of return or discount rate net of (CPI) inflation.

Recovery Plan / Spread Period

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

SAB Funding Basis or SAB Basis

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

Scheduled bodies

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

Scheme Employers

Organisations that participate in the Fund.

Secondary Rate of the Employer's Contribution

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

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

Section 13 Valuation

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

Solvency Funding Target

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

Strain Costs

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

Surplus Buffer

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

Surplus Spread Period

See definition of Recovery Plan/Spread period

Suspension Notice

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

Valuation Funding Basis

See definition of Ongoing Funding Basis.

50/50 Scheme

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

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ABERDEEN CITY COUNCIL

COMMITTEE	Pensions Committee
DATE	20 June 2025
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Training
REPORT NUMBER	PC/JUN25/TRA
EXECUTIVE DIRECTOR	Andy MacDonald
CHIEF OFFICER	Jonathan Belford
REPORT AUTHOR	Laura Colliss
TERMS OF REFERENCE	4.1 AND 4.2

1. PURPOSE OF REPORT

- 1.1 To provide details of the training plan (2025/26) for the Pensions Committee and Pension Board of the North East Scotland Pension Fund.

2. RECOMMENDATION

That the Committee:-

- 2.1 Approve the travel of members to attend external training opportunities, as set out in the attached report;
- 2.2 Approve the updated Training Policy (as per Appendix I); and
- 2.3 Note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy.

3. CURRENT SITUATION

- 3.1 See attached main report.

4. FINANCIAL IMPLICATIONS

- 4.1 Training costs (train, accommodation and any training attendance fees) will be met by the Pension Fund. Officers liaise with ACC Travel to ensure best value for money when arranging travel for members.

5. LEGAL IMPLICATIONS

- 5.1 Failing to ensure the Committee and Board members have sufficient training, as detailed in the Fund's Training Policy, could result in the Fund being in breach of the Pensions Regulators' General Code and the Public Service Pensions Act 2013 (PSPA 2013) which set out knowledge and understanding requirements.

6. ENVIRONMENTAL IMPLICATIONS

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

7. RISK

- 7.1 The risks associated with failure to ensure appropriate training are managed through the Pension Fund's Risk Management Policy and Risk Register, which is updated and reported to the Committee on quarterly basis.

Category	Risks	Primary Controls/Control Actions to achieve Target Risk Level	*Target Risk Level (L, M or H) *taking into account controls/control actions	*Does Target Risk Level Match Appetite Set?
Strategic Risk	No significant risks identified.	N/A	N/A	N/A
Compliance	Failure to acquire and retain adequate levels of knowledge and understanding would result in non-compliance with tPR General Code and PSPA 2013	Committee and Board meet at the same time, and consider the same agenda. Governance review carried out annually.	M	Yes
Operational	Poor governance, inability of Pensions Committee and Board effectively	Committee and Board meet at the same time, and consider the same agenda. Governance review carried out annually.	M	Yes
Financial	No significant risks identified.	N/A	N/A	N/A
Reputational	Fund's reputation may be negatively affected by	Issues will be identified through governance	L	Yes

	breach of regulatory duties and tPR action.	review and rectified.		
Environment / Climate	No significant risks identified.	N/A	N/A	N/A

8. OUTCOMES

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

9. IMPACT ASSESSMENTS

Assessment	Outcome
Integrated Impact Assessment	No assessment required. I can confirm this has been discussed and agreed with Jonathan Belford, Chief Officer-Finance on 3 rd June 2025.
Data Protection Impact Assessment	Not required
Other	N/A

10. BACKGROUND PAPERS

10.1 None

11. APPENDICES

11.1 Appendix I Training Policy

12. REPORT AUTHOR CONTACT DETAILS

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North East Scotland Pension Fund

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Training Report

Annual Report June 2025

1. Current Situation

1.1 Background

There is a requirement under the Pensions Regulator (tPR) and CIPFA/Myners guidance that members sitting on Local Government Pension Scheme Committees and Boards hold a certain level of knowledge and understanding.

The degree of knowledge and understanding is that appropriate for the purpose of enabling the individual to properly exercise the functions of a member of the Pensions Committee or Board.

Pensions Committee and Pension Board members should obtain a satisfactory *collective level* of knowledge and skills in relation to the CIPFA Framework modules.

1.2 Training Delivery and Content

Officers propose to deliver training over the coming period that will address various topics across the Fund and in response to specific areas identified through the Hyman's Knowledge Progress Assessment carried out towards the end of 2023.

Additional training opportunities, including externally delivered training, will also be highlighted to both Pensions Committee and Pension Board members as and when available through the quarterly Committee & Board Bulletin or by email out with this. It should be noted that these additional opportunities are not mandatory. A variety of training opportunities is simply presented to provide members with flexibility to attend those best suited to their requirements and availability.

At present the below additional external training is available:

- **LGC Investment Seminar Scotland**
30-31 October, Edinburgh
(<https://investmentseminarscotland.lgcplus.com>)

Given the requirements under the Pensions Regulator, CIPFA/Myners and generally good practice, enabling the delivery of members fiduciary duty falls to ensuring member training across the Fund.

1.3 Mandatory Training for Committee & Board Members

The Pensions Regulator Toolkit

The Pensions Regulator (tPR) has an e-learning toolkit for those involved in the governance and administration of a public service pension scheme, specifically aimed at local pension board members. There is an expectation that the Toolkit will be refreshed at some point following the introduction of tPR's General Code in March 2024. The Pensions Regulator Toolkit can be found at the following link:

<https://www.thepensionsregulator.gov.uk/en/public-service-pension-schemes>

Pensions Committee and Board members previously agreed to complete tPR's online toolkit as part of their individual training plans (PC/JUN19/TRA) and provide evidence of this to the Governance Manager to record on the training register.

At the time of writing this report, the training register shows four members of the Pension Board (and one substitute member) and five members of the Pensions Committee have completed the training.

Committee and Board members who have not already done so or who are new to their role are required to complete this training requirement *as soon as possible* as part of their personal training plans for 2025/26. There are currently seven short modules to complete and an optional module covering pensions scams.

Hymans Online Learning Academy

The Fund procured licenses for Hymans Local Government Pension Scheme (LGPS) Online Learning Academy (LOLA) for Pensions Committee and Board members, following approval by the Pensions Committee in December 2021 (PC/DEC21/PRO).

The online portal is a video-on-demand learning plan with training materials and knowledge checks covering the core requirements of the Pension Regulator's General Code of Practice and the Chartered Institute of Public Finance and Accountancy's Knowledge and Skills Framework. Having reviewed training options, Fund Officers still believe Hymans LOLA offers the best solution in terms of member requirements.

At the Pensions Committee and Pension Board meeting in June 2022 (PC/JUN22/TRA), members agreed to have completed their Hymans training by March 2023. Six members of the Committee and five members of the Board successfully completed all modules within Version 1 of LOLA during 2022/23.

LOLA Version 2.0 was rolled out in April 2023 with updated modules, training materials and other useful features. The recommendation for Committee and Board in June 2023 (PC/JUN23/TRA) stated "*Note the requirement to have completed the Pensions Regulator online training and the Hymans online training in line with the Training Policy*".

New appointees are required, as per the approved Training Policy, to complete LOLA version 2.0 within 12 months of their appointment, with module 1 being completed prior to their first meeting.

As at March 2025, eight Pension Board members and five Pensions Committee members (and one substitute member) have fully completed LOLA version 2.0.

1.4 Training Record

Training attendance for Committee members was reported previously in the annual Committee Effectiveness Reports, and will be continue to be reported in the Service Updates going forward. Respectively for members of the Board, training attendance is reported in the Pension Board Annual Report, as well as to both internal and external audit.

Recent years have seen increased opportunities for external training across the pensions industry, although significantly more training is now advertised and promoted to the Pensions Committee and Board, it should be noted that attendance at these events is at the members discretion.

Pensions Committee and Board members should highlight to Officers any areas where further training would be desirable or required, following subjects covered in meetings or attendance at any external training events or conferences.

The latest version of the Training Policy for the Pensions Committee and Board is attached in Appendix I. It is recommended that members approve the updated Policy. Following review, no substantial changes have been made, only minor corrections.



North East Scotland Pension Fund
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Training Policy

April 2025

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Document	Training Policy
Review Date	April 2025
Approval Date	
Author & Team	M Suttie, Governance
Review Date	April 2026

Purpose Statement

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

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

Application & Scope

Expectations

The role of Pensions Committee or Pension Board member is an important one and there are certain expectations placed upon members, including:

- A commitment to attend and participate in training events and to adhere to the principles of this Training Policy;
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others;
- Judge the information provided in a fair and open-minded way that avoids pre-determining outcomes; and
- Operate within the Terms of Reference for the Pensions Committee and the elected member Code of Conduct or the Terms of Reference for the Pension Board.

All Pension Fund Committee and Board members (including substitutes) to whom this policy applies are expected to continually demonstrate their own personal commitment to training to ensure they have the necessary skills required to support them in their decision-making role.

Induction Process

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

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

The induction will provide an overview of the structure and operation of the Fund and insight into the responsibilities of their respective role.

Policy documentation is available to Committee and Board members via the Pension Fund website at www.nespf.org.uk and members should familiarise themselves with the information held on the site.

As part of the induction process:

- 1) Members of the Pensions Committee and Pension Board **must** complete, by their first meeting or within the first three months of their appointment, whichever is earlier, the online training course provided by The Pensions Regulator in their Public Service Toolkit.
- 2) Members of the Pensions Committee and Pension Board **must** complete, within the first twelve months of their appointment, the online training courses available on the Hymans Online Learning Academy (LOLA), with the first introductory module being completed before their first meeting.

This forms the **mandatory** element of the training plan for Pensions Committee and Pension Board members.

Training Plan

Myners Principles

As per the Myners Principles, administering authorities should ensure that:

- decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to take them effectively and monitor their implementation, and
- those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest.

CIPFA Knowledge and Skills Framework

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

The CIPFA framework sets out the following key areas:

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

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



Markets in Financial Instruments Directive (MiFID II) Requirements

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

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

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

Pension Board Specific Requirements

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

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

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

- the law relating to pensions
- such other matters as may be prescribed

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

Training Arrangements

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

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

- employer and scheme member events hosted by the Pension Fund
- internally developed training days and pre/post meeting sessions
- seminars and conferences that are offered by industry wide bodies, specifically the LAPFF annual conference, LGC conferences and PLSA conferences
- on-line training including use of the Hymans Online Learning Academy (LOLA)
- seminars and training events offered by the Fund's investment managers and advisors

- use of the secure ‘trustee’ area of the Pension Fund website
- in addition to the above, Fund officers are available to answer any queries from Committee and Board members.

Training is provided to members of the Pensions Committee and Pension Board through the above range of opportunities in respect of the following topics;

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

Hymans LOLA

Hymans Online Learning Academy (LOLA) consists of 8 core modules, mirroring their LGPS National Knowledge Assessment topics, and covers all key areas needed to successfully manage the running of a Pension Fund:

- Module 1 – Committee Role and Pensions Legislation
- Module 2 – Pensions Governance
- Module 3 – Pensions Administration
- Module 4 – Pensions Accounting and Audit Standards
- Module 5 – Procurement and Relationship Management
- Module 6 – Investment Performance and Risk Management
- Module 7 – Financial Markets and Product Knowledge
- Module 8 – Actuarial methods, Standards and Practices

There is also a “current issues” module which is regularly updated.

The Pensions Regulator’s E-Learning Toolkit

The Pensions Regulator has developed an on-line toolkit to help those running public service pension schemes to understand governance and administration requirements. There are eight short modules covering:

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

- Reporting Breaches of Law
- Pensions Scams (optional)

TPR's Toolkit is expected to be refreshed following implementation of their General Code and therefore the modules set out above are subject to change.

Policy Performance

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

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

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

Supporting Procedures & Documentation

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

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

Responsibilities

All training costs are met directly by the Pension Fund.

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

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

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

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

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

CIPFA Knowledge and Skills Framework

This framework identifies the level of knowledge required **by Pensions Committee members** to ensure that they can carry out effective decision making in respect of the Fund. A [separate Framework](#) is in place in respect of the Pension Board.

Level of knowledge required

For Committee members:

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

CIPFA Knowledge and Skills		
Pensions and Guidance	Legislations	<p><u>General Pensions Framework</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the pensions legislative framework in the UK • other legislation that is relevant in managing an LGPS fund, e.g. freedom of information, General Data Protection Regulation (GDPR) and local authority legislation <p><u>Scheme-specific legislation</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration, funding, governance, communications and investment, including the LGPS (Scotland) Regulations 2018 and the LGPS (Scotland) (Management and Investment of Funds) Regulations 2010

	<p>An awareness of:</p> <ul style="list-style-type: none"> • LGPS discretions and how the formulation of the discretionary policies impacts on the Fund, employers and scheme members • the latest changes to the scheme rules and current proposals or potential changes to the scheme (regularly updated) <p><u>Guidance</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the requirements of statutory guidance from the Responsible Authority, Scottish Government • the requirements of tPR's Code of Practice <p>An awareness of:</p> <ul style="list-style-type: none"> • the requirements of guidance from the Scheme Advisory Board • the requirements of guidance from the Government Actuary's Department • other guidance relevant to the LGPS, such as from CIPFA
Pensions Governance	<p>An awareness of:</p> <ul style="list-style-type: none"> • the main features and requirements of the LGPS regulations relating to pension scheme governance. • statutory and other guidance relating to pension scheme governance including statutory governance guidance, tPR Code of Practice, CIPFA/SOLACE, Scheme Advisory Board guidance and the Myners Principles. <p><u>Pension regulators, Scheme Advisory Board and other bodies</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • how the roles and powers of the Scottish Government, tPR, the Money and Pensions Service and the Pensions Ombudsman relate to the workings of the scheme • the role of the Scheme Advisory Board and how it interacts with other bodies <p><u>General constitutional framework</u></p> <p>A general understanding of:</p>

	<ul style="list-style-type: none"> • the role of the administering authority in relation to the LGPS • the role of the pension committees in relation to the Fund, administering authority, employing authorities, scheme members and taxpayers <p>An awareness of:</p> <ul style="list-style-type: none"> • the role and statutory responsibilities of the Chief Financial Officer (CFO) and monitoring officer <p><u>Fund specific governance</u></p> <p>A strong understanding of:</p> <ul style="list-style-type: none"> • the terms of reference and delegated responsibilities of the Pensions Committee (including any sub-committees), the Pension Board and any other delegated responsibilities to senior officers • how breaches of law are recorded and managed, and if necessary reported to tPR, including each individual's personal responsibility in relation to breaches <p>A general understanding of:</p> <ul style="list-style-type: none"> • the stakeholders of the Fund and the nature of their interests • who the key officers responsible for the management of the Fund are, how the pension team is structured and how services are delivered • the Fund's strategies, policies and other key documents • how risk is monitored and managed, and the Fund's current key risks • how conflicts of interest are identified and managed • the Fund's knowledge and skills policy and associated training requirements • how the effectiveness of the Fund's governance is reviewed <p>An awareness of:</p> <ul style="list-style-type: none"> • the Fund's process for dealing with complaints, including its Internal Dispute Resolution Procedure <p><u>Service Delivery</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the required budget and resources needed to manage and administer the Fund
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	<ul style="list-style-type: none"> • the annual business planning cycle and budget setting • the Fund's key performance indicators and other performance measures • the Fund's business continuity policy and cyber security policy
Funding strategy and actuarial methods	<p>An awareness of:</p> <ul style="list-style-type: none"> • the LGPS regulations main features and requirements relating to funding strategy and the setting of employer contributions including associated guidance <p>A general understanding of:</p> <ul style="list-style-type: none"> • the role of the Fund actuary • the funding strategy statement and the expected delivery of the funding objectives • the key risks to the Fund relating to the funding strategy <p><u>Valuations</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the valuation process, including developing the funding strategy in conjunction with the Fund actuary, and inter-valuation monitoring • the importance of employer covenant, the relative strengths of the covenant across the Fund's employers, and how this impacts the funding strategy statement adopted • any legislative and/or benefit uncertainty and the impact of this on the funding strategy • the Scheme valuation and other work carried out by the Government Actuary's Department and the impact this has on the valuation process (i.e. cost management process/Section 13 report) <p>An awareness of:</p> <ul style="list-style-type: none"> • the costs to the employer including employer contributions and early retirement strain costs • the different types of employers that participate in the Fund <p><u>New employer and exits</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the implications of including new employers into the Fund and of the exits of existing employers

	<ul style="list-style-type: none"> the relevant considerations in relation to the different types of new employer, e.g. outsourcings, alternative delivery models and also the considerations in relation to bulk transfers
Pensions administration and communications	<p>An awareness of:</p> <ul style="list-style-type: none"> the LGPS regulations main features and requirements relating to: <ul style="list-style-type: none"> Administration and communications strategies; Entitlement to and calculation of pension benefits; Transfers in and out of the scheme; Employee contributions; and The delivery of administration and communications. <p>Including associated guidance.</p> <p>A general understanding of:</p> <ul style="list-style-type: none"> the Fund's Pensions Administration Strategy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes the Fund's communications policy including how it is delivered (including, where applicable, the use of third party suppliers and systems), performance measures and assurance processes best practice in pensions administration, e.g. performance and cost measures the Fund's processes and procedures relating to: <ul style="list-style-type: none"> Member data maintenance and record-keeping including data improvement plans and relationships with employers for data transmission Contributions collection <p>An awareness of:</p> <ul style="list-style-type: none"> how the Fund interacts with the taxation system in relation to benefits administration, including the annual and lifetime allowances <p>A general understanding of additional voluntary contribution (AVC) arrangements including:</p> <ul style="list-style-type: none"> The AVC arrangements that exist The choice of investments to be offered to members The provider's investment and fund performance

	<ul style="list-style-type: none"> • The payment of contributions to the provider • The benefits that can be received by scheme members • How and when the AVC arrangements, including the investment choices, are reviewed.
Pensions financial strategy, management, accounting, report and audit standards	<p>A general understanding of:</p> <ul style="list-style-type: none"> • the Accounts and Audit Regulations and legislative requirements relating to the role of the committee and individual members in considering and signing off the Fund's accounts and annual report • the various elements of income and expenditure to the Fund, including the operational budget • the cashflows of the Fund and how risks are managed to ensure appropriate cash is available to pay benefits and other outgoings • the role of both internal and external audit in the governance and assurance process
Investment strategy, asset allocation, pooling, performance and risk management	<p>An awareness of:</p> <ul style="list-style-type: none"> • the main features and requirements of the LGPS Regulations relating to investment strategy, asset allocation, the pooling of investments and responsible investments including associated guidance <p><u>Investment strategy</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the key risks that the Fund is exposed to and how a Fund's investment strategy should be considered in conjunction with these risks • the risk and return characteristics of the main asset classes (equities, bonds, property), and the need to balance risk versus reward when determining the investment strategy • the role of these asset classes in long-term pension fund investing • the Fund's cashflow requirements and how this impacts on the types of investments considered <p><u>Total Fund</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks

	<p><u>Performance of the Committee</u></p> <p>An awareness of:</p> <ul style="list-style-type: none"> • the Myners principles and the need to set targets for the committee and to report against them • the range of support services provided to the committee, who supplies them, and the nature of the performance monitoring regime <p><u>Responsible investment</u></p> <p>An awareness of:</p> <ul style="list-style-type: none"> • the latest developments and requirements in the area of responsible investment • the UK Stewardship Code and the United Nations Principles of Responsible Investment (UNPRI) and whether the Fund is signatory to these <p>A general understanding of:</p> <ul style="list-style-type: none"> • the Fund's approach to responsible investment including how views on Environmental, Social and Governance issues are incorporated into the Fund's investment strategy <p><u>Risk Management</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • how to manage and reduce risk and lessen impact of risk on assets when it arises
Financial markets and products knowledge	<p><u>Financial Markets</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the primary importance of the investment strategy decision • the workings of the financial markets and of the investment vehicles available to the Pension Fund and the nature of associated risks <p>An awareness of:</p> <ul style="list-style-type: none"> • the restrictions placed by legislation on the investment activities of LGPS Funds

		<p><u>MiFID II</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • MiFID II requirements relating to the knowledge of decision makers
<p>Pensions procurement, management relationship management</p>	<p>services contract and</p>	<p><u>Understanding public procurement</u></p> <p>An awareness of:</p> <ul style="list-style-type: none"> • the main public procurement requirements of UK and EU legislation and the use of national frameworks within the context of the LGPS <p><u>Fund suppliers</u></p> <p>An awareness of:</p> <ul style="list-style-type: none"> • the key decision makers in relation to the Fund's procurements • how the Fund's suppliers are monitored, including: <ul style="list-style-type: none"> ○ The Myners Principles, and ○ The need for strategic objectives for investment consultants <p>A general understanding of:</p> <ul style="list-style-type: none"> • the Fund's suppliers and providers, and their roles in the management of the Fund <p><u>Supplier risk management</u></p> <p>A general understanding of:</p> <ul style="list-style-type: none"> • the nature and scope of risks for the Pension Fund and of the importance of considering risk factors when selecting external suppliers and providers • how the Pension Fund monitors and manages the performance of their external suppliers and providers, including business continuity and cyber risk

Local Pension Boards: A Technical Knowledge and Skills Framework	
Pensions Legislation	<p>A general understanding of the pensions legislative framework in the UK.</p> <p>An overall understanding of the legislation and statutory guidance specific to the scheme and the main features relating to benefits, administration and investment.</p> <p>An appreciation of LGPS discretions and how the formulation of the discretionary policies impacts on the pension fund, employers and local taxpayers.</p> <p>A regularly updated appreciation of the latest changes to the scheme rules.</p>
Pensions Governance	<p>Knowledge of the role of the administering authority in relation to the LGPS.</p> <p>An understanding of how the roles and powers of the Scottish Government, the Pensions Regulator, the Pensions Advisory Service and the Pensions Ombudsman relate to the workings of the scheme.</p> <p>Knowledge of the role of the Scheme Advisory Board and how it interacts with other bodies in the governance structure.</p> <p>Broad understanding of the role of pension fund committees in relation to the fund, administering authority, employing authorities, scheme members and taxpayers.</p> <p>Awareness of the role and statutory responsibilities of the treasurer and monitoring officer.</p> <p>Knowledge of the Myners principles and associated CIPFA and SOLACE guidance.</p> <p>A detailed knowledge of the duties and responsibilities of pension board members.</p> <p>Knowledge of the stakeholders of the pension fund and the nature of their interests.</p> <p>Knowledge of consultation, communication and involvement options relevant to the stakeholders.</p>

	<p>Knowledge of how pension fund management risk is monitored and managed.</p> <p>Understanding of how conflicts of interest are identified and managed.</p> <p>Understanding of how breaches in law are reported.</p>
Pension Administration	<p>An understanding of best practice in pensions administration, e.g. performance and cost measures.</p> <p>Understanding of the required and adopted scheme policies and procedures relating to:</p> <ul style="list-style-type: none"> • members data maintenance and record-keeping processes • internal dispute resolution • contributions collection • scheme communications and materials <p>Knowledge of how discretionary powers operate.</p> <p>Knowledge of the pensions administration strategy and delivery (including, where applicable, the use of third party suppliers, their selection, performance management and assurance processes).</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to benefits administration.</p> <p>An understanding of what additional voluntary contribution arrangements exist and the principles relating to the operation of those arrangements, the choice of investments to be offered to members, the provider's investment and fund performance report and the payment schedule for such arrangements.</p>
Pensions Accounting and Auditing Standards	<p>Understanding of the Accounts and Audit Regulations and legislative requirements relating to internal controls and proper accounting practice.</p> <p>Understanding of the role of both internal and external audit in the governance and assurance process.</p> <p>An understanding of the role played by third party assurance providers.</p>

Pensions services procurement and relationship management	<p>Understanding of the background to current public procurement policy and procedures, and of the values and scope of public procurement and the roles of key decision makers and organisations.</p> <p>A general understanding of the main public procurement requirements of UK and EU legislation.</p> <p>Understanding of the nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties.</p> <p>An understanding of how the pension fund monitors and manages the performance of their outsourced providers.</p>
Investment performance and risk management	<p>Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks.</p> <p>Awareness of the Myners principles of performance management and the approach adopted by the administering authority.</p> <p>Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.</p>
Financial markets and products knowledge	<p>Understanding of the risk and return characteristics of the main asset classes (equities, bonds, property).</p> <p>Understanding of the role of these asset classes in long-term pension fund investing.</p> <p>Understanding of the primary importance of the investment strategy decision.</p> <p>A broad understanding of the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.</p> <p>An understanding of the limits placed by regulation on the investment activities of local government pension funds.</p> <p>An understanding of how the pension fund interacts with the taxation system in the UK and overseas in relation to investments.</p>
Actuarial standards, methods, and practices	<p>A general understanding of the role of the fund actuary.</p>

	<p>Knowledge of the valuation process, including developing the funding strategy in conjunction with the fund actuary, and inter-valuation monitoring.</p> <p>Awareness of the importance of monitoring early and ill health retirement strain costs.</p> <p>A broad understanding of the implications of including new employers into the fund and of the cessation of existing employers.</p> <p>A general understanding of the relevant considerations in relation to outsourcings and bulk transfers.</p> <p>A general understanding of the importance of the employer covenant and the relative strengths of the covenant across the fund employers.</p>
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Role Profile for Convener of the Pensions Committee

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

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

1. Convener of the Pensions Committee to preside over the determination of the following, after taking the advice of the Chief Officer – Finance and other advisors:
 - The investment strategy of the Fund or Funds for which the Pensions Committee is responsible
 - The contribution rates of the employing organisations whose current and retired employees are members of the LGPS
 - The appointment of investment and actuarial advisors and other third party services
 - The governance framework
 - The communication strategy of the Fund or Funds
2. And to monitor:
 - The performance of the investments, the pensions administration service, the advisors and agents of the Fund and of the Committee itself
 - The costs of running the Pension Fund and Scheme
 - Comments and feedback from stakeholders

3. And to approve:

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

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

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

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

EXPECTED SKILLS AND CHARACTERISTICS REQUIRED FOR CONVENER

Requirement	Essential	Desirable
1. Educational	<ul style="list-style-type: none"> • A strong understanding of pensions, financial or HR matters (through council, personal and/or career experience) • Commitment to individually achieving the required level of knowledge in relation to the CIPFA Framework competencies (or alternative requirements as set out by the administering authority) 	<ul style="list-style-type: none"> • Demonstrable evidence of knowledge kept up to date • Knowledge of pension funds and schemes
2. Work Experience	<ul style="list-style-type: none"> • Political awareness in numerous political environments • Chairing high level partnership meetings achieving effective outcomes • Has operated for 10 years at a senior level • Experience of risk and performance frameworks 	<ul style="list-style-type: none"> • Previously chaired a pensions committee or similar

3. Abilities, Intelligence & Special Aptitudes	<ul style="list-style-type: none"> • Chairing skills • Influencing and consensus building • Listening skills • Able to assimilate complex information • Communication and engagement skills 	<ul style="list-style-type: none"> • Mathematical/statistical literacy • Knowledge of public sector and local government finance
4. Adjustment & Social Skills	<ul style="list-style-type: none"> • Ability to establish and maintain good working relationships with councillors, officers and advisors • Able to direct discussions in politically sensitive environments • Able to command respect and demonstrate strong leadership • Assertive in pursuing the correct course of action • Able to work effectively with colleagues who may have different levels of experience and understanding 	<ul style="list-style-type: none"> • Diplomacy and tact
5. Motivation	<ul style="list-style-type: none"> • Enthusiastic, not easily deterred and able to convey enthusiasm to others • Committed to the objectives of the Fund 	
6. Equal Opportunities	<ul style="list-style-type: none"> • Understanding of and commitment to promoting equality of opportunity with an understanding of the pension context 	

Compliance with the Job Description

1. Pensions Legislative and Governance context

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

Full details of the scheme governance documentation and wider pension fund industry documentation can be found on the Pension Fund website and in the secure trustee area. In addition to this information regular training sessions are held for 'trustees' given by officers, fund managers, the scheme actuary and other advisors. In order to maintain an up-to-date knowledge of the pensions landscape the Convener/Vice Convener must commit to attending a minimum of two UK wide pension conferences per annum. Other events arising during the year that would be of value to the Convener/Vice Convener of the Pensions Committee will be brought to the attention of members by officers.

2. Pensions accounting and auditing standards

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

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

3. Investment performance and risk management

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

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

4. Financial markets and product knowledge

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

The time given during the quarterly meetings of the Pensions Committee to reviewing financial markets and product knowledge is limited. This fundamental knowledge should be updated regularly not only by the Convener and Vice Convener, but all 'trustees' through attendance at a minimum of one investment conference per annum. There is a wide selection of national conferences such as the PLSA Investment Conference, however there are also a wide number of conferences hosted by fund managers to which 'trustees' are invited. Likewise attendance at such events as the LAPFF annual conference provides 'trustees' with an insight into future legislation that may impact on the companies in which we invest. Forthcoming conferences are reported to the Pensions Committee regularly.

5. Actuarial methods, standards and practices

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

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

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

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