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

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

Town House,
ABERDEEN, 5 September 2019

PENSIONS COMMITTEE AND PENSION BOARD

The Members of the **PENSIONS COMMITTEE AND PENSION BOARD** are requested to meet in **Committee Room 2 - Town House** on **FRIDAY, 13 SEPTEMBER 2019 at 10.30am.**

FRASER BELL
CHIEF OFFICER - GOVERNANCE

BUSINESS

Members, please note that the training session will start directly after the Committee and Board meeting.

NOTIFICATION OF URGENT BUSINESS

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

DETERMINATION OF EXEMPT BUSINESS

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

DECLARATIONS OF INTEREST

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

MINUTES OF PREVIOUS MEETINGS

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

COMMITTEE BUSINESS PLANNER

- 5 Business Planner (Pages 15 - 18)

NOTICES OF MOTION

- 6 There are currently no motions to the Pensions Committee

INTERNAL / EXTERNAL AUDIT

- 7 External Audit Annual Audit Report 2018/19 (Pages 19 - 58)

ANNUAL REPORT AND ACCOUNTS

- 8.1 Budget Forecast / Projected Spend - PC/SEPT19/BUD (Pages 59 - 64)
- 8.2 NESPF Annual Report and Accounts - PC/SEPT19/ARA (Pages 65 - 194)

RISK MANAGEMENT

- 9.1 Strategy - PC/SEPT19/STRAT (Pages 195 - 216)

EXEMPT BUSINESS - NOT FOR PUBLICATION

- 10.1 Asset and Investment Manager Performance Report - PC/SEPT19/AIMPR
(Pages 217 - 248)
- 10.2 Procurement of Actuarial Services - PC/SEPT19/ACT (Pages 249 - 252)
- 10.3 NESPF Accommodation - to follow

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

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DECLARATIONS OF INTEREST

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

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

For example, I know the applicant / I am a member of the Board of X / I am employed by...

and I will therefore withdraw from the meeting room during any discussion and voting on that item.

OR

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

OR

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

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

OR

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

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

PENSIONS COMMITTEE AND PENSION BOARD

ABERDEEN, 14 June 2019. Minute of Meeting of the PENSIONS COMMITTEE AND PENSION BOARD. Present:- Councillor Malik, Convener; Councillor Reynolds, Vice-Convener; Councillor Barney Crockett, the Lord Provost; and Councillors Bell, Cooke, Donnelly, Flynn and MacGregor (Pensions Committee); and Councillor McKelvie, Chairperson; Mrs M Lawrence, Vice Chairperson; Councillor Allan; and Mr L Knox, Mr N Stirling and Mr A Walker (Pension Board).

Also in attendance:- Jonathan Belford, Chief Officer – Finance; Laura Colliss, Pensions Manager; Graham Buntain, Investment Manager; David Hughes, Chief Internal Auditor, Internal Audit; and Colin Morrison, Senior Auditor, Audit Scotland.

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

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

WELCOME

1. The Convener welcomed Councillor Flynn to his first meeting since replacing Councillor Allard on the Committee, and further welcomed Mr Neil Stirling who had joined the Pension Board as the GMB representative following the resignation of Mr Kevin Masson.

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 12 (Asset and Investment Manager Performance Report; 13 (Procurement of I-Connect Software); 14 (Merger of the Aberdeen City Council Transport Fund with the Strathclyde No. 3 Fund); and 15 (North East Scotland Pension Fund – Office Accommodation).

The Committee resolved:-

in terms of Section 50(A)(4) of the Local Government (Scotland) Act 1973, to exclude the press and public from the meeting during consideration of the above-mentioned items so as to avoid disclosure of exempt information of the class described in paragraphs 6 (item 12), 8 (items 13 and 14) and 9 (item 15).

The Board resolved:-

to note the decision of the Committee.

DECLARATIONS OF INTEREST

3. There were no declarations of interest.

PENSIONS COMMITTEE AND PENSION BOARD

14 June 2019

MINUTE OF PREVIOUS MEETING

4. The Committee had before it the minute of its previous meeting of 15 March 2019.

The Committee resolved:-

to approve the minute as a correct record.

The Board resolved:-

to note the decision of the Committee.

BUSINESS PLANNER

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

The Committee resolved:-

to note the planner.

The Board resolved:-

to note the decision of the Committee.

STRATEGY - PC/JUN19/STRAT

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

The report provided an update on the consultation responses from employers and employee bodies on the Local Government Pension Scheme (LGPS) Advisory Board (Scotland) Structural Review; revised Government Actuary's Department factors; new guidance for UK administering authorities entitled 'Administration in the LGPS'; 33 breaches of law which had been recorded during 2018/19, none of which were deemed to be of material significance as they mainly related to Scheme employers failing to meet their statutory obligations, for example, late payment of pension contributions; information on Pension Fund staff training in 2018/19; and the annual financial forum held by the Fund on 24 April 2019 in Aberdeen.

Appended to the report was the Pension Administration Strategy Quarterly Update for March 2019; the Pension Board Annual Report and the Risk Register for May 2019.

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14 June 2019

The report recommended:-

that Committee review and approve the updates to the Scheme Policy documents as outlined at 3.9.2 in the report, namely:-

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

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

TRAINING - PC/JUN19/TRA

7. The Committee had before it a report by the Director of Resources which provided details of the training plan 2019/20 for the Pensions Committee and Board and sought approval for travel to the training sessions as well as revisions to the training policy.

The report recommended:-

that Committee –

- (a) agree the proposed training schedule as set out in sections 3.3 to 3.7 of the report and approve the travel of Members to:-
 - the training session in London in early 2020 (dates to be confirmed);
 - attend external training opportunities; and
 - attend Local Authority Pension Fund Forum meetings;
- (b) approve the revised Training Policy for Pensions Committee and Board members as set out in Appendix 1 to the report; and
- (c) agree to undertake the online e-learning Public Service toolkit produced by the Pensions Regulator as soon as possible and provide evidence of completion to the Pension Fund's Governance Manager.

The Committee resolved:-

to approve the recommendations.

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The Board resolved:-

to note the decision of the Committee.

PENSION GOVERNANCE - INTERNAL AUDIT IA/AC1923

8. The Committee had before it a report by Internal Audit which presented the planned Internal Audit report on Pension Governance.

The Committee heard from Mr David Hughes who spoke to the report. It was noted that the Service had not accepted two of the recommendations from Internal Audit, namely the opportunity to discuss risk registers and risk management annually, as the quarterly risk register was presented to Committee in the Strategy report, and ensuring that statements of Internal Controls were obtained annually as the Service had responded that the cost involved in producing these would be significant to smaller fund managers. Mr Hughes advised that they had noted the response and did not have significant concerns about the recommendations not being agreed. It was noted that it was incumbent on Internal Audit to make recommendations but appropriate for management to have the ability not to agree all recommendations.

The report recommended:-

that the Committee review, discuss and comment on the issues raised within the report and appendix.

The Committee resolved:-

to note the report.

The Board resolved:-

to note the decision of the Committee.

INTERNAL AUDIT ANNUAL REPORT IA/19/008

9. The Committee had before it a report by Internal Audit which provided the Committee with the Internal Audit Annual Report for the North East Scotland Pension Fund for 2018/19.

The report recommended:-

that Committee note –

- (a) the Annual Report for 2018/19;
- (b) that the Chief Internal Auditor had confirmed the organisational independence of Internal Audit;
- (c) that there had been no limitation to the scope of Internal Audit work during 2018/19; and

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- (d) the progress that management had made with implementing recommendations agreed in Internal Audit reports.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

COMMITTEE EFFECTIVENESS ANNUAL REPORT - GOV/19/244

10. The Committee had before it a report by the Director of Resources which presented the annual committee effectiveness report for the Pensions Committee for 2018/19.

The report recommended:-

that the Committee note the annual report.

The Committee resolved:-

to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

DRAFT NESPF ANNUAL REPORT AND ACCOUNTS - PC/JUN19/ARA

11. The Committee had before it a report by the Director of Resources which presented the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The report advised that the audited version of the accounts would be presented to the September meeting for consideration and signing. The Committee heard from Mr Jonathan Belford in respect of the report. Mr Belford added that he wished to put on record his thanks to the team for preparing the information and report. The Convener also added his thanks to officers for a successful year.

The report recommended:-

that Committee review and consider the unaudited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund.

The Committee resolved:-

to note the unaudited Annual Report and Accounts.

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The Board resolved:-

to note the decision of the Committee.

In accordance with the decision taken under article 2 of this minute, the following reports were considered with the press and public excluded.

**ASSET AND INVESTMENT MANAGER PERFORMANCE REPORT -
PC/JUN19/AIMPR**

12. With reference to article 14 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which provided an overview of the investment activity of both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the three month period ending 31 March 2019.

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

The report recommended:-

that the Committee note the contents of the report.

The Committee resolved:-

- (i) to request that the Investment Manager take forward the points raised by Committee in relation to various environmental, social and governance matters, and to note that these could also be raised at the Local Authority Pension Fund Forum; and
- (ii) to approve the recommendation.

The Board resolved:-

to note the decision of the Committee.

PROCUREMENT OF I-CONNECT SOFTWARE

13. The Committee had before it a report by the Director of Resources which sought approval to enter into a new contract with Heywood for the provision of the I-Connect software to the North East Scotland Pension Fund.

The report recommended:-

that Committee –

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- (a) approve the award of a new contract with Heywood as the provider of the I-Connect software for a period of 8 years and 7 months (in line with the remaining term on the main Altair contract); and
- (b) approve the expenditure as set out in sections 3.8 and 3.9 of the report.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

MERGER OF THE ABERDEEN CITY COUNCIL TRANSPORT FUND WITH THE STRATHCLYDE NO 3 FUND

14. With reference to article 8 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which sought approval for the merger of the Strathclyde No.3 Fund into the Aberdeen City Council Transport Fund and procurement of a buy-in for the combined pensioner liabilities.

The report recommended:-
that Committee approve –

- (a) the merger of the Strathclyde No.3 Fund into the Aberdeen City Council Transport Fund;
- (b) admitted body status for First Glasgow; and
- (c) the procurement of a buy-in for the combined current and future pensioner liabilities.

The Committee resolved:-

to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

NORTH EAST SCOTLAND PENSION FUND - OFFICE ACCOMMODATION

15. With reference to article 8 of the minute of its previous meeting, the Committee had before it a report by the Director of Resources which set out the review of the governance arrangements of the Pension Funds and options to strengthen controls, manage risk and support the ongoing development of the in-house capabilities of the Fund. The report considered the accommodation aspects of the Fund and its ability to address all the governance arrangements from its current accommodation.

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The report recommended:-

that the Committee –

- (a) provisionally approve Option 1 as set out in the report as the preferred option for the relocation of the NESPF, subject to:-
- (b) instructing the Chief Officer – Finance to work with the Chief Officer – Corporate Landlord to plan the layout of the accommodation in the preferred option, within a design budget of £30,000; and
- (c) to report to Committee no later than the September Committee with final costings, to include the fit out of the office space.

The Committee resolved:-

- (i) to note that the report in September would provide further information in respect of any risks associated with the accommodation move; and
- (ii) to approve the recommendations.

The Board resolved:-

to note the decision of the Committee.

- **COUNCILLOR M. TAUQEER MALIK, 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	13 September 2019								
4	External Audit Annual Audit Report 2018/19	To present the external audit annual audit report		Rachel Browne	External Audit	External Audit	2.1		
5	NESPF Annual Report & Accounts	To present the annual accounts and report on the NESPF		Laura Colliss	Finance	Resources	3.1		
6	NESPF Accommodation	Pensions Committee 14/06/19 - To (a) provisionally approve Option 1 as set out in the report as the preferred option for the relocation of the NESPF, subject to:- (b) instructing the Chief Officer – Finance to work with the Chief Officer – Corporate Landlord to plan the layout of the accommodation in the preferred option, within a design budget of £30,000; and (c) to report to Committee no later than the September Committee with final costings, to include the fit out of the office space		Laura Colliss	Finance	Resources	Purpose 1		
7	Procurement of Actuarial Services	To request approval to use the National LGPS Framework to let actuarial and benefit consultancy services for the NESPF		Mairi Suttie	Finance	Resources	Purpose 1		
8	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
9	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
10	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
11	29 November 2019								
12	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
13	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
14	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
15	Strategic Infrastructure Priorities and the Scottish Local Government Pensions Scheme	Pensions Committee 15/03/19 - To instruct the Chief Officer Finance to explore the opportunities for a strategic partnership between the Council, other stakeholders and the North East Scotland Pension Fund for the purposes of supporting local infrastructure investment and to report on the feasibility of this within three committee cycles		Jonathan Belford	Finance	Resources	1.2		

	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									
16	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
17	13 March 2020								
18	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
19	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
20	Internal Audit Plan 2020/21	To present the Internal Audit Plan for 2020/21		David Hughes	Internal Audit	Internal Audit	2.1		
21	Statement of Accounts	To provide high level information and key dates in relation to the 2019/20 Statement of Accounts		Laura Colliss	Finance	Resources	1.3		
22	Review of Compliance with the Public Service Pensions Act 2013 and Pension Regulator Requirements	To provide an annual review of governance arrangements		Mairi Suttie	Finance	Resources	4.1 and 4.2		
23	External Audit Annual Audit Plan 2019/20	To present the External Audit annual audit plan		Rachel Browne	External Audit	External Audit	2.1		
24	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		
25	Budget Forecast & Projected Spend	Update on budget and annual spend to date		Michael Scroggie	Finance	Resources	1.3		
26	12 June 2020								
27	Committee Effectiveness Annual Report	To consider the annual committee effectiveness report		Laura Colliss	Finance	Resources	GD 7.5		
28	Training Report	To provide details of the Training Plan 2020/2021 for the Pensions Committee and Pension Board of the NESPF		Laura Colliss	Finance	Resources	1.3		
29	Internal Audit Annual Report 2019/20	To present the Internal Audit Annual Report for 2019/20		David Hughes	Internal Audit	Internal Audit	2.1		
30	Draft NESPF Annual Report & Accounts	To present the draft annual accounts		Laura Colliss	Finance	Resources	3.1		
31	Strategy	Regular update on any changes to the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund strategies		Mairi Suttie	Finance	Resources	1.2		
32	Investment Strategy Update	To provide an update on the investment strategy of the NESPF		Graham Buntain / Laura Colliss	Finance	Resources	1.2		
33	Asset and Investment Manager Performance Report	To provide a review of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund for the latest three month period		Graham Buntain	Finance	Resources	5.1		

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North East Scotland Pension Funds
Pensions Committee

2 September 2019

North East Scotland Pension Fund Audit of 2018/19 annual accounts

Independent auditor's report

1. Our audit work on the 2018/19 annual accounts is now substantially complete. Subject to the receipt of a revised set of annual accounts for final review, we anticipate being able to issue unqualified audit opinions in the independent auditor's report on 13 September 2019 (the proposed report is attached at [Appendix A](#)).

Annual audit report

2. Under International Standards on Auditing in the UK, we report specific matters arising from the audit of the financial statements to those charged with governance of a body in sufficient time to enable appropriate action. We present for the Pensions Committee's consideration our draft annual report on the 2018/19 audit. The section headed "Significant findings from the audit in accordance with ISA 260" sets out the issues identified in respect of the annual accounts.
3. The report also sets out conclusions from our consideration of the four audit dimensions that frame the wider scope of public audit as set out in the Code of Audit Practice.
4. This report will be issued in final form after the annual accounts have been certified.

Unadjusted misstatements

5. We also report to those charged with governance all unadjusted misstatements which we have identified during our audit, other than those of a trivial nature and request that these misstatements be corrected. We have one unadjusted error, relating to receipt of a late valuation adjustment for one investment. If corrected, this would decrease the net assets of the fund by £2.4 million.

Fraud, subsequent events and compliance with laws and regulations

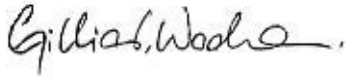
6. In presenting this report to the Pensions Committee we seek confirmation from those charged with governance of any instances of any actual, suspected or alleged fraud; any subsequent events that have occurred since the date of the financial statements; or material non-compliance with laws and regulations affecting the entity that should be brought to our attention.

Representations from Section 95 Officer

7. As part of the completion of our audit, we are seeking written representations from the Section 95 Officer on aspects of the annual accounts, including the judgements and estimates made.

8. A draft letter of representation is attached at **Appendix B**. This should be signed and returned to us by the Section 95 Officer with the signed annual accounts prior to the independent auditor's report being certified.

Yours faithfully

A handwritten signature in black ink that reads "Gillian Woolman". The signature is written in a cursive style with a long, sweeping underline.

Gillian Woolman MA FCA CPFA
Audit Director

APPENDIX A: Proposed Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the funds during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the [Audit Scotland website](#), the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Officer - Finance and Aberdeen City Council Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Chief Officer - Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report

has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;

- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

13 September 2019

APPENDIX B: Letter of Representation (ISA 580)

Gillian Woolman, Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

Date

Dear Gillian

North East Scotland Pension Funds Annual Accounts 2018/19

1. This representation letter is provided about your audit of the annual accounts of North East Scotland Pension Funds for the year ended 31 March 2019 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the remuneration report, management commentary and annual governance statement.
2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of relevant officers, the following representations given to you in connection with your audit of North East Scotland Pension Funds annual accounts for the year ended 31 March 2019.

General

3. North East Scotland Pension Funds and I have fulfilled our statutory responsibilities for the preparation of the 2018/19 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by North East Scotland Pension Funds have been recorded in the accounting records and are properly reflected in the financial statements.
4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (2018/19 accounting code), and in accordance with the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.
6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of the North East Scotland Pension Funds at 31 March 2019 and the transactions for 2018/19.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2018/19 accounting code where applicable. Where the code does not specifically apply, I have used judgement in developing and applying an accounting policy that results in information that is relevant and reliable. All accounting policies applied are appropriate to North East Scotland Pension Funds' circumstances and have been consistently applied.
8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

9. I have assessed North East Scotland Pension Funds' ability to continue to use the going concern basis of accounting and have concluded that it is appropriate. I am not aware of any material uncertainties that may cast significant doubt on North East Scotland Pension Funds' ability to continue as a going concern.

Assets

Investments

10. For the year ended 31 March 2019, the amounts included in the net assets statements reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the funds. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the values at 31 March 2019. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

Banking and Cash Flow Arrangements

11. The pension funds maintain separate bank accounts and while these accounts form part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

12. On realisation in the ordinary course of the funds' business, the other current assets in the Net Assets Statements are expected, in my opinion, to produce at least the amounts at which they are stated. In particular adequate provision has, in my opinion, been made against all amounts owing which are known or may be expected to be irrecoverable.

Liabilities

13. All liabilities at 31 March 2019 of which I am aware have been recognised in the annual accounts.
14. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2019 of which I am aware where the conditions specified in the 2018/19 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2019. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.
15. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2019 or to reflect material changes in the assumptions underlying the calculations of the cash flows.
16. The pension assumptions made by the actuary in the IAS 19 report for North East Scotland Pension Funds have been considered and I confirm that they are consistent with management's own view.
17. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent liabilities

18. There are no significant contingent liabilities, other than those disclosed in Note 23 of the Main Fund and Note 17 of the Transport Fund financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and IAS 37.
19. With specific reference to equal pay claims I can confirm that it is not possible to quantify the contingent liability.

Fraud

20. I have provided you with all information in relation to:
 - my assessment of the risk that the financial statements may be materially misstated because of fraud
 - any allegations of fraud or suspected fraud affecting the financial statements
 - fraud or suspected fraud that I am aware of involving management, employees who have a significant role in internal control, or others that could have a material effect on the financial statements.

Laws and Regulations

21. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements.

Related Party Transactions

22. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2018/19 accounting code. I have made available to you the identity of all the North East Scotland Pension Funds' related parties and all the related party relationships and transactions of which I am aware.

Management commentary

23. I confirm that the Management Commentary has been prepared in accordance with the statutory guidance and the information is consistent with the financial statements.

Corporate Governance

24. I confirm that the North East Scotland Pension Funds has undertaken a review of the system of internal control during 2018/19 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government: Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.
25. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. There have been no changes in the corporate governance arrangements or issues identified, since 31 March 2019, which require to be reflected.

Events Subsequent to the Date of the Net Assets Statement

26. All events subsequent to 31 March 2019 for which the 2018/19 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathon Belford, CPFA
Chief Officer - Finance

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North East Scotland Pension Fund

2018/19 Annual Audit Report – DRAFT



 AUDIT SCOTLAND

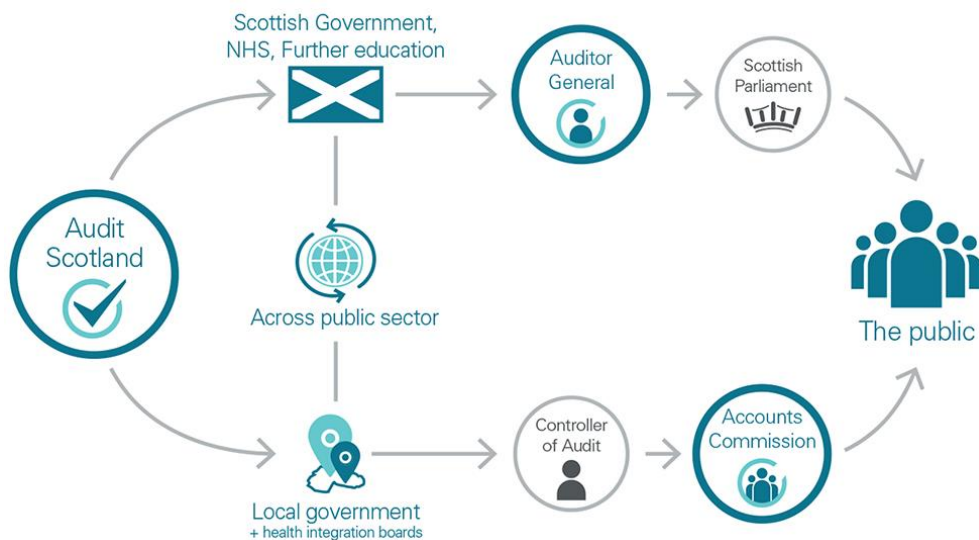
To Members of the Aberdeen City Council Pensions Committee and the Controller of Audit

13 September 2019

Who we are

The Auditor General, the Accounts Commission and Audit Scotland work together to deliver public audit in Scotland:

- The Auditor General is an independent crown appointment, made on the recommendation of the Scottish Parliament, to audit the Scottish Government, NHS and other bodies and report to Parliament on their financial health and performance.
- The Accounts Commission is an independent public body appointed by Scottish ministers to hold local government to account. The Controller of Audit is an independent post established by statute, with powers to report directly to the Commission on the audit of local government.
- Audit Scotland is governed by a board, consisting of the Auditor General, the chair of the Accounts Commission, a non-executive board chair, and two non-executive members appointed by the Scottish Commission for Public Audit, a commission of the Scottish Parliament.



About us

Our vision is to be a world-class audit organisation that improves the use of public money.

Through our work for the Auditor General and the Accounts Commission, we provide independent assurance to the people of Scotland that public money is spent properly and provides value. We aim to achieve this by:

- carrying out relevant and timely audits of the way the public sector manages and spends money
- reporting our findings and conclusions in public
- identifying risks, making clear and relevant recommendations.

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Key messages

2018/19 annual report and accounts

- 1 North East Scotland Pension Fund's financial statements give a true and fair view and were properly prepared.
- 2 The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared.

Financial management

- 3 The Fund has effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.
- 4 Net assets increased in 2018/19: by £343 million to £4.5 billion for the Main Fund and by £5 million to £105 million for the Transport Fund. Performance of investments remained above the benchmark.
- 5 Systems of internal control operated appropriately and effectively in 2018/19.

Financial sustainability

- 6 The Fund has appropriate and effective financial planning arrangements in place.
- 7 Although Main Fund contributions from members currently exceed benefits paid out, this is likely to change in the coming years.

Governance and transparency

- 8 The Fund has effective governance arrangements in place that support scrutiny of decisions made by the Pension Fund Committee. However, not all members of the Committee or the Pension Board attended the expected number of training sessions; it is important that members maintain an appropriate level of knowledge to fulfil their role effectively.
- 9 Decisions are transparent with committee papers and detailed minutes of meetings of the Pension Fund Committee available on Aberdeen City Council's website.

Value for money

- 10 The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses. Investment performance is subject to regular review and scrutiny by the Pensions Committee.

Introduction

1. This report is a summary of our findings arising from the 2018/19 audit of the North East Scotland Pension Fund (NESPF or the Fund). The Fund consists of two funds, the North East Scotland Pension Fund (the main fund) and the Aberdeen City Council Transport Fund (the transport fund). Both funds are part of the Local Government Pension Scheme (LGPS). Hereafter we will refer to “the Fund” in the singular.

2. The scope of our audit was set out in our Annual Audit Plan presented to the March 2019 meeting of Aberdeen City Council’s Pensions Committee. This report comprises:

- an audit of the Fund’s annual accounts
- consideration of the wider dimensions that frame the wider scope of public audit set out in the [Code of Audit Practice 2016](#) as illustrated in [Exhibit 1](#).

Exhibit 1 Audit dimensions



Source: Code of Audit Practice 2016

3. The main elements of our audit work in 2018/19 have been:

- an audit of the Fund's 2018/19 annual accounts including the issue of an independent auditor's report setting out our opinions
- a review of the Fund’s main financial systems
- consideration of the four audit dimensions of public audit.

Added Value

4. We add value to the Fund through the audit by:

- identifying and providing insight on significant risks, and making clear and relevant recommendations for improvements that have been accepted by management
- reporting our findings and conclusions in public
- sharing intelligence and good practice through our national reports ([Appendix 3](#)) and good practice guides
- providing clear and focused conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability.

5. In so doing, we aim to help the Fund promote improved standards of governance, better management and decision making and more effective use of resources.

Responsibilities and reporting

6. Aberdeen City Council is the administering authority for the North East Scotland Pension Fund. The council delegates this responsibility to the Pensions Committee. The committee is responsible for establishing effective governance arrangements and ensuring that financial management is effective. The Pensions Committee is required to review the effectiveness of internal control arrangements and approve the annual accounts.

7. Our responsibilities as independent auditors are established by the Local Government (Scotland) Act 1973, the [Code of Audit Practice 2016](#), and supplementary guidance, and International Standards on Auditing in the UK.

8. As public sector auditors we give independent opinions on the annual accounts. Additionally, we also conclude on:

- the effectiveness of the Fund's performance management arrangements
- suitability and effectiveness of corporate governance arrangements, and financial position, and
- arrangements for securing financial sustainability.

9. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#).

10. This report raises matters from the audit of the annual accounts and consideration of the audit dimensions. Weaknesses or risks identified are only those which have come to our attention during our normal audit work and may not be all that exist. Communicating these does not absolve management from its responsibility to address the issues we raise and to maintain adequate systems of control. In doing this we aim to support improvement and accountability. Further details of the respective responsibilities of management and the auditor can be found in the [Code of Audit Practice 2016](#) and supplementary guidance.

11. Our annual audit report contains an agreed action plan at [Appendix 1](#). It sets out specific recommendations, responsible officers and dates for implementation. It also includes outstanding actions from last year and the steps being taken to implement them.

12. We can confirm that we comply with the Financial Reporting Council's Ethical Standard. We can also confirm that we have not undertaken any non-audit related services and therefore the 2018/19 audit fee of £40,000 as set out in our Annual Audit Plan remains unchanged. We are not aware of any relationships that could compromise our objectivity and independence.

13. This report is addressed to both the members of the Pensions Committee and the Controller of Audit and will be published on Audit Scotland's website www.audit-scotland.gov.uk in due course.

14. We would like to thank all management and staff for their cooperation and assistance during the audit.

Part 1

Audit of 2018/19 annual accounts



Main judgements

North East Scotland Pension Fund's financial statements give a true and fair view and were properly prepared.

The management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared.

The annual accounts is the principal means by which the pension fund demonstrates effective stewardship and use of resources to its external stakeholders.

Audit opinions on the annual accounts

15. The annual accounts for the year ended 31 March 2019 were approved by the Aberdeen City Council Pensions Committee on 13 September 2019. We reported within the independent auditor's report that:

- the financial statements give a true and fair view and were properly prepared
- the management commentary, annual governance statement and governance compliance statement were all consistent with the financial statements and properly prepared in accordance with the guidance.

16. We have nothing to report in respect of misstatements in information other than the financial statements, the adequacy of accounting records and the information and explanations we received.

Submission of annual accounts for audit

17. We received the unaudited annual accounts on 14 June 2019, in line with the audit timetable set out in our 2018/19 Annual Audit Plan.

18. The working papers provided with the unaudited accounts were of a good standard and finance staff provided good support to the audit team. This helped ensure the final accounts audit process ran smoothly.

Risks of material misstatement

19. [Appendix 2](#) provides a description of those assessed risks of material misstatement in the annual report and accounts and any wider audit dimension risks that were identified during the audit planning process. It also summarises the work we have done to gain assurance over the outcome of these risks.

20. We have no issues to report from our work on the risks of material misstatement highlighted in our 2018/19 Annual Audit Plan.

Materiality

21. Misstatements are material if they could reasonably be expected to influence the economic decisions of users taken based on the financial statements. The

assessment of what is material is a matter of professional judgement and involves considering both the amount and nature of the misstatement. It is affected by our perception of the financial information needs of users of the financial statements.

22. Our initial assessment of materiality for the annual accounts was carried out during the planning phase of the audit and included in our Annual Audit Plan. With regards to the annual accounts, we assess the materiality of uncorrected misstatements both individually and collectively. The assessment of materiality was recalculated on receipt of the unaudited annual accounts and is summarised in [Exhibit 2](#). The revised materiality levels were not sufficient to require a change in our audit approach.

Exhibit 2 Materiality values

Materiality level	Amount Main Fund	Amount Transport Fund
Overall materiality (1% of net assets)	£44.5 million	£1.1 million
Performance materiality (75% of overall materiality)	£33.4 million	£0.8 million
Reporting threshold	£100,000	£10,000
Specific materiality (Benefits Payable)	£14.0 million	£0.4 million
Specific performance materiality (Benefits Payable)	£10.5 million	£0.3 million

Significant findings from the audit in accordance with ISA 260

23. International Standard on Auditing (UK) 260 requires us to communicate significant findings from the audit to those charged with governance, including our view about the qualitative aspects of the body's accounting practices covering accounting policies, accounting estimates and financial statements disclosures.

24. The significant findings are summarised in [Exhibit 3](#). Where a finding has resulted in a recommendation to management, a cross reference to the Action Plan in [Appendix 1](#) has been included.

Qualitative aspects of the audit

25. We have no significant findings to report around the qualitative aspects of the 2018/19 accounting practices.

Exhibit 3 Significant findings from the audit of financial statements

Issue	Resolution
<p>1. Updated Investment Valuation</p> <p>There was an investment revaluation for one asset which reduced its value at 31 March 2019 by £2.46 million. This arose due to an audit judgement by the auditor of the investment manager, in light of ongoing litigation regarding the asset, between the investment manager and a contractor. If this revaluation was adjusted for in the financial statements, it would reduce the Net Return on</p>	<p>Management proposed not to adjust the annual accounts for this as it was below the materiality threshold. This is reported as an unadjusted misstatement in paragraph 27 below.</p>

Issue	Resolution
Investments in the Fund Account by £2.46 million and reduce Net Assets in the Net Assets Statement by the same amount.	
<p>2. Classification error</p> <p>£5.9 million was identified as incorrectly included in Sundry Creditors rather than in Benefits Payable, within Main Fund Note 18 Current Liabilities.</p>	<p>An adjustment to the classification of creditors was made, to move £5.9 million from Sundry Creditors to Benefits Payable. This did not affect the overall Current Liabilities figure in the Net Assets Statement.</p>

Source: Audit Scotland 2018/19 matters arising from the NESPF financial statements audit.

How we evaluate misstatements

26. There were no material adjustments to the unaudited financial statements arising from our audit.

27. One individual misstatement which exceeded our reporting threshold has not been amended in the audited financial statements. As noted above, an investment manager reduced an asset valuation as at 31 March 2019 by £2.46 million, as the investment manager's auditor recommended a more prudent approach to be taken by the investment manager towards the impact of legal action regarding the asset.

28. It is our responsibility to request that all errors above the reporting threshold are corrected. The final decision on this lies with those charged with governance considering advice from senior officers and materiality. Management do not propose to adjust for the item above as the amount is not considered material in the context of the financial statements.

Amendments to the accounts arising from legal and other judgements

29. In December 2018 the Court of Appeal upheld a claim from firefighters and judges that changes to their pension schemes were discriminatory based on age. The UK Government sought leave to appeal the decision (commonly known as the McCloud Ruling) to the Supreme Court however this was denied at the end of June 2019, after the unaudited accounts were prepared. This ruling will impact on other public sector pension schemes, including LGPS, which have seen similar changes in their pension schemes.

30. Following the decision, the Fund requested a revised IAS26 report from the Fund actuary in order to quantify the increase in estimated liabilities as a result of the ruling. This revised report estimated the actuarial present value of promised retirement benefits as £5.422 billion for the Main Fund, an increase of £43 million, and £80.9 million for the Transport Fund, an increase of £0.2 million. These revised assessments do not impact on the primary financial statements of the Fund, however the relevant disclosure notes in the audited accounts were updated to include the revised values of promised retirement benefits.

Objections

The Local Authority Accounts (Scotland) Regulations 2014 require local government bodies to publish a public notice on their website that includes details of the period for inspecting and objecting to the accounts. This must remain on the website throughout the inspection period. The notice for the North East Scotland Pension Fund was published on the website of the administering authority (Aberdeen City Council) and complies with the regulations. No objections were received to the North East Scotland Pension Fund accounts.

Part 2

Financial management



Main judgements

The Fund has appropriate and effective arrangements in place for financial management. This includes comprehensive reporting of investment performance.

Net assets increased in 2018/19: by £343 million to £4.5 billion for the Main Fund and by £5 million to £105 million for the Transport Fund. Performance of investments remained above the benchmark.

Systems of internal control operated appropriately and effectively in 2018/19.

Financial management is about financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

Financial performance in 2018/19

31. Pension fund finances are independently assessed every three years by an actuary. This assessment determines the employer contribution rates and deficit funding payments for the upcoming three-year period and takes account of the strength of employer covenants and the Fund's investment strategy.

32. The Fund's performance in 2018/19 is summarised in [Exhibit 4](#).

Exhibit 4

Assets, liabilities, funding level and investment performance









Increase in net assets	Increase in estimated liabilities	Funding level	Investment performance
 <p>Main Fund +£343.6 million (+8.3%)</p> <p>Transport Fund +£5.2 million (+5.2%)</p>	 <p>Main Fund +£530 million (+10.8%)</p> <p>Transport Fund +£3 million (+3.7%)</p>	 <p>107% Main Fund 94% Transport Fund</p> <p>2017 Funding valuation</p>	 <p>Main Fund 8.5%</p> <p>Return on investments 2018/19</p> <p>Main Fund 10.3%</p> <p>Return on investments over 5 years</p>

Exhibit 4 (continued)

Assets, liabilities, funding level and investment performance

Increase in net assets	Increase in estimated liabilities	Funding level	Investment performance
			
Closing net assets	Closing liabilities		
Main Fund	Main Fund		
£4,469.2 million	£5,422 million		
Transport Fund	Transport Fund		
£105.3 million	£81 million		

Source: NESPF 2018/19 audited financial statements and NESPF Reports

33. The net assets of the Main Fund increased to £4,469 million at 31 March 2019 from £4,126 million at 31 March 2018. This was an increase of £343 million (8.3%). The Transport Fund's net assets increased by £5.2 million (5.2%) over the same period to £105.3 million.

34. At the same time the Fund's actuary, Mercer Limited, estimated that pension liabilities had risen from £4.892 billion at 31 March 2018 to £5.422 billion at 31 March 2019 (£530 million increase) for the Main Fund. Transport Fund liabilities increased by £2.9 million, from £78 million at 31 March 2018 to £80.9 million at 31 March 2019.

35. During 2018/19 contributions to the Main Fund amounted to some £142 million. This was slightly higher than the benefits paid out which totalled £141 million. The Transport Fund paid out £1.6 million more in benefits than it received in contributions.

36. Although the Fund continues to perform well, management are aware that a number of challenges face the Fund and the wider environment in which it operates. A number of issues may increase pressures on the future funding position, including economic growth and the impact of EU withdrawal. Pension specific issues such as the scheme cost cap mechanism, guaranteed minimum pension (GMP) equalisation and the McCloud ruling on age discrimination within pension schemes are also likely to impact on the funding position in the coming years.

37. The Fund has considered these challenges and continues to monitor risks through the corporate risk register. The funding strategy statement and investment strategy are reviewed and revised following actuarial valuations to ensure that the Fund is well placed to continue to pay its liabilities.

Financial management arrangements

38. The Chief Officer - Finance for Aberdeen City Council is the proper officer responsible for the North East Scotland Pension Fund. The financial regulations of Aberdeen City Council, as administering authority, apply to the pension fund. We consider these to be comprehensive, and current, and promote good financial management.

39. Investment and administration performance reports are submitted to the Pensions Committee on a quarterly basis. Reports are comprehensive, covering reviews of the equity and bond markets, overall performance of the funds and reviews of the performance of each investment manager. Also, through our attendance at the Pensions Committee, we have observed a good level of review and scrutiny by members.

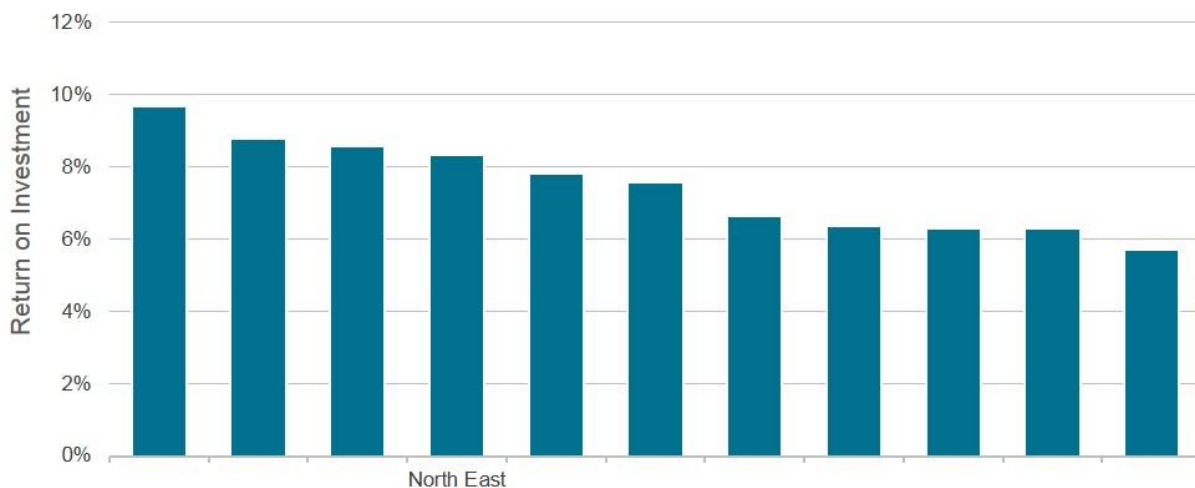
40. Based on evidence reviewed, we conclude that the Fund has effective management arrangements in place, including comprehensive reporting and review of investment performance.

Investment performance in 2018/19

41. 2018/19 has been a relatively good year for investment performance compared to the other LGPS pension funds across Scotland as illustrated in [Exhibit 5](#).

Exhibit 5

LGPS pension funds – Net return on investment 2018/19 (unaudited figures)



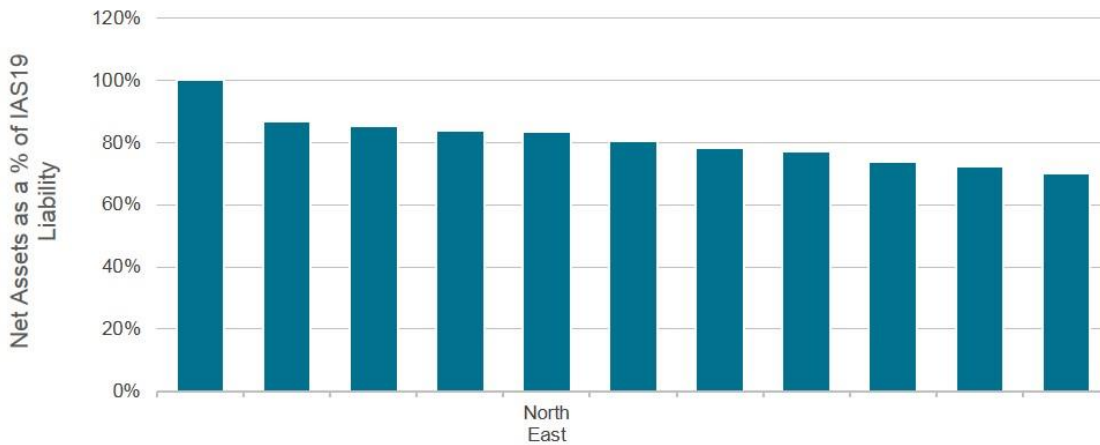
Source: 2018/19 LGPS pension fund unaudited financial statements

42. Investment performance across the Local Government Pension Scheme funds was at a broadly similar level with 2017/18. North East Scotland Pension Fund achieved a return of 8.5% on its investments, above the Fund benchmark of 7.4% for 2018/19. The Fund highlights the use of active investments as the reason for this good performance.

43. The IAS19 calculations give a guide to the relative positions of each fund in terms of funding level as shown in [Exhibit 6 \(page 14\)](#). When this is considered the North East Scotland Pension Fund is mid-range for 2018/19.

Exhibit 6

Net Assets as a proportion of IAS19 Liability as at 31 March 2019



Source: 2018/19 LGPS pension fund unaudited financial statements

Systems of internal control

44. As part of our audit we identify and inspect the key internal controls in those accounting systems which we regard as significant to produce the financial statements.

45. The Pension Fund uses some of the administering authority's key financial systems, in particular the general ledger, payroll and accounts payable systems. We requested assurances from KPMG, the external auditor of Aberdeen City Council, that the internal controls over these financial systems were operating effectively during 2018/19. The 2018/19 annual audit report for Aberdeen City Council reported controls testing in the following areas, with satisfactory results: journal entries; budget monitoring; bank reconciliations and controls over the provision of pension fund membership information to the actuary. 4 of the 8 prior year recommendations by KPMG to improve general IT controls are still in progress. KPMG have given an unmodified opinion on Aberdeen City Council's 2018/19 accounts.

46. Internal audit's annual opinion for Aberdeen City Council confirmed that "reasonable assurance can be placed upon the adequacy and effectiveness of the Council's framework of governance, risk management and control in the year to 31 March 2019."

47. We have taken assurance over the administering authority's financial systems from these sources.

48. Our audit testing of the Fund's own pension administration system did not identify any significant internal control weaknesses which could affect the Fund's ability to record, process, summarise and report financial and other relevant data to result in a material misstatement in the financial statements.

Internal audit

49. Internal audit provides the Fund with independent assurance on the Fund's overall risk management, internal control and corporate governance processes.

50. The internal audit function is carried out by Aberdeenshire Council's internal audit service. We conducted a review of the adequacy of the internal audit function and concluded that it operates in accordance with the Public Sector Internal Audit Standards (PSIAS) and has sound documentation standards and reporting procedures in place.

51. To avoid duplication of effort we place reliance on the work of internal audit wherever possible. In 2018/19 we did not place any formal reliance on internal audit reviews for obtaining direct assurance for our financial statements work, as the coverage was not directly relevant to our audit of the financial statements. We considered internal audit's report findings on the pensions system as part of our wider dimension work.

Standards of conduct for prevention and detection of fraud and error

52. Audited bodies are responsible for establishing arrangements for the prevention and detection of fraud, error and irregularities, bribery and corruption and to ensure that their affairs are managed in accordance with proper standards of conduct by putting proper arrangements in place.

53. We assessed the Fund's arrangements for the prevention and detection of fraud. The Fund relies on the administering body's (Aberdeen City Council) arrangements for the prevention and detection of fraud and corruption. These include Codes of Conduct for members and officers, Whistleblowing Policy and the Fraud, Bribery and Corruption Policy.

54. We concluded that appropriate arrangements were in place for preventing and detecting fraud and corruption in 2018/19. We are not aware of any specific issues we require to bring to your attention.

Part 3

Financial sustainability



Main judgement

The Fund has appropriate and effective financial planning arrangements in place.

Although Main Fund contributions from members currently exceed benefits paid out, this is likely to change in the coming years.

Financial sustainability looks forward to the medium and longer term to consider whether the Fund maintains the capacity to meet the current and future needs of its members.

Funding position and financial planning

55. The March 2017 triennial funding valuation reports that the Main Fund assets were sufficient to meet 107% of its liabilities, which compares to 94% at the 2014 triennial review. The funding level means that, overall, the investment assets were higher than the projected liabilities. This enabled the fund to maintain the employer's contribution rate at 19.3% for the three councils for the period 2018-2021. The rates for the other bodies range from 11% to 33.8%.

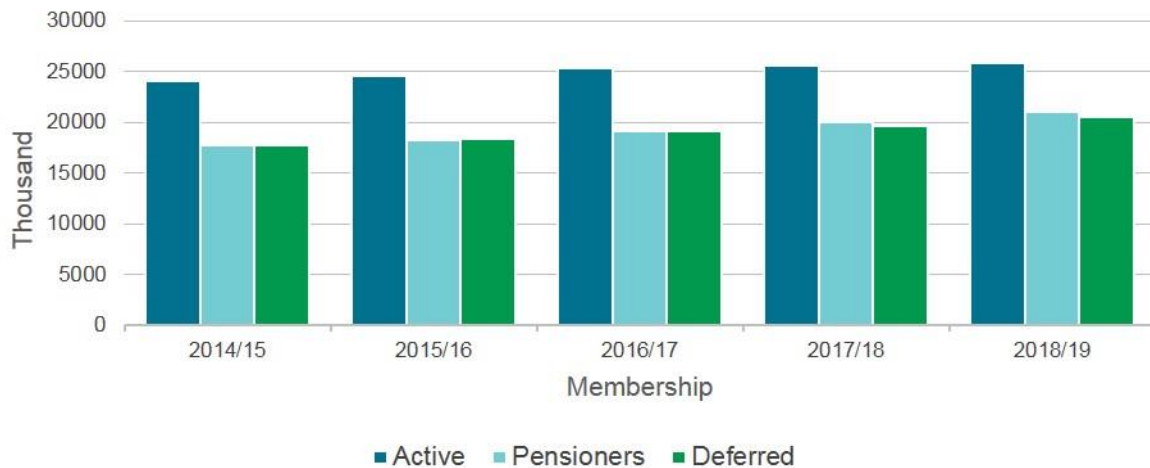
56. The Transport Fund was assessed as 94% funded, meaning that the Fund's assets were sufficient to cover 94% of its liabilities. The administering authority and the employer, First Aberdeen Limited, have agreed to maintain the current level of contributions which are 33% of pensionable pay (plus £1.5 million per annum which is being used to finance the costs in relation to future service). On this basis the deficit would be expected to be removed in around 5 years. These contributions will continue over the period 2018-2021 unless the funding level reaches 105% as assessed by the fund actuary.

57. As identified at [Exhibit 10](#) the Main Fund still has a positive cash flow in that contributions received exceed benefits payable. However as shown at [Exhibit 7](#) the increase in member numbers is decreasing, while the number of pensioners is increasing. The Fund will move to a situation in the coming years where the benefits payable by the Main Fund will exceed contributions received and current pensioners will need to be paid from investment income or the sale of investments.

Membership levels

58. The pension fund is a multi-employer fund with 3 local authorities and around 50 other employers. The current membership profile is shown at [Exhibit 7](#). The number of active members continues to outweigh the number of pensioners.

Exhibit 7 Main Fund Membership



Source: NESPF 2018/19 audited financial statements

59. Membership of the Main Fund increased slightly by 324 active members in 2018/19 to 25,892 members at 31 March 2019; over the past 5 years membership has grown by 1,803 active members, which represents an increase of 7.5%. The impact of auto-enrolment contributed to the increase in members. Overall membership, including pensioners and deferred members, has increased by 2,282 over the past year, and 7,952 over the past 5 years.

60. The Transport Fund, which is closed to new entrants, continues to fall in overall membership numbers as more members move to pensioner status. This is shown in [Exhibit 8](#) below.

61. The Fund gives its members a guarantee that in exchange for contributions during their employment, the Fund will pay a pension until the end of each member's life. It is important that the Fund maintains the capacity to meet the current and future needs of its members.

Exhibit 8 Transport Fund Membership



Source: NESPF 2018/19 audited financial statements

Contributions

62. Following the latest triennial valuation in 2017, the actuary agreed employer contribution rates with individual employers for 2018/19 onwards. An element of these employer costs includes deficit recovery contributions to support employers' financial planning. The approximate split of all contributions received in year is set out at [Exhibit 9](#).

Exhibit 9 Contributions in 2018/19

	Administering authority £m	Other scheduled bodies £m	Admitted bodies £m	Transferee Admission Bodies	Total £m
Employer contributions	26.331	59.290	6.536	3.653	95.810
Employee contributions	8.297	18.641	2.123	1.163	30.224
Strain Contributions	5.497	0.972	0.331	0	6.800
Deficit Recovery Contributions	2.360	3.566	0.095	0	6.021

Source: North East Scotland Pension Fund 2018/19 audited financial statements

63. The main fund reported a surplus from dealings with members of £1.1 million in 2018/19. This means that member contributions and investment income exceeded pension payments. However, this has decreased significantly in recent years and the North East Scotland Pension Fund is close to becoming one of the funds that pays out more in pensions than it receives in contributions. This is likely to be the case in future years. The Transport Fund has been in that position for a number of years.

Transport Fund merger with Strathclyde Pension Fund No.3 Fund

64. The Fund has agreed that members of the Strathclyde Pension Fund Transport Fund (known as No.3 Fund) will transfer to the Aberdeen City Council Transport Fund. The Strathclyde No.3 Fund is a similar LGPS arrangement managed for First Glasgow by Strathclyde Pension Fund. It has been a closed fund to new employers since it was established in 1993 and at the 2017 triennial valuation it had an estimated funding level of 114%. The Fund is now very mature and the sole employer, First Glasgow, is expected to exit the Fund when active membership ceases. The planned merger is expected to take place during 2019/20. The Pensions Committee has identified delivery of the merger as a 2019/20 priority.



Recommendation 1

The Fund should ensure that adequate arrangements are in place for the transfer of membership data, assets and liabilities from Strathclyde Pension Fund Transport Fund.

EU Withdrawal

65. The Fund continues to prepare for the UK's withdrawal from the European Union. The Fund's external fund managers, who are responsible for managing investments, have arrangements in place to ensure regulatory requirements will continue to be met following EU withdrawal. The Fund should continue to monitor the wider impact of EU withdrawal on the Fund and its wider environment.

Part 4

Governance and transparency



Main judgements

The fund has effective governance arrangements in place that support scrutiny of decisions made by the Aberdeen City Council Pensions Committee. However, not all members of the Committee or the Pension Board attended the expected number of training sessions; it is important that members maintain an appropriate level of knowledge to fulfil their role effectively.

Decisions are transparent with committee papers and detailed minutes of meetings of the Pensions Committee available on Aberdeen City Council's website.

Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making and transparent reporting of financial and performance information.

Governance arrangements

66. Aberdeen City Council is the administering body for the North East Scotland Pension Fund. The Council has delegated responsibility for governance to the Pensions Committee. This committee, supported by the Pension Board, is responsible for establishing arrangements that ensure the proper conduct of the affairs of North East Scotland Pension Fund. It is also responsible for ensuring that decisions are made within the terms of the Local Government Pension Scheme.

67. The Pension Board was established by the Public Service Pensions Act 2013. Its role is to assist the Scheme Manager in securing compliance with scheme regulations and expectations set by the Pensions Regulator. The Pension Board meets concurrently with the Pensions Committee. Its annual report is available on the Fund's website and on the administering authority's website.

68. From our attendance at committee meetings we concluded that committee papers were well prepared and issued a week before meetings to allow time for review, sufficient time was given to discuss the issues on the agenda, and committee members asked appropriate questions. We concluded that arrangements were appropriate and supported good governance and accountability.

69. However, training attendance records indicated that two Pension Board and two Pensions Committee members did not meet the training requirement in 2018/19. The Training Policy states that each Committee/Board member is expected to receive at least 2 days of training each year. It is important that members have the appropriate level of pensions knowledge to monitor Pension Fund performance effectively.



Recommendation 2

Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.

Openness and transparency

70. Openness and transparency are individually important and working well together they help demonstrate that public organisations are acting in the public interest. There is an increasing focus on how public money is used and what is achieved. In that regard, openness and transparency supports understanding and scrutiny. There are increasing public expectations for more openness and transparency as citizens want to understand how public money is used and to support their participation in local service design and delivery.

71. Public sector governance guidance indicates that an organisation that is transparent shows the basis for its decisions and shares information about performance and outcomes, including when targets have and have not been achieved as well as how it is using its resources such as money, people and assets.

72. There is evidence from several sources which demonstrate the Fund's commitment to transparency. For example, the Fund's annual accounts and information on governance arrangements are available on the Fund's website. The annual accounts are also available on the administering authority's website.

73. The Pensions Committee and Pension Board meetings are held in public, with commercially sensitive information dealt with in private session. The committee papers and minutes of these meetings are publicly available on the pension fund's website and on the administering authority's website.

74. Overall, we concluded that the Fund conducts its business in an open and transparent manner.

Pensions Regulator Public Service Code

75. The Public Sector Pensions Act 2013 provided for extended regulatory oversight by the Pensions Regulator. The Pensions Regulator issued a code on the governance and administration of public service pension schemes in January 2015 which funds are expected to comply with. The last report assessing the Fund's compliance with the Pensions Regulator's code was submitted to the Pensions Committee and Pension Board in March 2019. This provided assurance that the Fund is largely in compliance with the regulations. There were no breaches of the Code that required to be reported to the Pensions Regulator in 2018/19.

General Data Protection Regulation (GDPR)

76. The General Data Protection Regulation (GDPR) came into force on 25 May 2018, replacing the UK Data Protection Act 1998. GDPR sets out further requirements than the DPA and has introduced new and significantly changed data protection concepts.

77. GDPR introduced a wide range of new rights for individuals in respect of their personal data. These include the right to be forgotten, the right to object to certain processing activities and to decisions taken by automated processes. Failure to comply with GDPR data handling arrangements could result in the Fund incurring significant fines.

78. The Fund carried out work to ensure full compliance with GDPR and protect the quality of data held on the pension administration system. A review of e-mail processing was carried out, with changes made to working practices that complimented the Aberdeen City Council policy. A new System Access policy and a Local Contingency Plan were implemented.

Review of the future structure of Local Government Pension Scheme in Scotland

79. The Scottish Scheme Advisory Board is undertaking a review of the future structure of the Local Government Pension Scheme in Scotland. Four options have been identified by the Board:

- Retain the current structure of eleven funds
- Promote cooperation in investment and administration between the eleven funds
- Pool investments between the funds
- Merge the funds into one or more funds.

80. Stakeholder views were sought through a consultation process and the North East Scotland Pension Fund submitted a response in December 2018. Following the consultation process, a draft report incorporating stakeholder views was considered at the Scheme Advisory Board meeting on 24 April 2019. The outcome of consideration by the Scheme Advisory Board, and any ministerial consideration, is awaited.

Part 5

Value for money



Main judgements

The Fund's investment performance is subject to regular review and scrutiny by the Aberdeen City Council Pensions Committee.

The Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management.

Value for money is concerned with using resources effectively and continually improving services.

Investment performance

81. The Pension Fund Committee meets on a quarterly basis. A review of fund managers' performance is a standing item on the committee's agenda. At each meeting, committee members receive a report outlining overall fund performance including an analysis of risks and returns.

82. [Exhibit 10](#) shows that over the year, the Fund generated a return of 8.5% against a benchmark of 7.4%. Equity portfolios were the most significant contributor to this increase. Over the medium to longer term the Fund has outperformed its three-year, five-year and since inception benchmarks.

Exhibit 10 Fund investment performance



Source: North East Scotland Pension Fund 2018/19 audited financial statements

83. The Fund appoints several external investment managers. Individual investment manager performance is reported on a quarterly basis to the Pensions Committee. The Fund's investments team also carries out annual diligence reviews for each appointed fund manager.

84. Investment return and risk are inextricably linked, and it is not possible for us to give an opinion on the relative performance of the Fund's investments given the risk exposure of the asset allocation and investments made. However, we are aware that the Pensions Committee is regularly updated with details of how closely aligned the Fund's investments are with its investment strategy.

85. The Fund's Investment Strategy sets out how the Fund would like to structure its investments in terms of the different types of investments. The Fund holds less investments than its benchmark in all categories except Equities. Equities made up 76% of the fund investments at 31 March 2019, against a benchmark of 57.5%. We are aware that the level of investment in equities is partly due to their significant returns in recent years compared to other categories of investment. We appreciate that moving investments between categories can take time, as investment managers look for appropriate opportunities, but the Fund should ensure it is happy with the pace of alignment with the benchmark.

86. We concluded that the Fund has adequate arrangements in place for monitoring investment performance.

Management expenses

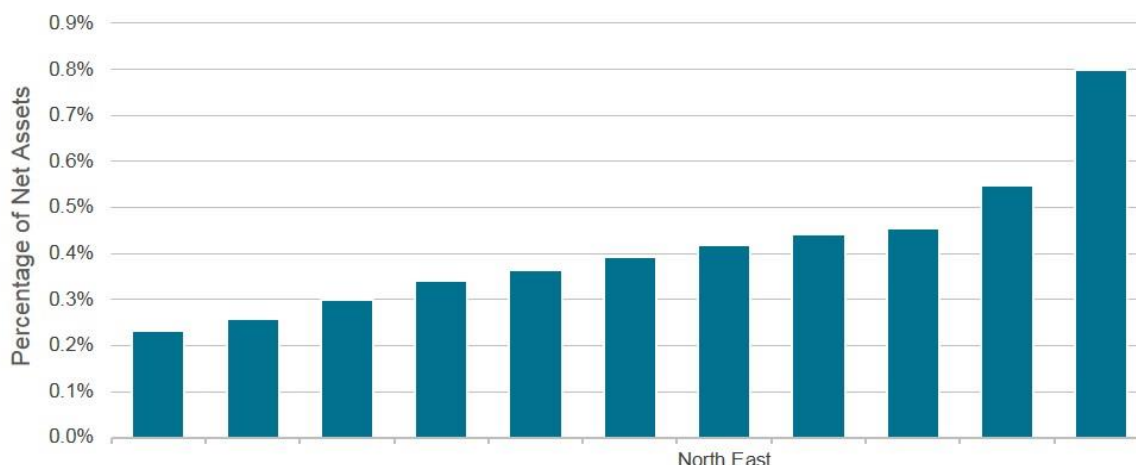
87. There are three main categories of management expense, with the largest being investment management costs. Other expenses are the cost of the administration services provided by the Council and the governance fees for actuarial and audit services.

88. External investment manager fees are agreed in the respective mandates governing their appointments. The fees are relative to the risk and complexity involved in managing a particular asset and strategy.

89. Investment management expenses have decreased slightly from £19.9m in 2017/18 to £18.9m in 2018/19.

90. [Exhibit 11](#) shows figures for total management expenses relative to net assets across the Scottish Local Government Pension Funds, with investment management expenses for the North East Scotland Pension Fund highlighted. The Fund had the fourth highest percentage in Scotland; however, variances in investment strategies and administrative structures (e.g. in-house staff vs. outsourced services) will impact on the amount of external investment management expertise purchased.

Exhibit 11 Investment Management Expenses



Source: 2018/19 LGPS pension fund unaudited financial statements

91. We have concluded that the Fund has adequate arrangements in place for monitoring investment performance and scrutinising investment management expenses. CIPFA guidance on management expenses has enabled greater transparency in investment management fee information including the development of benchmarking information. Management should make use of the additional information available on the cost of investment management services to make informed decisions on value for money, as well as the performance of managers.

Administrative expenses

92. Administrative expenses have remained broadly similar year on year, at £2.2 million in both 2017/18 and 2018/19. The workload of the pension administration section continues to grow, primarily due to the introduction of the career average pension scheme (CARE) from 1 April 2015. Other factors, such as auto enrolment, also increase the administration workload. Fund membership has increased by 7.5% in the past 5 years.

93. The Fund's business plan sets out a range of service standards against which administration performance is monitored. These are measured on a regular basis and are reported to the Pensions Committee quarterly.

94. Employers are required to submit contributions returns to the Pension Fund; this is an important control over the accuracy of pension contributions received and recorded in the pensions system and is of increased importance following the introduction of CARE as the member benefit statement requires actual salary data from all employers. The fund made monthly online submissions of data a mandatory requirement for employers from 1 April 2017. This facility was an extension of a system used by larger employers, which was amended to cater towards the needs and capabilities of smaller employers, with 96% of employers providing information online.

95. Governance and oversight expenses have also remained similar year on year, at £0.5 million for both 2017/18 and 2018/19.

National performance audit reports

96. Audit Scotland carries out a national performance audit programme on behalf of the Accounts Commission and the Auditor General for Scotland. During 2018/19, we published reports which might be of direct interest to the Fund. These are outlined in [Appendix 3](#) accompanying this report.

97. The Pensions Committee considered the LGPS supplement to the Local Government in Scotland: Financial Overview 2017/18 at its March 2019 meeting. We have drawn other relevant publications to the attention of the committee during the year.

Appendix 1

Action plan 2018/19



No.	Issue/risk	Recommendation	Agreed management action/timing
1	<p>Merger with Strathclyde Pension Fund no.3 (Transport Fund)</p> <p>North East Scotland Pension Fund and Strathclyde Pensions Fund have agreed that the Strathclyde Pension Fund Transport Fund will merge with the Aberdeen City Council Transport Fund in 2019/20.</p> <p>Risk</p> <p>A lack of planning could lead to membership information, financial reporting and assets and liabilities not being transferred correctly or completely.</p>	<p>The Fund should ensure that adequate arrangements are in place for the transfer of membership data, assets and liabilities from Strathclyde Pension Fund Transport Fund.</p> <p>Paragraph 64</p>	<p>A comprehensive project plan was put in place with workstreams across the project meeting regularly.</p> <p>As at 2 September the merger is almost complete with live No.3 data being held and managed by Aberdeen. Assets will be transitioned throughout September 2019 with a temporary investment strategy put in place to assist with future plans later in 2020.</p> <p>Aberdeen will make the first No.3 payroll on the 13 September 2019.</p> <p>Pension Manager</p> <p>End of October 2019</p>
2	<p>Training and development</p> <p>Pensions Committee and Pension Board members are expected to attend at least two training sessions per year. During 2018/19 two Committee members and two Board members did not attend two or more training sessions.</p> <p>Risk</p> <p>Members do not have or maintain the expertise required to monitor and scrutinise Pension Fund performance effectively.</p>	<p>Pensions Committee and Pension Board members should ensure that they keep their pensions knowledge up to date and take advantage of the training and development opportunities offered.</p> <p>Paragraph 69</p>	<p>Diaries and availability is always a challenge; the Fund has moved to hold an element of its training schedule after the Pension Committee/Board quarterly meetings to assist attendance.</p> <p>If lack of attendance persists with individual Committee/ Board members, the Administering Authority will address the issue, as recently experienced with the Board.</p> <p>Annual Attendance Review of both Committee and Board are provided by the Pension Committee Effectiveness Annual Report and the Annual Pension Board Report, presented in June 2019 and annually thereafter.</p> <p>Pension Manager</p> <p>June 2020</p>

Appendix 2

Significant audit risks identified during planning

The table below sets out the audit risks we identified during our planning of the audit and how we addressed each risk in arriving at our conclusion. The risks are categorised between those where there is a risk of material misstatement in the annual accounts and those relating our wider responsibility under the [Code of Audit Practice 2016](#).

Audit risk	Assurance procedure	Results and conclusions
Risks of material misstatement in the financial statements		
<p>1 Assurances on administering authority key financial systems used by NESPF</p> <p>Aberdeen City Council (ACC) is the administering authority for the North East Scotland Pension Fund. Several ACC key financial systems (general ledger; accounts payable; accounts receivable) underpin the NESPF accounting records. We are dependent on the council's external auditor, KPMG, for audit assurances on these systems.</p>	<p>Assurances will be agreed with and obtained from KPMG on key Aberdeen City Council financial systems which underpin NESPF accounting records.</p>	<p>We have taken assurance from KPMG's annual audit report to Aberdeen City Council, which reported on controls testing undertaken.</p> <p>KPMG also provided satisfactory results of their testing of a control which reconciled ACC's payroll report to the data on the pension fund's I-connect system.</p>
<p>2 Risk of management override of controls</p> <p>ISA 240 requires that audit work is planned to consider the risk of fraud, which is presumed to be a significant risk in any audit. This includes consideration of the risk of management override of controls to change the position disclosed in the financial statements.</p>	<p>Detailed testing of journal entries.</p> <p>Review of accounting estimates.</p> <p>Focused testing of accruals and prepayments.</p> <p>Evaluation of significant transactions that are outside the normal course of business.</p>	<p>Based on our testing, we found no evidence of bias in accounting estimates, no evidence of transactions out with the scope of the pension fund and no evidence to suggest that management were overriding controls.</p>
<p>3 Risk of fraud over income and expenditure</p> <p>ISA 240 presumes a risk of fraud over income; this is expanded to include the risk of fraud over expenditure in the public sector by the Code of Audit Practice and the Financial Reporting Council's Practice Note 10 (revised).</p>	<p>Evaluation of the effectiveness of systems for income recognition and recording.</p> <p>Review of custodian arrangements and completion of 'review of work by service auditors' in accordance with ISA 402 for the global custodian.</p>	<p>Interim controls testing results were satisfactory.</p> <p>We carried out 'reliance on a management expert' work on the custodian and the actuary and concluded that we could place reliance on third parties.</p> <p>Analytical procedures on income and expenditure, sample checking of pension contributions and confirmation of investment</p>

Audit risk	Assurance procedure	Results and conclusions
<p>The Fund receives a significant amount of income from third party sources. This presents a risk due to the extent and complexity of income.</p> <p>The Fund also makes a high volume of payments, including high value payments, which can constitute a risk of misstatement of expenditure.</p>	<p>Analytical procedures on income and expenditure streams.</p> <p>Agree income to third party confirmation.</p> <p>Substantive testing of expenditure.</p> <p>Evaluation of progress in relation to the 2018/19 National Fraud Initiative.</p>	<p>income did not identify any issues.</p> <p>We found no evidence of fraud over income or expenditure.</p>

4 Estimation and judgements

There is a significant degree of subjectivity in the measurement and valuation of investments and the actuarial valuation.

Investments include level 3 investments such as unquoted equity, where valuations involve application of judgement in determining appropriate amounts.

The actuarial valuation depends on a number of assumptions about the future. These include investment returns, contribution rates, commutation assumptions, pensioner mortality, discount rates and earning assumptions.

This subjectivity entails a risk of misstatement in the financial statements.

Completion of 'review of the work of an expert' in accordance with ISA 500, for significant unquoted investments.

Confirmation of valuations to valuation reports and/ or other supporting documentation.

Completion of 'review of the work of an expert' in accordance with ISA 500, for the work of the actuary.

Consideration of the report by the consulting actuary to Audit Scotland on actuarial assumptions in use in 2018/19.

We carried out 'reliance on a management expert' work on the custodian and the actuary. This included review of the PwC report on actuarial assumptions. We concluded that we could place reliance on the custodian and the actuary.

The draft accounts were amended to reflect the Private Equity level 3 investment valuations which were available in August 2019. We substantively checked all valuations to fund manager reports.

Risks identified from the auditor's wider responsibility under the Code of Audit Practice

5 Training and Development

Pension Funds are complex in nature and as such it is important that members of the Pensions Committee and Pension Board obtain sufficient training to carry out their role effectively.

The Fund's Training Policy requires each Committee and Board member to receive at least 2 days of training each year, but this is not always achieved by all members. Two Pension Board members did not meet this requirement last year.

Review training logs.

Review Pension Board minutes of 7 June for discussion/ decisions on this matter.

2 Pension Board and 2 Pensions Committee members did not meet the training requirement in 2018/19, as disclosed in the Management Commentary of the Annual Report and Accounts.

Refer Appendix 1, Action Plan no. 2 above.

Appendix 3

Summary of national performance reports 2018/19

		 2018/19 Reports	
Local government in Scotland: Challenges and performance 2018		Apr	
Councils' use of arm's-length organisations		May	 Scottish Fire and Rescue Service: an update
Scotland's colleges 2018		Jun	
		Jul	 The National Fraud Initiative in Scotland 2016/17
Forth Replacement Crossing		Aug	 Major project and procurement lessons
Children and young people's mental health		Sept	 Superfast broadband for Scotland: further progress update
NHS in Scotland 2018		Oct	
Health and social care integration: update on progress		Nov	 Local government in Scotland: Financial overview 2017/18
		Dec	
		Jan	
		Feb	
		Mar	 Local government in Scotland: Challenges and performance 2019

Reports of relevant interest

[Local government in Scotland: Challenges and performance 2018](#) – April 2018

[Councils' use of arm's-length organisations](#) – May 2018

[Local government in Scotland: Financial overview 2017/18](#) – November 2018

[Local government in Scotland: Challenges and performance 2019](#) – March 2019

North East Scotland Pension Fund

2018/19 Annual Audit Report – DRAFT

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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	13 SEPTEMBER 2019
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	BUDGET/FORECAST 2019/20
REPORT NUMBER	PC/SEPT19/BUD
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	MICHAEL SCROGGIE
TERMS OF REFERENCE	PENSIONS COMMITTEE 1.3

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to give the Pensions Committee details of the Management Expenses Budget/Forecast 2019/20 for the North East Scotland Pension Fund (NESPF).

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Approve the NESPF Management Expenses Budget/Forecast 2019/20, shown in Appendix I.
- 2.2 Note the work planned in preparation for the Management Expenses Budget/Forecast 2020/21.

3. BACKGROUND/MAIN ISSUES

3.1 BUDGET/FORECAST 2019/20

- 3.1.1 Appendix I shows the Council's Budget for 2019/20 for the NESPF. The re-alignment of cost headings follows guidance issued by the Chartered Institute

of Public Finance and Accountancy (CIPFA) for Pension Funds. Additional NESPF budget is added for costs outwith the Council's Budget and for those costs directly paid for by the Fund.

- 3.1.2 Administrative Expenses – all staff costs of the pension administration team are charged direct to the Fund quarterly. Associated management, accommodation and other overheads are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.3 Oversight and Governance Expenses – all staff costs associated with oversight and governance are charged direct to the Fund quarterly. Associated management costs are apportioned to this activity and charged annually as expenses to the Fund.
- 3.1.4 Investment Management Expenses – Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or decrease as the market value of these investments change. Fund Managers charge their fees quarterly in arrears. In addition, the Fund has negotiated performance related fees with a few of its investment managers. If applicable, performance fees are charged annually at the year end. The unpredictability of market forces for these elements makes forecasting extremely difficult with any degree of accuracy.
- 3.1.5 The Chartered Institute of Public Finance and Accountancy (CIPFA) has reviewed and revised their guidance to Pension Funds on Accounting for Scheme Management Costs. As a result, the Fund no longer accounts for indirect limited partnership fees.
- 3.1.6 Transaction Costs and Direct Property Expenses are included within the section 'Investment Management Expenses'. Other Investment related expenses (e.g. investment advice and litigation, etc) are included within the section 'Oversight & Governance Expenses'.

3.2 GOVERNANCE

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

3.3 BUDGET/FORECAST 2020/21

- 3.3.1 Although all the Pension Fund costs are paid for by the Fund, avoiding complacency and ensuring value for money remain key drivers for making savings within the Scheme. Therefore, it is important that the Fund scrutinise and understand the costs of administering the Pension Fund and explore the opportunities for any savings.

3.3.2 For the latter part of 2019, the management team are planning a cost scrutiny exercise. A breakdown of key accounting headings will be identified with the aim of developing a more robust Budget/Forecast 2020/21, as a result.

4. FINANCIAL IMPLICATIONS

4.1 All Pension Fund costs are paid for by the Fund.

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

7. OUTCOMES

7.1 This report does not impact either the Local Outcome Improvement Plan or the Targeting Operating Model.

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

North East Scotland Pension Fund (NESPF) Annual Report & Accounts (2018/19) and Fund Governance Policy Statement

10. APPENDICES

Appendix I, Budget/Forecast 2019/20

11. REPORT AUTHOR CONTACT DETAILS

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Accounting Manager
MScroggie@nespf.org.uk
01224 264178

Appendix I – 2019/20 BUDGET/FORECAST

The Budget/Forecast for the NESPF is shown below:

	Notes	ACC Full Year Budget 2019-20 £'000	Additional Budget £'000	NESPF Full Year Budget 2019-20 £'000
Administrative Staff Costs		1,342	10	1,352
Information Technology		24	438	462
Supplies & Services		51	56	107
Accommodation		92	0	92
Printing & Publications		13	10	23
Administration Expenses Total		1,522	514	2,036
Investment Staff Costs		204	32	236
Pension Committee		2	11	13
Pension Board		2	2	4
External Audit Fee		0	41	41
Internal Audit Fee		10	0	10
Actuarial Fees		0	130	130
General Expenses		0	167	167
Oversight & Governance Expenses Total		218	383	601
Investment Management Fees		0	11,380	11,380
Performance Fees		0	6,524	6,524
Direct Operating Property Expenses		0	534	534
Transaction Costs		0	1,507	1,507
Custody Fees		0	138	138
Investment Management Expenses Total		0	20,083	20,083
Management Expenses Grand Total		1,740	20,980	22,720

Important to Note

Appendix 1 is a forecast of costs for Investment Management Expenses rather than a traditional budget. This is due to the level of estimation involved and the extent of the unknown, especially given that Investment Management and Performance Fees are based upon an unpredictable Market Value. This terminology has been adopted following discussions with the CIPFA Pensions Network.

ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	13 SEPTEMBER 2019
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	CONSIDERATION AND SIGNING OF AUDITED ANNUAL REPORT AND ACCOUNTS
REPORT NUMBER	PC/SEPT19/ARA
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS
TERMS OF REFERENCE	PENSIONS COMMITTEE 3.1

1. PURPOSE OF REPORT

- 1.1 To provide the Audited Annual Report and Accounts for the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACCTF) for consideration and signing.

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Consider and approve the Audited Annual Report and Accounts for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund; and
- 2.2 Instruct the Chief Officer - Finance as the Local Government (Scotland) Act 1973 - Section 95 Officer to sign the accounts on behalf of the Funds.

3. BACKGROUND

- 3.1 Further to The Local Authority Accounts (Scotland) Regulations 2014 the audited Annual Report and Accounts for the North East Scotland Pension Fund

and the Aberdeen City Council Transport Fund are presented to Committee for their consideration and approval.

Appendix I, North East Scotland Pension Fund and the Aberdeen City Council Transport Fund 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 The Local Authority Accounts (Scotland) Regulations 2014 require the accounts to be approved no later than 30th 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 Funds, that officer is the Chief Officer - Finance of Aberdeen City Council.

6. MANAGEMENT OF RISK

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

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

Assessment	Outcome
Equality & Human Rights Impact Assessment	Not required

Data Protection Impact Assessment	Not required
Duty of Due Regard / Fairer Scotland Duty	Not applicable

9. BACKGROUND PAPERS

None

10. APPENDICES

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

11. REPORT AUTHOR CONTACT DETAILS

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North East Scotland **PENSION FUND**

ANNUAL REPORT & ACCOUNTS

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

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



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Foreword

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

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

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

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

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

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

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

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

Councillor M Tauqeer Malik
Pensions Committee Convener

Management Commentary

1. About the North East Scotland Pension Funds

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

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

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

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

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

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

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

2. Administration 2018/19

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

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

3. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

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

Membership 2018/19

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

Meeting Attendance in 2018/19

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

*Substitute: Cllr Jenny Laing

Pension Board

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

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

Membership 2018/19

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

Meeting Attendance in 2018/19

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

Apart from the Pension Board's Annual Meeting, the Board sits at the same time as the Pensions Committee. For each meeting, both the Board and the Committee receive the same reports. These reports include information on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

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

An Annual Report which reviews the activity of the Pension Board can be viewed on our website at www.nespf.org.uk

Conflicts of Interest

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

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

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

- a member can withdraw from the discussion and decision making process;
- the Pension Board can establish a sub-board to review the issue (where the terms of reference give the power to do so); or

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

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

Committee and Board Training 2018/19

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

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

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

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

Training Topics

10 September 2018

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

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

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

14 September 2018

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

23 – 24 October 2018

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

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

10 – 11 January 2019

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

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

4. Administration and Performance

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

Going Digital

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

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

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

Pension Administration Strategy

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

NESPF processing performance

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

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

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

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

Employer data provision

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

Updates from I-Connect	2016/17	2017/18	2018/19
Starters	4,029	4,415	4,852
Amendments	12,430	30,314	31,543
Leavers	3,256	3,345	4,352
Contributions (employee, employer and additional)	184,205	261,380	310,983
Salary	178,650	259,913	308,978
CARE pay	176,274	251,773	299,746
Total Updates	558,844	811,140	960,454

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

Employer discretions

Employers must make certain decisions in relation to how they apply several LGPS Regulations. For example, employers must decide whether to or not waive reductions for members taking their pension early. Under Regulation 58 of the LGPS (Scotland) Regulations 2018 employers must have a Discretions Policy which details how the employer will apply these regulations to their members to ensure equality and consistency in their application.

As at 31 March 2019 a total of 43 employers have provided the Funds with a Discretions Policy.

Employer contacts

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

Data Quality

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

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

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

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

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

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

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

To protect the quality of data held on the pension administration system the Funds carried out work to ensure full compliance with the General Data Protection Regulation which came into force on 25 May 2018. A review of e-mail processing was carried out with changes made to working practices that complimented the Aberdeen City Council

policy. A new System Access policy was implemented as well as a Local Contingency Plan that delivered business continuity and met audit requirements.

CLASS commitment

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






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



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

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

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

5. Financial Performance

2018/19 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£142m	 Contributions Receivable	£2m
£141m	 Benefits Payable	£4m
£21m	 Management Expenses	£312k
£363m	 Net Return on Investments	£7m
£4,469m	 Net Assets of the Fund at the End of Year	£105m

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


2,122

Votes at AGMs




3

Award Nominations




960,454

Updates Processed



32.8

Staff Employed (FTE)



North East Scotland Pension Fund Financial Summary

	2014/15 £'000	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Deductions)*	(12,357)	(13,485)	(15,456)	(18,219)	(19,697)
Net Investment Income Change in Market Value Net Return on Investment	350,131	23,929	648,411	329,035	363,300
Net Increase in Fund	337,774	10,444	632,955	310,816	343,603
Fund Balance as at 31 March (Market Value)	3,171,349	3,181,793	3,814,748	4,125,564	4,469,167

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

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

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

Budget

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

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

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

Membership Statistics

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

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

Management Expenses

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

Unit Cost Per Member

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

Aberdeen City Council Transport Fund Financial Summary

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

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

Membership Statistics

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

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

Management Expenses

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

Unit Cost Per Member

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

Remuneration Report

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

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

6. Economic and Market Background

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

US

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

UK

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

Europe

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

Japan

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

Emerging Markets

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

Bonds

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

Property

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

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

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

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

7. NESPF Investment Strategy

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

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

The objective of the Investment Strategy is to deliver long term returns which are greater than the growth in expenditure to be paid out in pensions. The Investment Strategy is monitored on an ongoing basis by the Pensions Committee, focusing on long term policies with consideration given to short term tactical strategies.

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

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

Asset Structure 2018/19

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

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

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

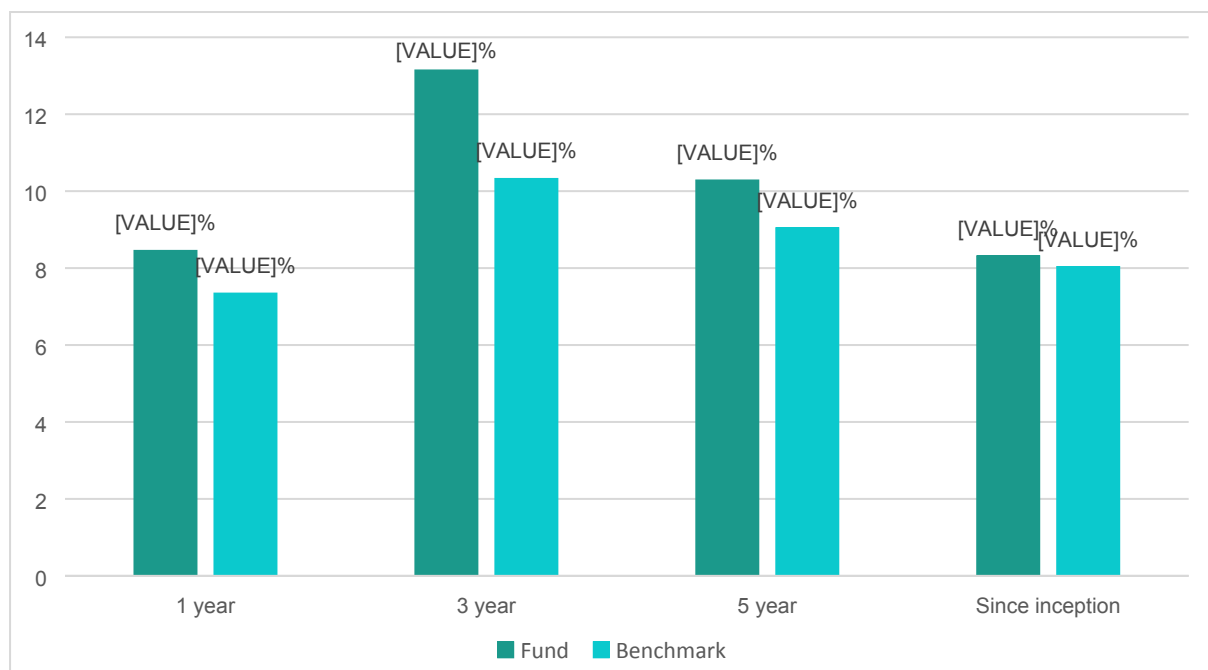
The NESPF continues to rebalance assets in line with its Investment Strategy, aiming to de-risk by reducing exposure to equities and increasing infrastructure, alternatives and credit opportunities.

North East Scotland Pension Fund Performance

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

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

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



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

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

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

*Source: Office of National Statistics

Investment Management Structure

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

8. ACCTF De-Risking Strategy and Performance

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

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

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

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

9. Risk

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

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

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

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

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

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

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified. The full Register is available on the website www.nespf.org.uk

10. Funding Strategy Statement

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

The purpose of the FSS is therefore:

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

The FSS is required as part of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments. As part of the 2017 actuarial valuation, the FSS for both the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund were reviewed, with employers consulted on the revised version.

Copies of the full statement are available at www.nespf.org.uk

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

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

The Funds' objective is to meet benefit liabilities as they fall due at a reasonable cost to participating employers, given that employee contributions are fixed. "Reasonable" in this context refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding - ratio of the value of assets to liabilities – and the assumptions underlying the actuarial valuation.

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

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

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

12. Corporate, Environmental and Social Governance

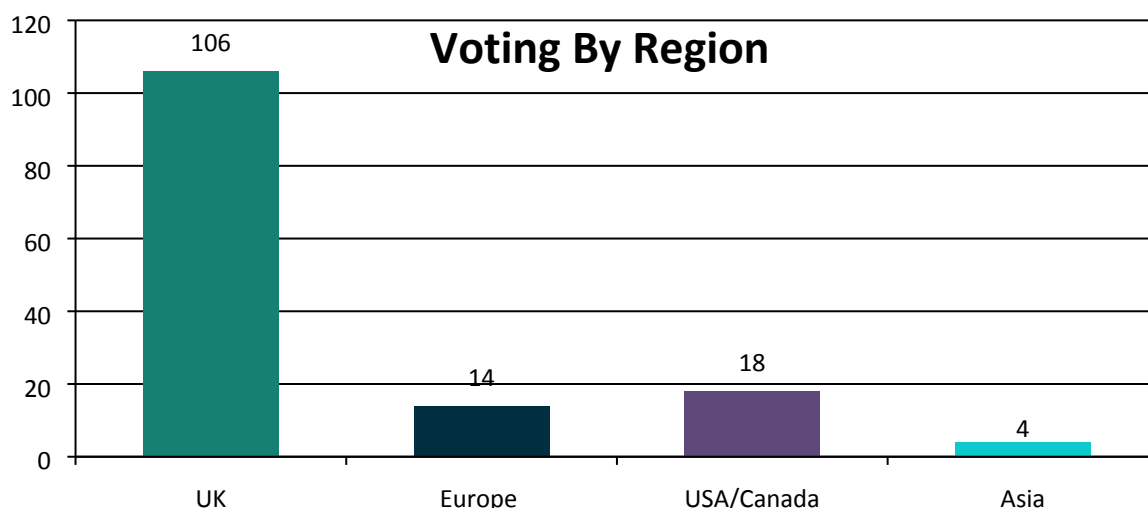
Good corporate governance is a vital element to effective corporate management leading to good management, performance and stewardship of shareholders' funds. The North East Scotland Pension Funds' commitment to this promotes accountability and reassurance to its stakeholders.

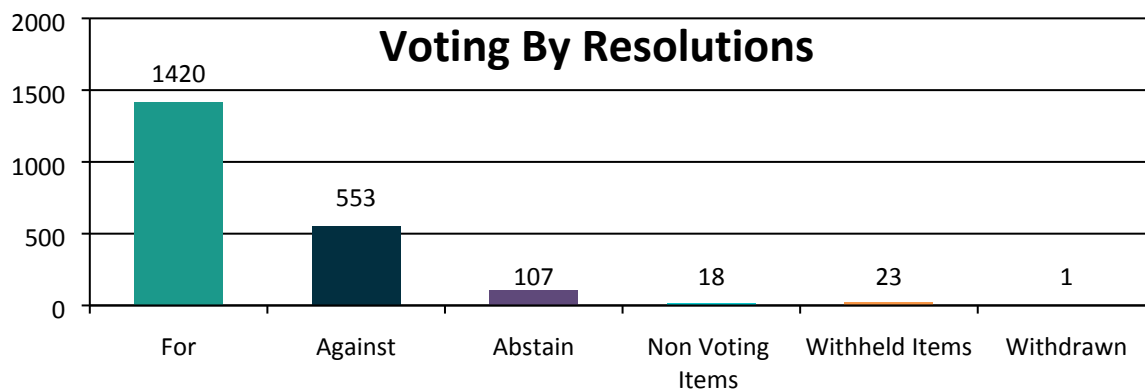
Voting

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

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

Further information on the Funds' voting record can be found on our website http://www.nespf.org.uk/TheFund/Investment/ResponsibleInvestment/Fund_Voting.aspx





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

Annual Reports

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

Share Issues/Re-purchase

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

Election of Directors

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

Engagement

Local Authority Pension Fund Forum (LAPFF)

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

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

Environmental

Climate Change

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

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

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

Social Risk

Employment Standards

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

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

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

Governance

Diversity

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

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

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

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

Principles for Responsible Investment (PRI)

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

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

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

Throughout the year the Fund has added its name to:

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

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

Stewardship Code

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

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

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

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

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

13. Acknowledgement

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

Angela Scott **Jonathan Belford, CPFA** **Councillor M Tauqeer Malik**
Chief Executive **Chief Officer – Finance** **Pensions Committee Convener**

On behalf of Aberdeen City Council

13 September 2019

Statement of Responsibilities

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

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Chief Officer - Finance for Aberdeen City Council.
- Manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far as is compatible with the legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- Approve the Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 14 June 2019.

Signed on behalf of Aberdeen City Council

Councillor M Tauqeer Malik
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

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

The Chief Officer - Finance has also:

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

Financial Position:

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

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 13 September 2019

Annual Governance Statement

Scope of Responsibility

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

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

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Funds' affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk.

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

Purpose of the Governance Framework for North East Scotland Pension Funds

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds during 2018/19 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

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

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

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

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

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

Review of Effectiveness

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

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

Management Assurance

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

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

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

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

Assurance from Internal Audit

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

During 2018/19, internal audit focused on the Pension Funds' governance arrangements with the outcome being reported to the Pensions Committee during June 2019. No significant concerns were raised by internal audit or the Committee.

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

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

External Audit and Other External Scrutiny

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. In 2018/19, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement can be found on our website www.nespf.org.uk.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds. The annual review demonstrates that the governance and internal control environment operated effectively during the 2018/19 financial year. On a quarterly basis, written updates regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Jonathan Belford, CPFA
Chief Officer – Finance

Councillor M Tauqeer Malik
Pensions Committee Convenor

On behalf of Aberdeen City Council

13 September 2019

Governance Compliance Statement

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

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 as per the Scheme Governance Compliance Statement
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	
c) That the Administering Authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	
5.) Meetings (frequency /quorum)	
a) That an Administering Authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Compliance Statement
b) That an Administering Authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	
c) That an Administering Authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.	
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 main committee.	Fully compliant as per the Scheme Governance Compliance Statement
7. Scope	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant as per the Scheme Governance Compliance Statement
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 as per the Scheme Governance Compliance Statement

Accounting Policies

The North East Scotland Pension Funds' Accounts have been prepared in accordance with the Code of Practice on local authority accounting in the UK (the Code).

The Annual Accounts summarise the Funds' transactions for the 2018/19 financial year and its position at year end as at 31 March 2019.

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

The Funds' Annual Accounts are generally prepared on an accruals basis.

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £6,146,372 in 2018/19 (2017/18 £5,032,863).

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

Financial Assets

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

Valuation of Investments

All investments are valued at their market value at 31 March 2019 and are determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

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

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

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

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

Additional Voluntary Contributions

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

Critical Judgments in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2019 was £323,345,002 (31 March 2018 £232,460,096).

Actuarial Present Value of Promised Retirement Benefits

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

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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

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

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

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2019

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

	Notes	2017/18 £'000	2018/19 £'000
Contributions Receivable			
Employees' Contributions	2	29,533	30,242
Employers' Contributions	2	105,124	108,618
Transfer Values	3	3,371	2,905
Other Income		4	6
		138,032	141,771
Benefits Payable			
Retirement Pensions	4	99,288	106,572
Retirement Allowances	4	26,184	25,574
Death Gratuities	4	4,646	4,061
Contributions Refunded	5	563	598
Transfer Values	5	4,373	3,890
		135,054	140,695
Management Expenses	6	21,197	20,773
Return on Investment			
Investment Income	7	52,770	54,805
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	276,265	308,495
Net Return on Investments		329,035	363,300
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		310,816	343,603
Opening Net Assets of the Fund		3,814,748	4,125,564
Net Assets of the Fund at the end of the year		4,125,564	4,469,167

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2019

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

	Notes	2017/18	2018/19
		£'000	£'000
Investment Assets			
UK Equities		734,875	766,975
Overseas Equities		819,078	921,354
Pooled Vehicles - Other		1,855,823	1,849,246
Pooled Infrastructure		88,899	130,600
Direct Property	13	293,045	328,025
Private Equity – Other		232,461	280,903
Private Debt		0	18,428
Funds held by Investment Managers		90,704	71,971
ACC Loans Fund Deposit	19	22,780	106,700
Investment Income Due*		0	5,799
Investment Sales Amount Receivable*		0	664
Total Investment Assets		4,137,665	4,480,665
Investment Liabilities			
Investment Purchases Amount Payable*		0	(890)
Net Investment Assets		4,137,665	4,479,775
Long Term Assets	18a	33	0
Current Assets	18b	14,824	16,026
Current Liabilities	18c	(26,958)	(26,634)
Net Current Assets/(Liabilities)		(12,134)	(10,608)
Net Assets of the Fund at the end of the year		4,125,564	4,469,167

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

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 13 September 2019

The unaudited accounts were authorised on 14 June 2019 and the audited accounts were authorised for issue by Jonathan Belford on 13 September 2019.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2019

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

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

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2019

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

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

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

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
Date: 13 September 2019

The unaudited accounts were issued on 14 June 2019 and the audited accounts were authorised for issue by Jonathan Belford on 13 September 2019.

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Actuarial Valuation Report

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

Information from the 2017 Actuarial Valuation is detailed below:

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

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities 107%

Achieving the Solvency Funding Target

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

The valuation determined that the average employer cost of providing members benefits across the Fund was 22.0% (the Primary contribution rate.) By spreading the surplus over 24 years the Secondary contribution rate for the whole Fund is -2.6% meaning that the average employer contribution rate is 19.4% of pensionable pay.

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

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2021. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

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

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

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £5,422m (2018 £4,892m). Included within the calculation for 2019 is an amount of £43 million by way of an estimate of the effect of the McCloud judgement. These figures are used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

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, including notes on the McCloud judgement, can be found in Appendix 1.

Note 2: Contributions Receivable

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

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

Note 3: Transfers in from other Pension Funds

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

Note 4: Benefits Payable

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

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

Note 5: Payment to and on Account of Leavers

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

Note 6: Management Expenses

	2017/18	2018/19
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,070	1,084
Information Technology*	333	366
Supplies & Services*	128	83
Accommodation*	88	79
Printing and Publications	19	22
Administration Expenses Total	1,638	1,634
Pension Fund Staffing Costs – Investment	189	159
Pension Fund Committee	12	12
Pension Board	3	1
External Audit Fee	39	39
Internal Audit Fee	9	8
Actuarial Fees	109	113
General Expenses	106	142
Oversight and Governance Expenses Total	467	474
Investment Management	10,997	10,721
Performance Fees	5,033	6,146
Direct Operating Property Expenses	259	186
Transaction Costs	2,679	1,477
Custody Fees	124	135
Investment Management Expenses Total	19,092	18,665
Management Expenses Grand Total	21,197	20,773

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

Analysis of Transaction Costs:

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

Note 7: Investment Income

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

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
UK Equities	734,875	170,380	(157,517)	19,237	766,975
Overseas Equities	819,078	105,501	(157,630)	154,405	921,354
Pooled Other	1,855,823	9,918	(96,768)	80,273	1,849,246
Pooled Infrastructure	88,899	39,576	(1,662)	3,787	130,600
Property	293,045	35,652	(4,323)	3,651	328,025
Private Equity	232,461	59,967	(58,780)	47,255	280,903
Private Debt	0	17,549	(94)	973	18,428
	4,024,181	438,543	(476,774)	309,581	4,295,531
Derivative Contracts					
FX Contracts	0	33,374	(32,288)	(1,086)	0
	4,024,181	471,917	(509,062)	308,495	4,295,531
Other					
Cash	113,484				178,671
Investment Income Due	0				5,799
Investment Sales Amount Receivable	0				664
Investment Purchases Amounts Payable	0				(890)
Net Investment Assets	4,137,665				4,479,775

Reconciliation of Movements in Investment and Derivatives (continued)

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

Note 9: Analysis of Investments

	2017/18	2018/19
	£'000	£'000
Equities		
UK		
Quoted	734,875	766,975
Overseas		
Quoted	819,078	921,354
Subtotal Equities	1,553,953	1,688,329
Pooled Funds (Other) – Additional Analysis		
UK		
Unit Trusts	849,394	872,300
Pooled Indexed Linked	251,551	202,644
Overseas		
Unit Trusts	636,218	652,004
Global Pooled Bonds	118,660	122,298
Subtotal Pooled Funds (Other)	1,855,823	1,849,246
Pooled Infrastructure - Quoted	88,899	106,586
Pooled Infrastructure - Unquoted	0	24,014
Subtotal Pooled Infrastructure	88,899	130,600
Property, Direct	293,045	328,025
Private Equity	232,461	280,903
Private Debt	0	18,428
Funds held by Investment Managers	90,704	71,971
ACC Loans Fund Deposit	22,780	106,700
Investment Income Due	0	5,799
Investment Sales Amount Receivable	0	664
Investment Assets Total	4,137,665	4,480,665
Investment Liabilities		
Investment Purchases Amounts Payable	0	(890)
Investment Liabilities Total	0	(890)
Net Investment Assets	4,137,665	4,479,775

Note 10: Analysis of Derivatives

Futures

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

Forward Foreign Currency

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

Note 11: Investments Analysed by Fund Manager

	31 March 2018	%	31 March 2019	%
	£'000		£'000	
Investment Assets				
State Street Global Advisors	1,420,631	34.4	1,403,222	31.3
Baillie Gifford	1,130,668	27.4	1,237,351	27.7
BlackRock Asset Management	465,188	11.3	500,158	11.2
BlackRock Diversified Growth Fund	157,367	3.8	162,322	3.6
Baring Asset Managers	(3)	0.0	(3)	0.0
AAM Property (API)	312,228	7.6	364,367	8.1
AAM Property Residential	8,136	0.2	7,963	0.2
HarbourVest	82,365	2.0	113,833	2.5
Standard Life	54,377	1.3	29,677	0.7
ACC Loans Fund Deposit	22,780	0.5	106,700	2.4
Global Custodian	15,758	0.4	18,818	0.4
Partners Group	52,313	1.3	57,569	1.3
Maven Capital	2,925	0.1	2,043	0.1
Capital Dynamics	15,003	0.4	26,118	0.6
RCP Advisors	7,289	0.2	16,078	0.4
Unigestion	11,808	0.3	30,495	0.7
Invesco Diversified Growth Fund	153,663	3.7	150,707	3.4
Russell Overlay	33,960	0.8	0	0.0
Russell Multi Asset Credit	101,831	2.5	103,035	2.3
Russell Transition	479	0.0	294	0.0
Aviva Infrastructure	88,899	2.1	106,586	2.4
Hermes Infrastructure	0	0.0	24,014	0.5
Alcentra (Clareant)	0	0.0	18,428	0.4
	4,137,665	100.3	4,479,775	100.2
Net Long and Current Assets				
Bank Account	19	0.0	19	0.0
Long Term and Current Debtors Less Creditors	(12,120)	(0.3)	(10,627)	(0.2)
Net Assets	4,125,564	100.0	4,469,167	100.0

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

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

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

Note 12: Stock Lending

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

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

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

Note 13: Property Holdings

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

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

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

		Restated	
	2017/18	2017/18	2018/19
	£'000	£'000	£'000
Within One Year	15,144	15,144	17,049
Between One Year and Five Years	55,604	53,508	59,748
Later than Five Years	98,560	83,784	100,571
Total	169,308	152,436	177,368

In accordance with IAS17, the above table has been presented using the 'break date' of the lease agreements. Historically, this has been calculated to the end of the leases. Therefore, the figures for 2017/18 have been restated accordingly.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosures have not been reduced by a credit loss allowance, as it was deemed not material.

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2018			31 March 2019			
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
1,553,953			Equities	1,688,329		
1,855,823			Pooled Other	1,849,246		
88,899			Pooled Infrastructure	130,600		
232,461			Private Equity	280,903		
0			Private Debt	18,428		
	113,484		Cash		178,671	
	0		Other Investment Balances		6,463	
	14,857		Debtors		16,026	
3,731,136	128,341		Subtotal	3,967,506	201,160	
			Financial Liabilities			
		0	Other Investment Balances			(890)
		(26,958)	Creditors			(26,634)
		(26,958)				(27,524)
3,731,136	128,341	(26,958)	Financial Instruments Total	3,967,506	201,160	(27,524)
			Non-Financial Instruments			
293,045			Property	328,025		
4,024,181	128,341	(26,958)		4,295,531	201,160	(27,524)
		4,125,564	Net Assets of the Fund			4,469,167

Note 15: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2018		31 March 2019
£'000	Financial Assets	£'000
265,280	Fair Value through Profit and Loss	304,844
	Financial Liabilities	
(150)	Fair Value through Profit and Loss	0
265,130	Net Gains and Losses on Financial Instruments	304,844
	Non-Financial Instruments	
11,135	Fair Value through Profit and Loss	3,651
276,265	Net Gains and Losses of the Fund	308,495

Note 16: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 16a: Fair Value – Basis of Valuation

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

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

		in accordance with the <i>RICS Valuation Professional Standard</i>	existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2018)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows and by any differences between (un)audited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,644,161		323,345	3,967,506
Non-Financial Assets at Fair Value through Profit and Loss		328,025		328,025
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	3,644,161	328,025	323,345	4,295,531

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	3,498,675	0	232,461	3,731,136
Non-Financial Assets at Fair Value through Profit and Loss	0	293,045	0	293,045
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	3,498,675	293,045	232,461	4,024,181

Note 16b: Transfers between Levels 1 and 2

There were no transfers between levels 1 and 2.

Note 16c: Reconciliation of Fair Value Measurements within Level 3

2018/19	Market Value 1 April 2018	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000	£'000
Pooled Infrastructure	0	25,154	(753)	753	(1,140)	24,014
Private Equity	232,461	59,967	(58,780)	17,661	29,594	280,903
Private Debt	0	17,549	(94)	94	879	18,428
Total	232,461	102,670	(59,627)	18,508	29,333	323,345

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

Note 16d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2019.

	Assessed Valuation Range (+/-)	Value at 31 March 2019	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Pooled Infrastructure	13%	24,014	27,136	20,892
Private Equity	30%	280,903	365,174	196,632
Private Debt	30%	18,428	23,956	12,900
Total		323,345	416,266	230,4

Note 17: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2019/20 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Pooled Infrastructure	13.0%
Private Equity	30.0%
Private Debt	30.0%
Property	13.0%
Cash	1.0%

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

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

Asset Type	Value as at 31 March 2019	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	202,644	7.5	217,842	187,446
Overseas Bonds	225,333	7.5	242,233	208,433
UK Equities	1,326,246	16.0	1,538,445	1,114,047
Overseas Equities	1,470,324	20.5	1,771,740	1,168,908
Pooled – Diversified Growth Funds	313,028	12.5	352,157	273,899
Pooled – Infrastructure	130,600	13.0	147,578	113,622
Private Equity	280,903	30.0	365,174	196,632
Private Debt	18,428	30.0	23,956	12,900
Total	3,967,506		4,659,125	3,275,887

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	251,551	5.6	265,638	237,464
Overseas Bonds	220,491	5.6	232,838	208,144
UK Equities	1,273,241	16.0	1,476,960	1,069,522
Overseas Equities	1,353,465	20.5	1,630,925	1,076,005
Pooled – Diversified Growth Funds	311,028	12.0	348,351	273,705
Pooled Infrastructure	88,899	13.0	100,456	77,342
Private Equity	232,461	30.0	302,199	162,723
Total	3,731,136		4,357,367	3,104,905

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset Type	As at March 2018	As at 31 March 2019
	£'000	£'000
Cash and Cash Equivalents	113,484	178,671
Cash Balances	19	19
Fixed Interest Securities	472,041	427,977
Total	585,544	606,667

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,671	180,458	176,884
Cash Balances	19	19	19
Fixed Interest Securities	427,977	432,257	423,697
Total	606,667	612,734	600,600

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	113,484	114,619	112,349
Cash Balances	19	19	19
Fixed Interest Securities	472,041	476,761	467,321
Total	585,544	591,399	579,689

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous period end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Asset Value as at 31 March 2019
	£'000	£'000
Overseas Quoted Securities	819,078	921,354
Overseas Unquoted Securities	206,396	263,207
Overseas Unit Trusts	636,218	652,004
Overseas Global Pooled Bonds	118,660	122,298
Total Overseas Assets	1,780,352	1,958,863

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Potential Market Movement	
		+10.2%	-10.2%
	£'000	£'000	£'000
Overseas Quoted Securities	921,354	1,015,332	827,376
Overseas Unquoted Securities	263,207	290,054	236,360
Overseas Unit Trust	652,004	718,508	585,500
Overseas Global Pooled Bonds	122,298	134,772	109,824
Total	1,958,863	2,158,666	1,759,060

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Potential Market Movement	
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Quoted Securities	819,078	914,091	724,065
Overseas Unquoted Securities	206,396	230,338	182,454
Overseas Unit Trust	636,218	710,019	562,417
Overseas Global Pooled Bonds	118,660	132,425	104,895
Total	1,780,352	1,986,873	1,573,831

Credit Risk

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

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

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2019 was

£178,690,000 (31 March 2018 £113,503,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2018 £'000	Balance as at 31 March 2019 £'000
Liquidity Funds			
HSBC Liquidity Funds	AAAm	0	31,856
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	22,780	106,700
BNP Paribas	AAAm	90,704	0
HSBC	AA-	0	40,115
Subtotal		113,484	178,671
Bank Current Accounts			
Clydesdale Bank	BBB+	19	19
Total		113,503	178,690

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2019 the value of illiquid assets was £651,370,002 which represented 14.2% of the total net assets of the Fund (31 March 2018 £525,505,096 which represented 12.7% of the total Fund assets).

Note 18a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	£'000
Termination Valuation	33	0
Total Long Term Assets	33	0

Note 18b: Current Assets

	31 March 2018	31 March 2019
	£'000	£'000
Employees' Contributions due	2,329	3,259
Employers' Contributions due	7,367	9,674
Sundry Debtors	5,109	3,074
Subtotal	14,805	16,007
Bank	19	19
Total Current Assets	14,824	16,026

Note 18c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry Creditors	19,245	18,002
Benefits Payable	7,713	8,632
Total Current Liabilities	26,958	26,634

Note 19: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Fund, the costs of which are reimbursed by the Fund.

The costs of these services for the North East Scotland Pension Fund amounted to £1,354,549 (2017/18 £1,388,413).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £106,700,000 (2017/18 £22,780,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £345,451 (2017/18 £36,330) for the North East Scotland Pension Fund.

Note 20: Key Management Personnel

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

		Accrued Pension 2017/18	Accrued Pension 2018/19
		£'000	£'000
Steven Whyte	Director of Resources	30	39
Jonathan Belford	Chief Officer - Finance	0	1

Governance

As at 31 March 2019, 9 members of the Pensions Committee and 6 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

In 2018/19, Elected Members' had interests in Sport Aberdeen, Aberdeen Performing Arts and Aberdeen International Youth Festival.

Note 21: Contractual Commitments as at 31 March 2019

As at 31 March 2019 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	195,695	48,579
Standard Life	45,753	17,054
Partners Group	87,033	24,437
Maven (SLF)	6,179	44
Capital Dynamics	60,000	36,440
RCP Advisors	34,534	17,229
Unigestion	56,011	32,886
AAM Residential Property	30,000	22,398
Hermes Infrastructure	100,000	74,846
Alcentra EDL	86,171	68,930
Total	701,376	342,843

Note 22: Additional Voluntary Contributions (AVC)

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

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables. Standard Life and the Prudential do not provide this information by Fund.

The amount of additional voluntary contributions paid by members during the year is shown as income in the table below:

2017/2018	Income (AVCs Paid by Members)	2018/2019
£'000		£'000
32	Standard Life	29
2,653	Prudential	2,730

The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation.

Market Value	Additional Voluntary Contributions	Market Value
31 March 2018		31 March 2019
£'000		£'000
1,580	Standard Life	1,473
25,267	Prudential	24,313

Note 23: Contingent Assets/Liabilities

Following a bond review in 2018 the North East Scotland Pension Fund hold two insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these Admission Bodies should they terminate their participation in the Scheme. These bonds are drawn up in favour of the Pension Fund and payment will only be triggered in the event of an employer default. The next bond review will be carried out by the Scheme Actuary following the completion of the 2020 valuation process.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total the Fund has secured guarantees for 24 Community Admission Bodies and Transferee Admission Bodies currently participating in the Scheme.

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMPs). Public service schemes are required to provide full Consumer Price Index (CPI) pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may extend this for

members reaching State Pension Age from 6 April 2021 onwards. Currently, the additional cost of extending GMP cannot be quantified.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pensions obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are imbedded within the Funding Strategy Statement. As at 31 March 2019 there are no participating employers in the process of terminating from the Fund.

Note 25: Investment Principles

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

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

Note 26: Critical Judgements in applying Accounting Policies

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

The items in the net statement at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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 1.
Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Private equity £281 million. Private Debt £18 million. Pooled Infrastructure (Unquoted) £24 million. There is a risk that these investments may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report.

Note 28: Agency Arrangement for Administering Compensatory 'Added' Years

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

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

	2017/18	2018/19
	£'000	£'000
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,317	2,360
Aberdeenshire Council	1,341	1,364
Moray Council	703	714
Scottish Water	1,261	1,276
Other	303	307
Total	5,925	6,021
Associated Payroll Cost	4	4

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the Transport Fund was provided as at 31 March 2017. Information from the 2017 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£100,000,000
Liabilities	£106,500,000
Deficit	£ 6,500,000

Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities 94%

Addressing the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (the funding target). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The average employer cost of providing member benefits (the Primary contribution rate) has been determined as 58.5% of pensionable pay. The Fund have agreed following a consultation with First Aberdeen Limited that the contribution requirement would be set as the same level as the previous valuation of 33% plus £1.5m per annum. This means that the payment towards the deficit will be around £1.1m allowing for the deficit to be recovered over 5 years.

Total Contribution Rate (as percentage of payroll)	2018/19	2019/20	2020/21
	33% plus £1,500,000	33% plus £1,500,000	33% plus £1,500,000

Within the FSS there is the option for the Fund to reassess the contribution requirement for First Aberdeen upon reaching a funding level of 105%.

Contribution requirements for the period from 1 April 2021 onwards will be revised as part of the next actuarial valuation as at 31 March 2020 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

Pre-retirement	1.6% p.a.
Assumed Long Term Price Inflation (CPI)	2.9% p.a.
Salary Increases – Long Term	3.4% p.a.
Salary Increases – Short Term	2.9% p.a. (to 31 March 2018)
Pension Increases in Payment	2.9% p.a.

The Transport Fund used the Attained Age method for the employing body First Aberdeen, to reflect that this Scheme was closed to new entrants from 31 March 1994.

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £80.9m (2018 £78.0m). Included within the calculation for 2019 is an amount of £0.2 million by way of an estimate of the effect of the McCloud judgement. These figures are used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

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, including notes on the McCloud judgement, can be found in Appendix 1.

Note 2: Contributions Receivable

	2017/18	2018/19
	£'000	£'000
Employees' Normal Contributions	100	72
Employer's Normal Contributions	528	385
Employer's Deficit Recovery Contributions	1,500	1,558
Total Employer's Contributions	2,028	1,943
Total	2,128	2,015

	2017/18	2018/19
	£'000	£'000
Scheduled Body	2,128	2,015
Total	2,128	2,015

Note 3: Benefits Payable

	2017/18	2018/19
	£'000	£'000
Pensions	3,210	3,243
Commutation and Lump Sum Retirement Benefits	914	337
Lump Sum Death Benefits	2	328
Total	4,126	3,908

	2017/18	2018/19
	£'000	£'000
Scheduled Body	4,126	3,908
Total	4,126	3,908

Note 4: Payment to and on Account of Leavers

There were no payments to and on Account of Leavers.

Note 5: Management Expenses

	2017/18	2018/19
	£'000	£'000
Pension Fund Staffing Costs – Administration	32	33
Information Technology*	10	11
Supplies and Services*	5	3
Accommodation*	3	2
Printing and Publications	1	1
Administration Expenses Total	51	50
Pension Fund Staffing Costs – Investment	6	5
Pension Fund Committee	1	0
External Audit Fee	1	1
Actuarial Fees	61	20
General Expenses	3	5
Oversight and Governance Expenses Total	72	31
Investment Management	825	212
Custody Fees	43	19
Investment Management Expenses Total	868	231
Management Expenses Grand Total	991	312

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

Note 6: Investment Income

	2017/18	2018/19
	£'000	£'000
Fixed Interest Securities	687	7
Pooled Investments	95	108
Interest on Cash Deposits	3	14
Other (including P/L from Currency & Derivatives)	27	(25)
Total	812	104
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Pooled	0	0
Total Tax	0	0
Net Total	812	104

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2018	Purchases	Sales	Change in Market Value	Market Value 31 March 2019
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	1,117	25,095	0	1,581	27,793
Pooled Investments	97,060	26,402	(52,714)	5,444	76,192
	98,177	51,497	(52,714)	7,025	103,985
Other					
Cash	1,621				4,321
Investment Income Due	0				3
Investment Sales Amount Receivable	0				918
Investment Purchases Amount Payable	0				(3,999)
Net Investment Assets	99,798				105,228

	Market Value 31 March 2017	Purchases	Sales	Change in Market Value	Market Value 31 March 2018
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	7,527	0	(6,313)	(97)	1,117
Pooled Investments	88,705	32,608	(26,312)	2,059	97,060
	96,232	32,608	(32,625)	1,962	98,177
Other					
Cash	3,638				1,621
Investment Income Due	0				0
Investment Sales Amount Receivable	0				0
Investment Purchases Amount Payable	0				0
Net Investment Assets	99,870				99,798

Note 8: Analysis of Investments

	2017/18	2018/19
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	1,117	27,793
Pooled Funds – Additional Analysis		
UK		
Fixed Income	38,126	28,569
Unit Trusts	25,629	25,750
Overseas		
Unit Trusts	33,305	21,873
Subtotal Pooled Funds	97,060	76,192
Cash Deposits	1,621	4,321
Investment Income Due	0	3
Investment Sales Amount Receivable	0	918
Investment Assets Total	99,798	109,227
Investment Liabilities		
Investment Purchases Amount Payable	0	(3,999)
Investment Liabilities Total	0	(3,999)
Net Investment Assets	99,798	105,228

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2018	%	31 March 2019	%
	£'000		£'000	
Schroders	99,627	99.8	105,000	99.8
ACC Loans Fund Deposit	171	0.2	228	0.2
Net Investment Assets	99,798	100.0	105,228	100.0

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

Security	Market Value 31 March 2018	% of Net Investment Assets	Market Value 31 March 2019	% of Net Investment Assets
	£'000		£'000	
Blackrock Asset Management UK Aquila Life Currency Work Ex UK Equity	15,768	15.8	6,286	6.0
SIF Diversified Completion CLS P Accumulation	10,584	10.6	10,556	10.0
Schroder Investment Management Lux Spec Sits STG Liquidity	5,540	5.6	3,032	2.9
Schroder Matching Plus Synthetic Index Linked Gilt Fund	8,352	8.4	339	0.3
SSGA Lux MG GL Treasury Bond Index GBP	11,645	11.7	11,984	11.4
Vanguard Investment series Global Stock Index FD-INST USD SHS	13,879	13.9	5,660	5.4
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,045	15.1	15,194	14.4
Schroder Pension Management Life Risk	0	0.0	8,393	8.0
Schroder Matching Plus Synthetic Index Linked Gilt FDI ACC	4,493	4.5	7,116	6.8
UK Gilt 0.125% IL 10/8/2048	0	0	10,149	9.6
UK Treasury 0.125% IL 22/3/2044	0	0	8,802	8.4
UK Treasury 0.125% IL 22/3/2058	0	0	6,175	5.9

Note 10: Stock Lending

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

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

There was no stock lending in operation as at 31 March 2019.

Note 11: Financial and Non-Financial Instruments

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

31 March 2018				31 March 2019		
Designated as Fair Value Through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value Through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
1,117			Fixed Interest	27,793		
97,060			Pooled	76,192		
	1,621		Cash		4,321	
	0		Other Investment Balances		921	
	638		Debtors		488	
98,177	2,259	0	Subtotal	103,985	5,730	0
			Financial Liabilities			
			Other Investment Balances			(3,999)
		(365)	Creditors			(416)
98,177	2,259	(365)		103,985	5,730	(4,415)
		100,071	Financial Instruments Total			105,300
0			Non-Financial Instruments	0		
98,177	2,259	(365)		103,985	5,730	(4,415)
		100,071	Net Assets of the Fund			105,300

Note 12: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2018		31 March 2019
£'000		£'000
	Financial Assets	
1,962	Fair Value through Profit and Loss	7,025
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,962	Net Gains and Losses on Financial Instruments	7,025
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
1,962	Net Gains and Losses of the Fund	7,025

Note 13: Valuation of Financial and Non-Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 13a: Fair Value – Basis of Valuation

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

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
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not required

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2019	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	103,985	0	0	103,985
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	103,985	0	0	103,985

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2018	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	98,177	0	0	98,177
Non-Financial Assets at Fair Value through Profit and Loss	0	0	0	0
Financial Liabilities at Fair Value through Profit and Loss	0	0	0	0
Net Investment Assets (Fair Value)	98,177	0	0	98,177

Note 13b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 13c: Reconciliation of Fair Value Measurements within Level 3

There are no Fair Value Measurements at Level 3 within the ACC Transport Fund. Therefore, no reconciliation is required.

Note 13d: Sensitivity of Assets Valued at Level 3

There are no assets valued at Level 3 within the ACC Transport Fund. Therefore, no sensitivity analysis is required.

Note 14: Risk arising from Financial and Non-Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Advisor, the Fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Funds	12.5%

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

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

Asset Type	Value as at 31 March 2019	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	56,362	7.5	60,589	52,135
UK Equities	15,194	16.0	17,625	12,763
Overseas Equities	21,873	20.5	26,357	17,389
Pooled – Diversified Growth Funds	10,556	12.5	11,876	9,236
Total	103,985		116,447	91,523

Asset Type	Value as at 31 March 2018	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
UK Bonds	39,243	5.6	41,441	37,045
UK Equities	15,045	16.0	17,452	12,638
Overseas Equities	33,305	20.5	40,132	26,478
Pooled – Diversified Growth Funds	10,584	12.0	11,854	9,314
Total	98,177		110,879	85,475

Interest Rate Risk

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

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

The Fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2019 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

Asset type	As at 31 March 2018	As at 31 March 2019
	£'000	£'000
Cash and Cash Equivalents	1,621	4,321
Cash Balances	1	1
Fixed Interest Securities	39,243	56,362
Total	40,865	60,684

Interest Rate Risk Sensitivity Analysis

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

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2019	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	4,321	4,364	4,278
Cash Balances	1	1	1
Fixed Interest Securities	56,362	56,926	55,798
Total	60,684	61,291	60,077

Exposure to Interest Rate Risk	Asset Values as at 31 March 2018	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	1,621	1,637	1,605
Cash Balances	1	1	1
Fixed Interest Securities	39,243	39,635	38,851
Total	40,865	41,273	40,457

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2019 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2018	Asset Value as at 31 March 2019
	£'000	£'000
Overseas Unit Trusts	33,305	21,873
Total Overseas Assets	33,305	21,873

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.2%.

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

A 10.2% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2019	Potential Market Movement	
		+10.2%	-10.2%
	£'000	£'000	£'000
Overseas Unit Trust	21,873	24,104	19,642
Total	21,873	24,104	19,642

Assets Exposed to Currency Risk	Asset Value as at 31 March 2018	Potential Market Movement	
		+11.6%	-11.6%
	£'000	£'000	£'000
Overseas Unit Trust	33,305	37,168	29,442
Total	33,305	37,168	29,442

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits

are made through the Funds' Global Custodian and are evaluated according to their internal criteria.

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

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits. The Fund's cash holding at 31 March 2019 was £4,322,000 and at 31 March 2018 £1,622,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2018	Balance as at 31 March 2019
		£'000	£'000
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	171	228
BNP Paribas	AAAm	1,450	0
HSBC	AA-	0	4,093
Subtotal		1,621	4,321
Bank Current Accounts			
Clydesdale Bank	BBB+	1	1
Total		1,622	4,322

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. There were no illiquid assets as at 31 March 2019 and 31 March 2018.

Note 15a: Long Term Assets

	31 March 2018	31 March 2019
	£'000	£'000
Lifetime Tax Allowance	324	296
Total Long Term Assets	324	296

Note 15b: Current Assets

	31 March 2018	31 March 2019
	£'000	£'000
Employees' Contributions due	2	1
Employer's Contributions due	11	5
Sundry Debtors	300	185
Subtotal	313	191
Bank	1	1
Total Current Assets	314	192

Note 15c: Current Liabilities

	31 March 2018	31 March 2019
	£'000	£'000
Sundry Creditors	232	132
Benefits Payable	133	284
Total Current Liabilities	365	416

Note 16: Related Party Transactions

Aberdeen City Council provides administration services for the Pension Funds, the costs of which are reimbursed by the Funds.

The cost of these services for the Aberdeen City Council Transport Fund was £41,893 (2017/18 - £42,941).

Prior to the remittance of excess cash to the investment fund managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £228,000 (2017/18 - £171,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,584 (2017/18 - £674) for the Aberdeen City Council Transport Fund.

Note 17: Contingent Assets/Liabilities

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990. This includes providing equal benefits accrued from that date to reflect the differences in Guaranteed Minimum Pensions (GMPs). Public service schemes are required to provide full Consumer Price Index (CPI) pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may extend this for members reaching State Pension Age from 6 April 2021 onwards. Currently, the additional cost of extending GMP cannot be quantified.

Note 18: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However, they are not members of the Aberdeen City Council Transport Fund.

Note 19: Investment Principles

A summary of the Statement of Investment Principles is available on the Pension Fund's website www.nespf.org.uk. A full version of the Statement of Investment Principles is available on request from Director of Resources, Aberdeen City Council, Resources, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 20: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2019 for which there is a significant risk of material adjustments in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

Note 21: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Chief Officer - Finance on 14 June 2019. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report.

Independent Auditor's Report

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

Report on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2019 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the 2018/19 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2018/19 Code of the financial transactions of the funds during the year ended 31 March 2019 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2018/19 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed under arrangements approved by the Accounts Commission on 10 April 2017. The period of total uninterrupted appointment is three years. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited

by the Ethical Standard were not provided to the council. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have nothing to report in respect of the following matters in relation to which the ISAs (UK) require me to report to you where:

- the use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Officer - Finance has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Risks of material misstatement

I have reported in a separate Annual Audit Report, which is available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my conclusions thereon.

Responsibilities of the Chief Officer - Finance and Aberdeen City Council Pensions Committee for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Officer - Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Chief Officer - Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the funds' ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The Aberdeen City Council Pensions Committee is responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually

or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website www.frc.org.uk/auditorsresponsibilities. This description forms part of my auditor's report.

Other information in the annual report

The Chief Officer - Finance is responsible for the other information in the annual report. The other information comprises the information other than the financial statements and my auditor's report thereon. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon except on matters prescribed by the Accounts Commission to the extent explicitly stated later in this report.

In connection with my audit of the financial statements, my responsibility is to read all the other information in the annual report and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If I identify such material inconsistencies or apparent material misstatements, I am required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

Report on other requirements

Opinions on matters prescribed by the Accounts Commission

In my opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

I am required by the Accounts Commission to report to you if, in my opinion:

- adequate accounting records have not been kept; or
- the financial statements are not in agreement with the accounting records; or
- I have not received all the information and explanations I require for my audit.

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual accounts, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

**Gillian Woolman MA FCA CPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN**

13 September 2019

Appendix 1 – Statement by the Consulting Actuary

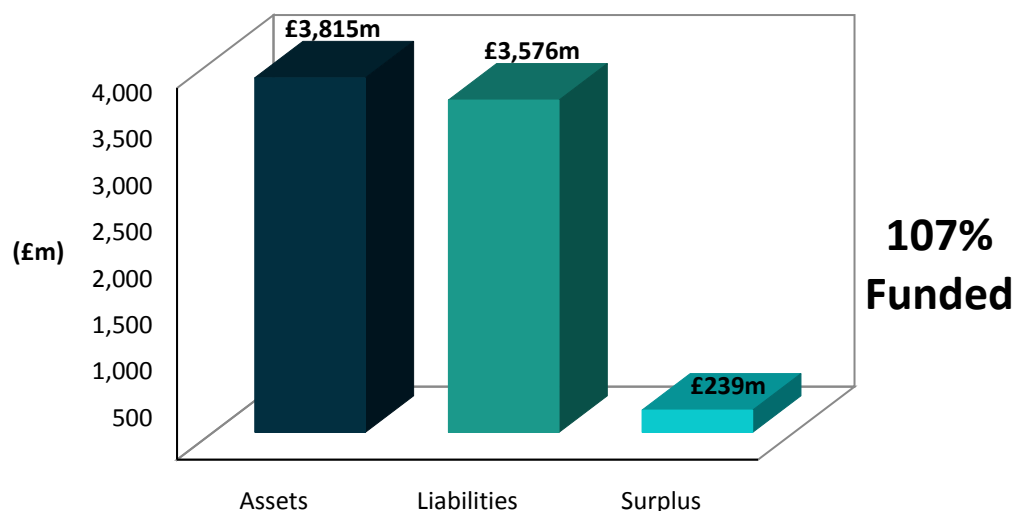
ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2019 - STATEMENT BY THE CONSULTING ACTUARY

This statement has been provided to meet the requirements under Regulation 55 (1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2014.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £3,815 million represented 107% of the Fund's past service liabilities of £3,576 million (the "Funding Target") at the valuation date. The surplus at the valuation was therefore £239 million.



The valuation also showed that a Primary contribution rate of 22.0% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and then maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a surplus exists at the effective date of the valuation a plan will be put in place which allows contribution offsets to refund any surplus.

The FSS sets out the process for determining the spread period in respect of each employer (or the recovery period for those employers with a deficit in the Fund). At this

actuarial valuation the average spread/recovery period adopted is approximately 24 years, and the total initial surplus reclaimed on a whole fund level (the “Secondary rate” for 2019/20) is approximately £12.8 million per annum.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

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

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

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

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	4.15% per annum
Rate of pay increases (long term)*	3.9% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.4% per annum

* allowance was also made for short-term public sector pay restraint over a 3-year period.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2021.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	3.6% per annum	3.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2%. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £4,892 million. Interest over the year increased the liabilities by c£128 million, and allowing for net benefits accrued/paid over the period then increased the liabilities by c£67 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £43 million by way of an estimate of the McCloud judgement (see note for further details). There was then an increase in liabilities of £292 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £5,422 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary's Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS in England and Wales as a whole, which are set out in their paper dated 10 June 2019. For the LGPS in England and Wales as a whole, GAD's calculations indicated a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. The 3.2% has been calculated for Funds in England and Wales and we would expect this to reduce for Scottish Funds to c2.6% (around 0.8% of overall liabilities). Applying this figure of 0.8% of overall liabilities to the North East Scotland Pension Fund, the increase in the estimated total value of the Fund's promised retirement benefits at 31 March 2019 is approximately £43 million.

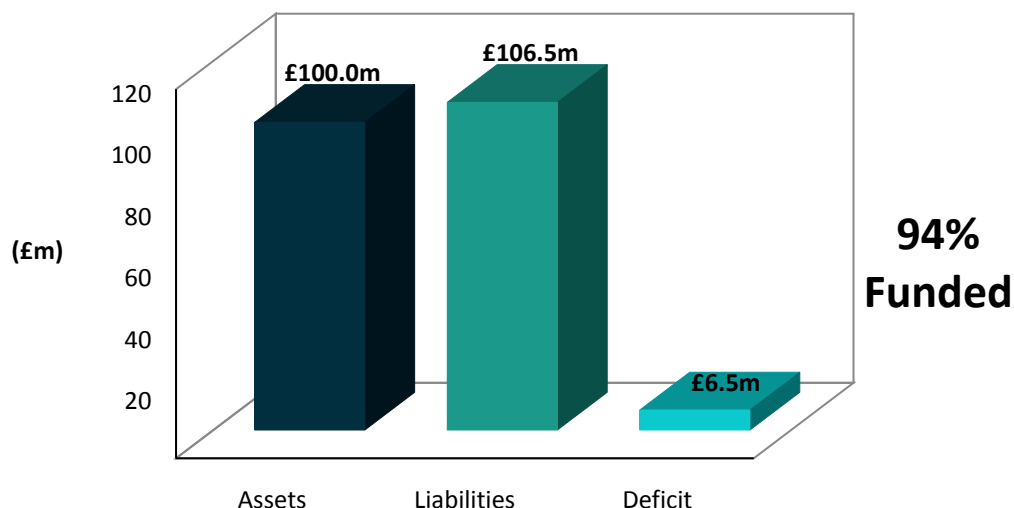
GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment", clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2017 to determine the contribution rates with effect from 1 April 2018 to 31 March 2021.

On the basis of the assumptions adopted, the Fund's assets of £100 million represented 94% of the Fund's past service liabilities of £106.5 million (the "Funding Target") at the valuation date. The deficit at the valuation was therefore £6.5 million.



The valuation also showed that a Primary contribution rate of 58.5% of pensionable pay per annum was required from the employer. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve a solvency funding level of 100% of liabilities (the solvency funding target) over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. In line with the FSS, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall.

The FSS sets out the process for determining the recovery plan. At this valuation, the Administering Authority and First Aberdeen Limited have agreed that First Aberdeen Limited will maintain the same level of current contributions as those agreed at the 2014 valuation which are 33% of pensionable pay plus £1.5m p.a. At present, therefore, part of the £1.5m annual payment is being used to finance the costs in relation to future service. This means that the amount to recover the shortfall is approximately £1.2m p.a. On this basis the deficit would be expected to be removed in about 5 years.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated 28 March 2018.

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

	For both past and future service liabilities (Funding Target and Primary rate of contribution)
Rate of return on investments (discount rate)	1.6% per annum
Rate of pay increases (short term)	2.9% per annum to 31 March 2018
Rate of pay increases (long term)	3.4% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.9% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.9% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2020. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2021.

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

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

To assess the value of the benefits on this basis, we have used the following financial assumptions as at 31 March 2019 (the 31 March 2018 assumptions are included for comparison):

	31 March 2018	31 March 2019
Rate of return on investments (discount rate)	2.6% per annum	2.4% per annum
Rate of pay increases*	2.6% per annum	2.7% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.3% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.2% per annum

* includes a corresponding allowance to that made in the latest formal actuarial valuation for short-term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes. Full details of these assumptions are set out in the formal report on the actuarial valuation dated 28 March 2018.

During the year, corporate bond yields decreased slightly, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.4% p.a. versus 2.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.2% p.a. Both of these factors served to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2018 was estimated as £78.0 million. Interest over the year increased the liabilities by c£2.0 million, though allowing for net benefits accrued/paid over the period then decreased the liabilities by c£3.4 million (after allowing for any increase in liabilities arising as a result of early retirements/augmentations). We have also included an amount of £0.2 million by way of an estimate of the effect of the McCloud judgement (see note below for further details). There was then a further increase in liabilities of £4.1 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used as shown in the table above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2019 is therefore £80.9 million.

The McCloud Case

In December 2018 the Court of Appeal ruled against the Government in the two linked cases of Sargeant and McCloud (which for the purposes of the LGPS has generally been shortened to "McCloud"), relating to the Firefighter unfunded pension schemes and the Judicial pension arrangements. In essence, the Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. The Government attempted to appeal the cases, but it was announced on 27 June 2019 that the appeal had been refused by the Supreme Court. Remedial action in the form of increases in benefits for some members of the Firefighter and Judicial arrangements will almost certainly be required. There may well also be knock-on effects for the other public service schemes, and the LGPS might therefore also be required to take some action. At this stage it is unclear what the extent of any potential remedial action might be.

Following a request from the LGPS Scheme Advisory Board, the Government Actuary's Department (GAD) has carried out some costings of the potential effect of McCloud on the LGPS in England and Wales as a whole, which are set out in their paper dated 10 June 2019. For the LGPS in England and Wales as a whole, GAD's calculations indicated a potential balance sheet effect of additional liabilities of about 3.2% of active member liabilities (around 1% of overall liabilities), when measured on IAS26 actuarial assumptions as at 31 March 2019 assuming real pay growth of 1.5% p.a. above CPI. The 3.2% has been calculated for Funds in England and Wales and we would expect this to reduce for Scottish Funds to c2.6%. Adjusting this further for the Fund's real pay growth of 0.5% above CPI would reduce the impact to c0.9% of active member liabilities (around 0.3% of the overall liabilities).

Applying this figure of 0.3% of overall liabilities to the Aberdeen City Council Transport Fund, the increase in the estimated total value of the Fund's promised retirement benefits at 31 March 2019 is approximately £0.2 million.

GMP Equalisation

UK and European law requires pension schemes to provide equal benefits to men and women in respect of service after 17 May 1990 (the date of the "Barber" judgment) and this includes providing equal benefits accrued from that date to reflect the differences in

GMPs. Previously, there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, which is why we will not have to change our method as a result of this judgment”, clearly implying that the Government (who have the overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes including the Local Government Pension Scheme is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment, at least at the present time, and so we have not made any allowance for any additional liabilities within the above figures at this stage. However, in due course there may be a further cost to the LGPS in connection with equalisation/indexation, when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
August 2019

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2018	New Admissions	Ceased	Employers as at 31 March 2019
Scheduled Bodies	11	0	0	11
Transferee Bodies	15	0	1	14
Admission Bodies	28	0	3	25
Total	54	0	4	50

Participating Employers as at 31 March 2019:

1.	Aberdeen City Council (Administering Authority)	Scheduled
2.	Aberdeenshire Council	Scheduled
3.	The Moray Council	Scheduled
4.	Scottish Water	Scheduled
5.	Grampian Valuation Joint Board	Scheduled
6.	Scottish Fire and Rescue Service	Scheduled
7.	Scottish Police Authority	Scheduled
8.	North East Scotland College	Scheduled
9.	Moray College	Scheduled
10.	Visit Scotland	Scheduled
11.	NESTRANS	Scheduled
12.	Robertson Facilities Management (Shire)	Transferee
13.	Bon Accord Care Ltd	Transferee
14.	Bon Accord Support Services Ltd	Transferee
15.	Aberdeen Heat & Power Ltd	Transferee
16.	Station House Media Unit	Transferee
17.	Aberdeen Sports Village	Transferee
18.	Sport Aberdeen	Transferee
19.	Robertson Facilities Management (City)	Transferee
20.	Forth & Oban Ltd	Transferee
21.	Alcohol and Drugs Action	Transferee
22.	Idverde UK	Transferee
23.	Citymoves Dance Agency	Transferee
24.	Xerox (UK) Ltd	Transferee
25.	Forth and Oban Ltd (Shire)	Transferee
26.	Aberdeen Endowments Trust	Admitted
27.	North East Sensory Services	Admitted
28.	Aberlour Child Care Trust	Admitted
29.	Fraserburgh Harbour Commissioners	Admitted
30.	Peterhead Port Authority	Admitted
31.	Robert Gordon University	Admitted
32.	Robert Gordon's College	Admitted
33.	Aberdeen Cyrenians	Admitted

34.	Mental Health Aberdeen	Admitted
35.	Fersands & Fountain Community Project	Admitted
36.	SCARF	Admitted
37.	Inspire (Partnership Through Life) Ltd	Admitted
38.	Archway	Admitted
39.	Middlefield Community Project	Admitted
40.	St Machar Parent Support Project	Admitted
41.	Printfield Community Project	Admitted
42.	HomeStart Aberdeen	Admitted
43.	Aberdeen Foyer	Admitted
44.	HomeStart NEA	Admitted
45.	Pathways	Admitted
46.	Outdoor Access Trust for Scotland	Admitted
47.	Osprey Housing	Admitted
48.	Aberdeen Performing Arts	Admitted
49.	Sanctuary Housing Association Ltd	Admitted
50.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled
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ABERDEEN CITY COUNCIL

COMMITTEE	PENSIONS COMMITTEE
DATE	13 SEPTEMBER 2019
EXEMPT	NO
CONFIDENTIAL	NO
REPORT TITLE	STRATEGY
REPORT NUMBER	PC/SEPT19/STRAT
DIRECTOR	STEVEN WHYTE
CHIEF OFFICER	JONATHAN BELFORD
REPORT AUTHOR	LAURA COLLISS & MAIRI SUTTIE
TERMS OF REFERENCE	PENSIONS COMMITTEE 1-5

1. PURPOSE OF REPORT

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

2. RECOMMENDATIONS

That the Committee: -

- 2.1 Review and approve changes made to the Investment Policy, to meet requirements set out in recent internal audit report AC1923, to document reporting requirements and management of underperforming fund managers (item 3.9.5);
- 2.2 Approve the amendments to the Pension Fund Authorised Signatory List as noted in Appendix II; and
- 2.3 Authorise the Chief Officer – Governance, following consultation with the Chief Officer – Finance, to make amendments to the Authorised Signatory List as required by changes in personnel subject to the positions as listed remaining the same.

3. BACKGROUND

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

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

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

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

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

3.5 INVESTMENT

3.5.1 *Asset & Investment Manager Performance Report*

Separate Report, provided

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

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

3.5.3 **Firstbus Merger/Buy-in – verbal update**

A progress update will be provided to the Committee on the Firstbus merger/buy-in (Project Dallas)

3.6 ACCOUNTING

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

Budget/Forecast 2019/20 Report

Separate Reports, provided

3.7 **BENEFIT ADMINISTRATION**

3.7.1 **McCloud Judgement**

3.7.1.1 The McCloud case concerned the transitional protections given to scheme members in the Judges and Firefighters schemes, who in 2012 were within 10 years of their Normal Retirement Age (NRA), as part of the public service pensions reform in 2015. Tapered protections were provided for those 3-4 years younger. On 20 December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

3.7.1.2 These transitional protections were applied to members within 10 years of NRA in all public service schemes, including the LGPS, although the form of the protections varied across the schemes. It's anticipated the outcome of the case will be accepted as applying to all public service schemes. Unlike other public service schemes the LGPS moved all members into the CARE scheme in 2015, regardless of their age. However those active members within 10 years of their 2009 scheme NRA on 31 March 2012 were protected via a 'statutory underpin'. Protected members who meet the criteria for the underpin to apply, will receive the better of their CARE pension or the pension calculated under 2009 scheme rules.

3.7.1.3 The Supreme Court denied the Government's request to appeal the McCloud/Sargeant ruling on 27 June 2019. The impact of this decision on the LGPS is currently unknown, but what it confirms is that the transitional pension protections afforded to older members of the Fire and Judiciary Scheme, as part of the 2015 pensions reforms, constituted unlawful age discrimination.

3.7.1.4 Given the ruling, those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. The matter has been referred back to the Employment Tribunal for a remedy but due to workload an outcome is not expected for some time. Further updates will be provided to Committee on the possible implications for the Scheme as they become available.

3.7.2 **LGPS Regulations**

3.7.2.1 The Scottish LGPS Fund's have been advised of further delays in the laying of the Local Government Pension Scheme (Scotland) Pensions Amendment (Increased Pension Entitlement) Regulations 2019. SPPA have provided assurances that they will be introduced by October 2019 (PC/MAR19/GMP).

3.7.2.2 The LGPS (Miscellaneous Amendments)(Scotland) Regulations 2019 came into force on 28 June 2019, with some amendments being back dated to 1 April 2015. These Regulations provide that the entitlement to retire after reaching the age of 55 also applies to deferred pensioner members and also amend the requirements for co-habiting partner pensions in the scheme. This information

was communicated to deferred members through the annual benefit statements letters and despite signposting to Member Self Service, the benefit administration team now have a large number of age 55 estimate requests to work through.

3.7.2.3 To correct two minor drafting errors in the above, the LGPS (Miscellaneous Amendments)(Scotland) Amendment Regulations 2019 also came into force on 28 June, with backdated effect to 1 June.

3.8 **TECHNICAL**

3.8.1 *Appendix I*, Pensions Administration Strategy Update

3.9 **GOVERNANCE**

3.9.1 **Scheme Advisory Board**

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

3.9.2 **Accommodation update**

Separate report, provided

3.9.3 **Pension Fund Annual Benefit Statements**

3.9.3.1 The North East Scotland Pension Fund has a statutory requirement to issue all active and deferred members with annual benefit statement information by 31 August each year.

3.9.3.2 In line with our move towards digital communication, deferred benefit statements moved online last year (17/18) and active benefit statements followed this year (18/19). Paper statements are no longer posted out to members unless they contact the Fund to 'opt in' to continue to receive paper copies. To meet disclosure requirements, letters were sent out to deferred members to provide 'activation keys' for those members not already registered with My Pension (MSS online facility) or to advise their statement is now available online. As at June 2019, 5,476 deferred members were registered for MSS.

3.9.3.3 Benefit Statement data was generated against 17,925 deferred records, with no reported errors, and letters subsequently issued to members on 12 July. In addition, paper statements were issued on request to approximately 350 deferred members from 16 July.

3.9.3.4 During last year's exercise, we identified an issue with 'gone away' deferred members. 'Gone Away's' are members for whom we no longer hold an up to date address on the administration system (approximately 1,141 unique members). Committee approved a Data Quality Improvement Plan' in March

2019 (PC/MAR19/STRAT) which included address tracing. In line with this plan, a bulk tracing exercise for all gone away members will be carried out every three years using an external tracing provider. In addition, a mortality check will be carried out against 'gone away's' annually using the National Fraud Initiative and ATMOS Data Services on alternate years to identify any deceased members. For any 'gone away' deferred members reaching age 55, an individual trace will be carried out through the DWP tracing service. These members will be identified through monthly reports.

3.9.3.5 A final update on the active member statements will be provided to the next meeting. However these are on course to be generated early August, with notification/activation key letters to members following mid month by post.

3.9.4 Pension Fund staffing Update

3.9.4.1 Following a successful external recruitment process, an Assistant Pensions Officer joined the employer relationship team in June, bringing the team up to full complement.

3.9.4.2 Interviews for a new Trainee Pensions Officer-Benefit Administration were also carried out at the end of June. A preferred candidate was selected and will be taking up position on 12 August.

3.9.4.3 In terms of the 4 new posts approved by Committee in March 2019 (PC/MAR19/STRAT), work is ongoing to finalise the business cases and update staff job profiles to progress with the recruitment process.

3.9.5 Document Review

The Investment Policy document has been updated (see section 'Monitoring and Review') to address recommendations made by Internal Audit in their recent Governance Report (IA/AC1923) which was taken to the June Committee meeting, specifically 2.5.1 and 2.5.2 on performance reporting and underperformance by fund managers.

A copy is available on the secure trustee area of the NESPF website at <http://www.nespf.org.uk/TheFund/Governance/fundgovernance.aspx>

3.9.6 Authorised Signatory List

An amendment to the signatory list is attached at Appendix II for approval, to take effect from 1 October 2019.

The signatory list has been amended to account for changes in personnel within Legal Services. As some of these changes are on an interim basis, it is recommended that the Committee authorise the Chief Officer – Governance, following consultation with the Chief Officer – Finance, to make future amendments to the Authorised Signatory List as required by future changes to the personnel on the list as long as the job positions remain the same.

3.10 EMPLOYER RELATIONSHIP

3.10.1 Year end process

3.10.1.1 All Scheme employers are required to submit an annual year end data return by 30 April. The year end process for 2018/19 was completed in just 23 days (down from 32 days in 2017/18).

3.10.1.2 The Fund continues to expand its online data exchange services, with all employers required to submit electronic monthly submissions. Monthly processing has a number of benefits for the Fund, one of which is significantly reducing time and resource drain at 'year end time'. To provide a more accurate overall picture, going forward, the employer relationship team will now record reconciliation time on a monthly basis.

3.11 Employer Discretions

3.11.1 Following enactment of the LGPS (Scotland) Amendment Regulations, the Fund will be prompting the administering authority and scheme employers to review their current discretions policies. An update will be provided to a future meeting.

3.11.2 As per regulation 58, a scheme employer must prepare a written statement of its policy in relation to the exercise of its functions under regulations 16(2)(e) and 16(4)(d) (Funding of Additional Pension), 29(7)(Flexible Retirement), 29(9) Waiving of Actuarial Reduction) and 30 (Award of Additional Pension). In addition, there are number of discretions applicable to Aberdeen City Council as the administering authority of the Pension Fund.

3.11.3 Under the LGPS (Scotland) Regulations, the scheme employer must provide a copy of their discretions policy to the Fund by 1st April 2015. NESPF currently hold 85% of policies for our scheme employers. A body required to prepare such a statement must keep its statement under review and following revision, send a copy to the administering authority.

3.12 Procurement of Actuarial Services

Separate report, provided

4. FINANCIAL IMPLICATIONS

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

5. LEGAL IMPLICATIONS

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

6. MANAGEMENT OF RISK

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

Appendix III, Copy of Risk Register (August 2019)

7. OUTCOMES

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

8. IMPACT ASSESSMENTS

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

9. BACKGROUND PAPERS

None

10. APPENDICES

Appendix I, PAS Update Quarter 1 Report 2019/20
Appendix II, Amendment to Authorised Signatory List

Appendix III, Copy of Risk Register (August 2019)

11. REPORT AUTHOR CONTACT DETAILS

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Pension Administration Strategy



Quarterly Reporting | June 2019

1. NESPF performance to 30 June

1.1 Key administration tasks

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

Administration Task	Target	Amount	Achieved	Percentage
Notification of death in service	5 days	8	8	100%
Notification of retirement estimate	10 days	318	318	100%
Notification of retirement benefits	10 days	499	477	96%
Notification of deferred benefits	10 days	289	270	94%
Notification of refund	10 days	163	127	78%
Notification of transfer in value	10 days	18	14	78%
Notification of transfer out value	10 days	105	89	85%

1.2 Previous years comparison



2. Employer performance to 30 June

2.1 Policy on discretions received (85%)

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

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

2.2 Signed PLO statements received (46%)

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

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

2.3 Quantity of data received (200,310)

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

I-Connect events processed	Total
Starters (new start and opt in)	1192
Amendments (address, personal details, hours and absence)	5326
Leavers (exit and opt out)	971
Contributions (employee, employer and additional)	65341
Salary	64049
Cumulative CARE pay	61855
Works address	1576

2.4 Quality of data received

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

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

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

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

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



TO WHOM IT MAY CONCERN

1 October 2019

Amendments to the Authorised Signatory List dated 1st April 2018 for the Aberdeen City Council Pension Fund (known as the North East Scotland Pension Fund)

Please accept this letter as confirmation that the following are each authorised signatories for and on behalf of the Aberdeen City Council Pension Fund. Please also see below for a sample of their signatures and accept this as authorisation to make the above additions and undernoted deletions to the existing signatory list for Aberdeen City Council Pension Fund dated 1st April 2018

NAME AND POSITION	SIGNATURE
Jennifer Wilson Legal Services Manager (Interim)	
Alexander Munro Team Leader – Licensing (Interim)	
Sharon Wares Team Leader - Property	
Alan Thomson Team Leader – Planning and Environment (Interim)	

The undernoted are to be deleted from the Authorised Signatory List:

- Jennifer Wilson (now Legal Service Manager (Interim)).
- Jackie Buchanan
- Elena Carlisle
- Fiona Closs
- Craig Veitch
- Alison Watson

Yours truly

.....
Authorised Signatory

.....
Authorised Signatory

Aberdeen City Council,
Marischal College,
Broad Street,
Aberdeen.
AB10 1AB

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Pensions Dashboard

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

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

Risk Matrix Scoring

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

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		1	2	3	4	5	6
Likelihood		Almost impossible	Very Low	Low	Significant	High	Very High

Current Heatmap

Very Serious	1,9, 18	6, 16, 21					
Serious		4, 19, 20	8, 15, 25	14, 24			
Marginal	17	2, 5, 11, 13, 27, 29	7, 12, 22, 23	3, 10, 28		26	
Negligle							
Impact	Likelihood	Almost impossible	Very Low	Low	Significant	High	Very High

Pension Fund Risk Register (August 2019)

No	Risk Description	Effect/Consequences	Control & Mitigating Actions	Current Risk		Risk Movement	Current Status/Progress	
				Impact	Likelihood Score			
Pension Fund Level								
1	Lack of effective Risk Management	Failure to identify and respond to risks will impact on service delivery capabilities	Pension Fund Risk Register is reviewed and updated quarterly	4	1	4	↔	New Fund specific Risk Management Policy and risk register review to Nov'19 meeting
2	Poor Governance	Lack of a robust and effective governance framework and suitable policies/procedures could create a regulatory compliance issue, lead to poor service delivery and reputational risk	The Fund has in place an annual review of its governance statement and supporting policies and procedures, ensuring both regulatory and Council objectives compliance	2	2	4	↔	Ongoing - annual review reported to Committee
3	Lack of Performance Measures	Failure to monitor performance across the Fund will provide a lack of transparency on delivering an efficient and effective service	The Fund has in place both statutory and local KPI's	2	4	8	↔	The Fund participates in national benchmarking exercises and has internal measures which are reported to Committee
4	Failure of Pensions Committee and Pension Board to operate effectively	Failure to ensure effective joint working will result in non-compliance with regulatory requirements, inability to make decisions or policies, reputational risk	Annual review of Committee and Board, in consultation with both	3	2	6	↔	New annual report on Committee Effectiveness from June 2019
5	Operational disaster, unable to access the workplace	Loss of service delivery, staff downtime	Disaster Recovery Policy in place, incorporated into ACC, Business Continuity Plan for loss/disruption to Altair	2	2	4	↔	Ongoing
6	Failure to recruit and develop staff	Service delivery and succession planning at risk	Individual staff training plans reviewed annually, ongoing review of staffing requirements	4	2	8	↔	Ongoing - 4 new posts approved in March to be advertised, 1 new start in August to the benefits admin team.
7	Pay and price inflation valuation assumptions either higher or lower	Potential Increase in employer contribution rates	Funding updates reported to Committee quarterly	2	3	6	↔	Information provided by FSM

Governance

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

15	Failure to monitor investment managers and assets	Audit criticism, legal challenge and reputational risk	Quarterly assessment of asset performance and regular meetings with managers	3	3	9	↔	Ongoing - Investment Policy updated to address reporting/underperformance (Sept'19)
16	Failure of world stock markets	Increase in employer contribution rates, financial loss	Diversification of scheme assets, tri-ennial valuation and investment strategy review	4	2	8	↔	Ongoing
17	Negligence/fraud/default by investment managers	Financial loss, reputational damage	Due diligence on appointment and appropriate clause in legal agreements, fund management monitoring, SAS 70 reports	2	1	2	↔	Ongoing
18	Failure of Global Custodian	Loss of assets or control of assets	Regular meetings with custodian, receipt of SAS 70 reports and monitoring	4	1	4	↔	Ongoing
Accounting								
19	Poor financial reporting	Qualified accounts	Comprehensive policies and procedures in place	3	2	6	↔	Ongoing - audited accounts to Committee (Sept 2019)
20	Annual review of Code of Practice and any other overriding regulations	Qualified accounts	Review of Code, attending CIPFA meetings/reviews	3	2	6	↔	Ongoing
Technical								
21	Failure to secure and manage personal data in line with Data Protection requirements	Audit criticism, legal challenge, reputational risk, financial penalties	Internal controls and procedures for management of data	4	3	12	↑	3 data breaches recorded (but not reported) in July. This has increased likelihood score. Appropriate action has been taken by management team to reduce back to '2' by next review.
22	Failure of the Fund's administration system, including outages, hardware and software failures and cyber attack	Staff downtime, loss of service delivery	The administration system is hosted externally with back-up in separate location. Business Continuity Plan in place.	3	2	6	↔	Quarterly report is provided to Pension Fund Manager on any hosted system errors/resolutions.
23	Failure to track member status and trace information	Incorrect pension payments made, incorrect assessment of actuarial liabilities	Tracing Service in place (ATMOS) and access to national 'Tell Us Once' service, Data Quality Improvement Plan	2	3	6	↔	Ongoing
Employer Relationship								

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

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Exempt information as described in paragraph(s) 6 of Schedule 7A of the Local Government (Scotland) Act 1973.

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Exempt information as described in paragraph(s) 8 of Schedule 7A of the Local Government (Scotland) Act 1973.

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