



North East Scotland Pension Fund

nespf

Governance Policy

March 2019

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Introduction

This policy documents the governance arrangements for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (together the 'Fund'). Aberdeen City Council is the administering authority for the Fund and administers the Local Government Pension Scheme (LGPS) on behalf of the participating employers within the LGPS (Scotland) Regulations.

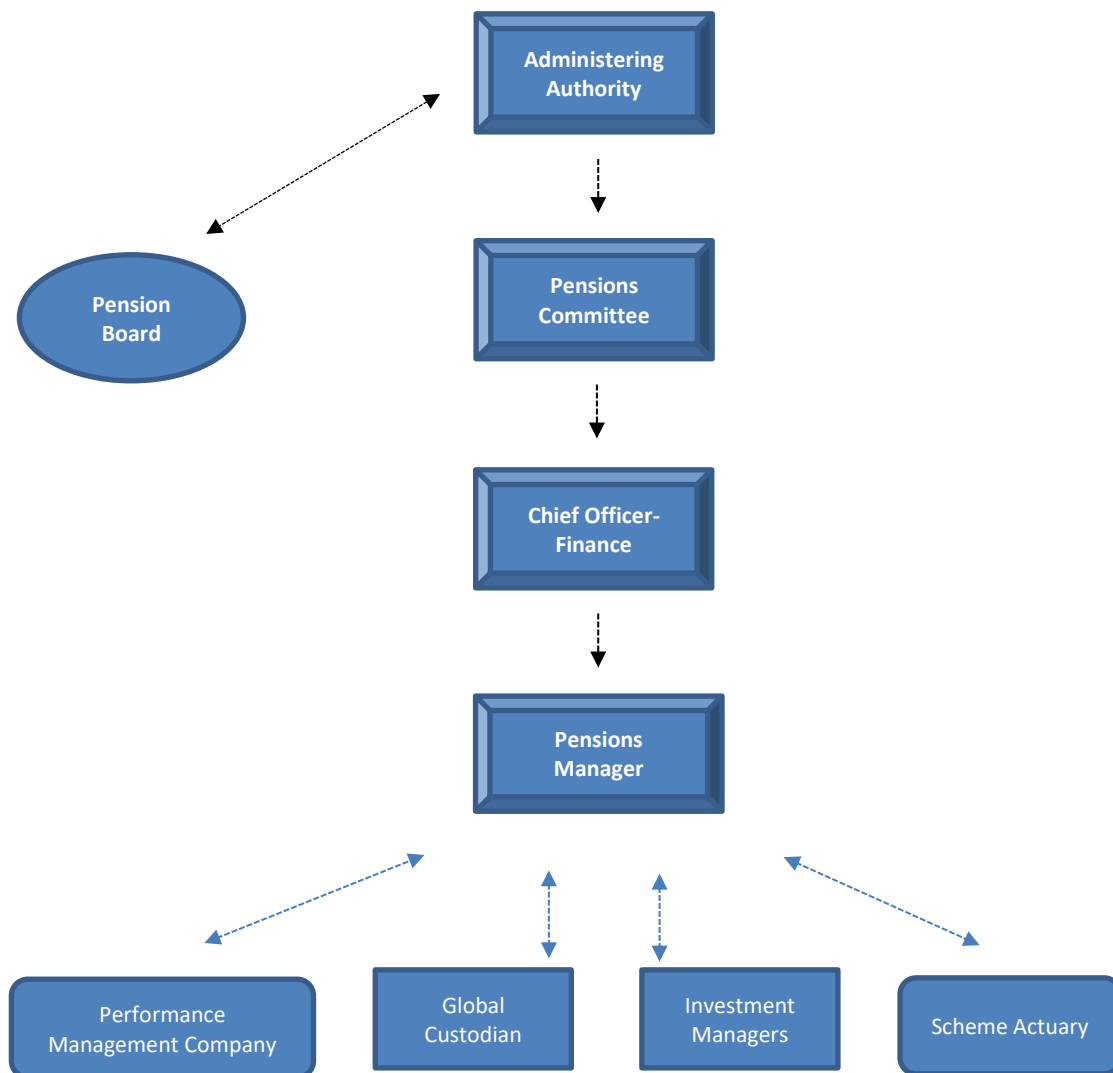
Regulatory Framework

The Local Government Pension Scheme (Scotland) Regulations 2018 (as amended) require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain, publish and keep under review a written statement setting out:

- a) whether it delegates its functions, or part of its functions under the regulations to a committee, sub-committee or an officer of the authority; and
- b) if it does so,
 - the terms, structure and operational procedure of the delegation
 - the frequency of any committee or sub-committee meetings
 - whether such a committee or sub-committee includes the representatives of scheme employers or members, and if so, whether those representatives have voting rights
- c) the extent to which delegation, or the absence of delegation, complies with guidance given by the Scottish Ministers and, to the extent that it does not so comply, the reasons for not complying; and
- d) details of the terms, structure and operational procedure relating to the local pension board.

Governance Structure

The North East Scotland Pension Fund governance structure is shown below



Aberdeen City Council (in its capacity as administering authority) has delegated strategic responsibility for the administration of the Pension Funds to the Pensions Committee. The Council's Standing Orders govern the actions of the Pensions Committee and its Officers.

- **Pensions Committee**

The Pensions Committee is made up of nine Aberdeen City Council Elected Members, all with equal voting rights.

The Pensions Committee carries out a similar role to that of the trustees of a private pension scheme. It is the key decision maker for all matters under the LGPS (Scotland) regulations in relation to benefit administration and investment management.

Members of the Pensions Committee participate in regular training sessions to ensure they have the appropriate level of knowledge and understanding to enable them to fulfil the obligations of their role.

Meetings of the Pensions Committee take place at least quarterly and jointly with the Pension Board. Additional meetings can be called as required.

Committee papers, minutes and contact details for the Pensions Committee are available via the [City Council website](https://committees.aberdeencity.gov.uk/mgCommitteeDetails.aspx?ID=506) at <https://committees.aberdeencity.gov.uk/mgCommitteeDetails.aspx?ID=506>.

The Pensions Committee annually reviews the need to create a Pension Fund Sub-Committee which can be established on an ad hoc basis to meet the requirements of the Fund.

The Pensions Committee Terms of Reference are reviewed on an annual basis as part of the scheme governance arrangements (see [Appendix I](#)).

- **Pension Board**

The Pension Board is made up of 8 representatives; 4 employer and 4 member (trade union).

Employer

Aberdeen City Council	1
Aberdeenshire Council	1
The Moray Council	1
Other Scheduled/Admitted Bodies	1

Member (Trade Unions)

GMB	1
Unite	1
UNISON	1
UCATT	1

The role of the Pension Board is to assist the Scheme Manager in securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the Fund and the requirements of the Pensions Regulator (tPR).

The Pension Board meets quarterly alongside the Pensions Committee and will also meet separately at least annually.

Members of the Pension Board are invited to attend the same training sessions as the Pensions Committee.

The Pension Board Terms of Reference are reviewed on an annual basis and reported to the Pensions Committee as part of the scheme governance arrangements (see [Appendix II](#)).

- **Chief Officer-Finance**

The Chief Officer-Finance is the Officer with responsibility to ensure proper administration of Aberdeen City Council's financial affairs in terms of Section 95 of the Local Government

(Scotland) Act 1973 and take any necessary actions or decisions in accordance with the ACC Financial Regulations.

The Chief Officer-Finance is responsible for the day to day management of the affairs of the Pension Fund in accordance with the LGPS (Scotland) Regulations.

The office of Chief Officer-Finance acts as the link for members, advisers and investment managers between meetings of the Pensions Committee.

The Chief Officer-Finance Terms of Reference are attached at [Appendix III](#).

- **External Service Providers**

The Pensions Committee has appointed:

- an actuary to carry out the triennial actuarial valuation, interim valuation (if appropriate) and provide advice with regards to scheme funding
- Investment managers who have responsibility for the selection, retention and realisation of individual investments. Where appropriate they also implement the Fund's policy relating to environmental, social and governance matters
- a Global Custodian responsible for the safekeeping of the Fund's assets, along with transaction processing, corporate actions, income collections and tax reclaiming
- a performance measurement company which reports quarterly on the performance of the Fund and its underlying fund managers

Up to two external advisers may also be appointed to assist the Pensions Committee, regarding investment related issues.

The detailed Terms of Reference of external service providers are reviewed annually and reported to the Pensions Committee as part of the Scheme Governance arrangements (see [Appendix IV](#)).

Internal Controls

Aberdeen City Council provides internal audit arrangements to the Pension Fund as a tool of management. Internal Audit report directly to the Pension Committee and copies go to the Council's Audit, Risk & Scrutiny Committee.

External Review

The annual financial statement of the Pension Funds is subject to external audit.

The auditor is appointed by Audit Scotland, this helps ensure that public funds are properly safeguarded and accounted for and are used economically, efficiently and effectively in accordance with statutory and regulatory requirements. The Auditor reports directly to the Pensions Committee with copies to the Council's Audit, Risk & Scrutiny Committee.

Risk Management

A risk review covering all aspects of the Pension Fund is carried out on a regular basis, with quarterly reporting to the Pensions Committee. Risk awareness is embedded into the investment performance management process. Risk will continue to feature in the training planned for all those with responsibility for administering the North East Scotland Pension Funds.

Training

The Pensions Committee has approved a training programme for members of the Pensions Committee and the Pension Board in accordance with best practice. Training for members of the Pensions Committee and the Pension Board is reviewed on an annual basis by each body.

Policy Documents

All Governance Statements and Terms of Reference are reviewed annually and changes approved by the Pensions Committee.

Pension Fund Annual Report

The Annual Report of the Pension Fund is prepared by the pensions section; a copy of the report is made available to all scheme employers and a summary of the review is provided to all Pension Fund members.

A copy of the Annual Report is available via the Fund's website at <http://www.nespf.org.uk/TheFund/Investment/annual-report.aspx>.

The Pension Fund financial statement is contained within the Pension Fund Annual Report and is prepared following recognised Accounting Codes of Practice.

All the following documentation is available on the Pension Fund website at www.nespf.org.uk and hard copies are available on request from the Chief Officer-Finance.

Document	Brief Description
Governance Policy Statement	This Statement
Governance Compliance Statement	The LGPS (Scotland) Regulations require that a Governance Compliance Statement is published which sets out the extent to which the Fund's governance arrangements comply with best practice
Funding Strategy Statement (FSS)	Sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employer's contributions and prudence in the funding basis
Statement of Investment Principles (SIP)	Outlines the Fund's investment arrangements
Investment Policy	Sets out the Fund's investment policy and is supported by the SIP and FSS.
Statement of Compliance with the Myners Principles	Details the Fund's compliance with the 6 Myners Principles
Training Policy	Details the training policy for members of the Pensions Committee and Pension Board
Communication Policy	Sets out the Fund's policy concerning communication with the following people/organisations: <ul style="list-style-type: none"> • Scheme Members • Scheme Employers • Member Representatives • Elected Members • Internal Staff • Service Providers • Wider Audience
Corporate Governance and Socially Responsible Investment Policy	Details the policy of the NESPF and ACC Transport Fund as an active and responsible investor
Pension Administration Strategy (PAS)	Outlines the policies and performance standards which will be provided by the pensions section in administering member benefits

Further Information

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

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PENSIONS COMMITTEE – TERMS OF REFERENCE

PURPOSE OF COMMITTEE

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

1. Approve and monitor the administration of the Local Government Pension Scheme (LGPS) in accordance with the LGPS (Scotland) Regulations 2018 and other relevant legislation,
2. managing the investment of the NESPF in accordance with the LGPS (Management and Investment of Funds) (Scotland) Regulations 2010, and other legislation;
3. receiving regular training to enable the Committee members to make effective decisions under the LGPS Regulations, other relevant legislation and to make decisions in compliance with the Pensions Regulator Code of Practice; and
4. working alongside the Fund's Local Pension Board, considering any pension compliance matters raised.

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

POWERS OF COMMITTEE

1. Risk Management

The Committee will:

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

2. Internal and External Audit

The Committee will:

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

3. Annual Report and Accounts

The Committee will:

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

4. Legal Obligations

The Committee will ensure:

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

5. Scrutiny

The Committee will:

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

JOINT WORKING WITH OTHER COUNCIL COMMITTEES:

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

JOINT WORKING WITH NON COUNCIL BODIES:

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

Executive Lead: Chief Officer-Finance

PENSION BOARD – TERMS OF REFERENCE

INTRODUCTION

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

OBJECTIVES

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

MEMBERSHIP

- 3.1** Membership of the Pension Board will consist of equal numbers of trade union representatives and employer representatives, drawn from councils and scheduled or admitted bodies in membership of the Fund. Pension Board representatives must not also participate in or act as members of the Pensions Committee. Local Authority employer representatives will normally be Elected Members serving as part of the Council.
- 3.2** There will be 4 trade union representatives appointed by the trade unions as follows:
- GMB

- UCATT
- UNISON
- Unite

3.3 There will be 4 employer representatives appointed by the respective employer organisations as follows:

- Councils – 3 representatives
- Scheduled bodies/Admitted bodies – 1 representative

3.4 Pension Board representatives will serve for a period of four years and may be reappointed to serve further terms. Timescales for organisations to notify the Pension Board of their representatives shall be locally determined. Employer bodies and organisations retain the right to withdraw representatives and identify replacements on occasion.

3.5 Appointing bodies can appoint a named substitute for their representative. Such substitutes must undertake the same training as set out in (6) below.

3.6 Advisors may attend meetings of the Pension Board in a non-voting capacity

3.7 No person may be appointed to the Pension Board that has a significant conflict of interest. A conflict of interest is defined as a financial or other interest which is likely to prejudice a person's exercise of functions as a member of the Pension Board. It does not include a financial or other interest arising merely by virtue of that person being a member of the scheme or any connected scheme for which the board is established. The Pension Board will adopt policies and protocols for handling any conflicts that were unanticipated and might arise during membership.

MEETINGS

4.1 The Chair of the Pension Board will be rotated on an annual basis between the trade union and employer sides of the Pension Board

4.2 Pension Board meetings will be administered by Aberdeen City Council as the administering authority as agreed with Joint Secretaries appointed by the trade union and employers sides of the Pension Board. All reasonable administration costs shall be met by the Fund.

4.3 The Pension Board should meet at least quarterly. A majority of either side may requisition a special meeting of the Pension Board in exceptional circumstances.

4.4 The Pension Board may establish sub-committees

4.5 While the statutory roles and function of the Pensions Committee and Pension Board are separate, the normal practice will be that both bodies will meet at the same time to consider the same agenda, with the Chair of the Pensions Committee chairing the concurrent meeting. The aim is to engender a positive and proactive partnership culture where in practice the two bodies act as one.

DISPUTE RESOLUTION

5.1 If the Pensions Committee and Pension Board cannot reach joint agreement on any matter the process for resolving any differences between the two bodies will be as follows. Whilst this process is undertaken the decision of the Pensions Committee is still competent.

5.2 In the first instance, if at least half of the members agree, then the Pension Board can refer back a decision of the Pensions Committee for further consideration if any of the following grounds are met:

- That there is evidence or information which it is considered needs re-evaluating or new evidence or data which the Pensions Committee did not access or was not aware of at the point of decision making and which is considered material to the decision taken;
- That the decision of the Pensions Committee could be considered illegal or contrary to regulations;
- That the decision of the Pensions Committee is contrary to a relevant Code of Practice published by the Pensions Regulator; or
- That the decision is not in the interest of the continued financial viability of the scheme or is against the principles of proper and responsible administration of the scheme

5.3 If there is no agreement after the matter has been referred back to the Pensions Committee, then the difference in view between the Pension Board and the Pensions Committee will be published in the form of a joint secretarial report on the Fund website and included in the Fund Annual Report.

5.4 The Scottish LGPS Scheme Advisory Board may also consider and take a view on the matter and, if considered appropriate, provide advice to the Scheme Manager or the Pension Board in relation to the matter.

TRAINING

6.1 All members (and named substitutes) of the Pension Board must undertake a training programme in accordance with any guidance issued by the Pensions Regulator and complying with best practice training requirements of the Pensions Committee.

6.2 The Pension Board shall agree policies and arrangements for the acquisition and retention of knowledge and understanding for Pension Board members.

6.3 The Scheme Manager will keep an updated list of the documents with which they consider Pension Board members need to be conversant to effectively carry out their role and make sure that both the list and the documents are accessible.

ACCESS TO INFORMATION

7.1 The Scheme Manager and Pension Board will together ensure that information is published about the activities of the Board including:

- the full Terms of Reference for the Pension Board, including details of how they will operate
- the Pension Board appointment process
- who each individual Pension Board member represents and
- any specific roles and responsibilities of individual Pension Board members.

7.2 The minutes of the Pension Board will be published on the Fund website. The Pension Board may undertake such communications and stakeholder engagement as it deems appropriate to perform its functions.

POWERS DELEGATED TO CHIEF OFFICER - FINANCE

1. To administer the North East Scotland Pension Fund in accordance with the Local Government Pension Regulations
2. To implement investment arrangements for the North East Scotland Pension Fund in accordance with the Local Government Pension Regulations, including sourcing and appointment of investment fund managers within the approved strategy.
3. To appoint member representatives to serve on the Pension Board of the North East Scotland Pension Fund.
4. Following consultation with the Chief Officer – Governance, to agree participation by the North East Scotland Pension Fund in securities litigation.
5. To write off debt related to the North East Scotland Pension Fund, in accordance with the ACC Financial Regulations.

INVESTMENT ADVISORS – TERMS OF REFERENCE

Provide objective and independent advice designed to meet the requirements of the Pension Funds.

ASSET/LIABILITY POSITION

1. Assist as required in the setting and analysis of the fund objective through identifying;
 - The purpose of the fund
 - Its size and expected growth
 - Long term use and likely timescale
 - Liabilities to be covered and risks to be avoided
2. Assist as required in the development of a disciplined and efficient investment strategy to meet the fund objective.
3. Through analysis of the fund's performance expectations, risk sensitivity and liability profiles, assist in the establishment of a clear and appropriate investment policy benchmark for the fund.
4. Assist as required in the determination of an appropriate management structure for the fund.
5. Advise as required on rational benchmarks, targets and risk parameters for individual portfolios and managers.
6. Assist as required the Pensions Committee in the review, selection and ongoing monitoring of Investment Managers.
7. Assist as requested in the preparation and provision of a formal training programme for elected members and officers.
8. Provide ad-hoc advice as may be required.

FUND ACTUARY – TERMS OF REFERENCE

1. The Consultant Actuaries will be responsible for preparing the actuarial valuations of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund on a triennial basis
2. Assistance in preparation of the Funding Strategy Statement
3. Preparation of IAS19 calculations for the various statutory and admitted bodies within the Fund
4. Calculate employer contribution rates for new employers
5. Calculate bulk transfer values
6. Calculations for individual employers i.e. termination valuations
7. Individual member calculations
8. Provide advice as required with regard to overall scheme funding
9. Provide advice as required on matters relevant to the administration of the Pension Fund

INVESTMENT MANAGERS – TERMS OF REFERENCE

1. An investment management agreement is signed with each investment manager. In complying with this each portfolio should be managed in accordance with the Pension Fund's investment objectives and with due regard to the diversification of risk.
2. On a quarterly basis the portfolio manager shall review and report the performance and risk profile of the portfolio.
3. The fund manager will make a formal presentation at least once a year to the Pensions Committee.
4. The Pension Fund's investment restrictions and voting policy should be adhered to at all times.
5. The fund managers are expected to sell investments they do not consider suitable for the Funds at opportune times. They are expected to sell any investments that breach this statement in an orderly manner, in the meantime informing the officials of the Council that this action is being taken.
6. The suitability of any new type of investment must be highlighted by the fund managers to the Pensions Committee or in writing to Aberdeen City Council.
7. The fund managers will notify the Council in writing of any changes regarding the fund management house or persons responsible for the fund which might affect the suitability of the fund manager to manage the fund's assets.
8. Aberdeen City Council instructions must be carried out only with appropriate authority.
9. There must be timely and accurate reporting to Aberdeen City Council as detailed in the individual investment management agreement.
10. Computer systems must be secure and must protect client confidentiality and data integrity.
11. The fund manager must confirm on an annual basis that all fund management activity has been fully reconciled with the records of the global custodian.

CUSTODIAN – TERMS OF REFERENCE

1. The custodian is responsible for the safekeeping of the Fund's assets
2. Effect transactions on behalf of the Pension Funds
3. Providing a stock lending service to the fund
4. Processing all income, tax and corporate actions in a timely manner
5. Invest cash in a suitable vehicle to enhance returns
6. Providing regular reporting covering, assets transactions, cash flow etc
7. Provide performance measurement reporting to the Pension Funds