North East Scotland Pension Fund

Annual Report & Accounts

For the period 1 April 2020 to 31 March 2021

Aberdeen City Council, Administering Authority for the Aberdeen City Council Pension Fund, Known as the North East Scotland Pension Funds

Contents

Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2020/21 Annual Report and Accounts.

The COVID-19 outbreak brought a difficult period of market volatility and the North East Scotland Pension Fund (NESPF), like many other investors, saw asset values drop. Despite this initial turbulence, the Fund rebounded strongly with total asset value increasing from £4,367m to £5,777m as at 31 March 2021.

The NESPF has a diversified portfolio of assets which helps spread the risk of exposure to any one investment area or stock. This ensured the financial impact at the start of the pandemic was minimal and allowed significant growth when investment markets began to stabilise and recover.

Meanwhile the asset value for the Aberdeen City Council Transport Fund (ACCTF) changed from £308.8m to £304.6m.

Like everyone else, the Funds had to sharply adapt and adjust to new ways of working as a result of the COVID-19 outbreak. With the majority of staff working from home, the Funds had to focus on key services and priorities to ensure business continuity.

However, in spite of an administratively challenging year, the Funds proceeded with several substantial projects. The Funds launched a new website and branding in Summer 2020.

In December, the Funds completed the long-awaited move to new offices. Delayed due to the pandemic, the move not only provides additional space to ensure staff can be in the office safely but will enable us to improve our efficiency, host visitors and events internally and provide a better space for the Funds to grow its teams and services.

In an actuarial valuation year, the Funds looked to repeat the success of previous valuations. Results showed funding levels of 103% for the NESPF and 114% for ACCTF, highlighting the strength and long-term security of the Funds.

The ACCTF completed and obtained a buy-in policy, securing liabilities for pensioner members of the Transport Fund. The buy-in is the first of its kind for the LGPS Scotland and marks the completion of a 2-year project which included the transfer of all members and assets from the Strathclyde No.3 Transport Fund to the ACCTF.

Looking ahead to 2021/22, while some uncertainties remain, the Funds will continue to focus on improving services, particularly moving more processes online and implementing recommendations of the Administration Review that was conducted over the last 12 months.

Finally, I would like to thank both my colleagues on the Committee and Board, our advisors and Pension Fund staff. Despite a difficult period, I'm proud of how the Funds have adapted to new ways of working, continuing not only to deliver and maintain key services but to also progress crucial projects. I thank them for their dedication and continued hard work during this exceptional year.

Councillor M. Tauqeer Malik
Pensions Committee Convener

2. 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 10 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. In 2019/20, First Glasgow transferred from Strathclyde No. 3 Fund and joined the ACCTF.

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 2021, the NESPF is the third largest LGPS Fund in Scotland in asset size, with over 69,000 members and 48 participating employers.

3. Administration 2020/21

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board, Urgent Business Committee*
Chief Officer – Finance	Jonathan Belford
Actuary	Mercer
Global Custodian	HSBC
Performance Measurement	HSBC
Banks	Clydesdale Bank & HSBC
AVC Providers	Prudential, Standard Life Assurance
Bulk Annuity Provider	Rothesay Life Plc
External Auditor	Audit Scotland
Internal Auditor	Aberdeenshire Council
Investment Consultant	Isio
Legal Advisor	Aberdeen City Council
Employers	For full details see Appendix 2

* Following the COVID-19 outbreak, all Council Committees were suspended. The purpose of the Urgent Business Committee (UBC) is to determine business of an urgent nature which might otherwise have been reported to Full Council or other Committees and Sub-Committees. As the Pensions Committee was unable to meet, Pension Fund matters were considered by the UBC at their meeting on 30 June 2020, this included the Unaudited Annual Report and Accounts 2019/20.

During these unprecedented times, Officers kept in touch with all Committee and Board throughout this period providing updates where required. Board and Committee meetings resumed in September 2020.

4. 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 2020/21

Councillor M. Tauqeer Malik (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Barney Crockett
Councillor Neil MacGregor
Councillor Philip Bell
Councillor John Cooke
Councillor Steve Delaney
Councillor Dell Henrickson
Councillor John Wheeler

Meeting Attendance in 2020/21

	12/06/20	29/09/20	11/12/20	26/03/21	Overall Attendance 2020/21
Cllr Malik	n/a	✓	✓	✓	100%
Cllr Reynolds	n/a	✓	X	✓	67%
Cllr Crockett	n/a	✓	✓	✓	100%
Cllr MacGregor	n/a	✓	✓	✓	100%
Cllr Bell	n/a	✓	✓	X	67%
Cllr Cooke	n/a	✓	✓	✓	100%
Cllr Delaney	n/a	✓	✓	✓	100%
Cllr Henrickson	n/a	✓	X	✓	67%
Cllr Wheeler	n/a	✓	✓	X	67%

Notes:

- June 2020 – due to the COVID-19 outbreak, the Committee and Board meeting was cancelled. Instead Pension Fund matters were considered by the Urgent Business Committee.
- March 2021 - Councillor Wheeler sent Councillor Philip Sellar in his absence.

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 2020/21

Unison
Morag Lawrence (Substitute: Kenny Luke)

GMB
Neil Stirling (Vice Chair) (Substitute: Brenda Murdoch: Resigned April 2020)

Unite
Alan Walker (Substitute: Graham Gavin)

UCATT
Liam Knox

Admitted/Scheduled Bodies
Mr Ian Black (Aberlour Child Care Trust)
Resigned July 2020

Mr Ian Hodgson (First Bus)
Joined September 2020

The Moray Council
Councillor John Cowe

Aberdeenshire Council
Councillor Alistair McKelvie (Chair) (Substitute: Councillor Alastair Bews)

Aberdeen City Council
Councillor Yvonne Allan (Substitute: Councillor Freddie John)

Meeting Attendance in 2020/21

	12/06/20	29/09/20	11/12/20	26/03/21	Overall Attendance
Cllr Yvonne Allan	**n/a**	✓	✓	✓	**100%**
Cllr Alistair McKelvie	**n/a**	✓	✓	✓	**100%**
Cllr John Cowe	**n/a**	✓	✓	✓	**100%**
Ian Black	**n/a**	**n/a**	**n/a**	**n/a**	**n/a**
Ian Hodgson	**n/a**	**X**	✓	✓	**67%**
Neil Stirling	**n/a**	✓	✓	✓	**100%**
Morag Lawrence	**n/a**	✓	✓	✓	**100%**
Alan Walker	**n/a**	✓	✓	✓	**100%**
Liam Knox	**n/a**	✓	✓	✓	**100%**

Notes:

- June 2020 – due to the COVID-19 outbreak, the Committee and Board meeting was cancelled. Instead Pension Fund matters were considered by the Urgent Business Committee.
- Ian Black resigned from Committee in July 2020.

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 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 2020/21 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 to either confirm that the information held on the Register is correct or to update their declaration as necessary.

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.

Pensions Committee members are managed by the national Councillors' Code of Conduct. Due to the pandemic no training was delivered to Councillor's during 2020/21 by Aberdeen City Council.

Committee and Board Training 2020/21

While Pensions Committee members are not legally obliged to undertake training, the Funds feel strongly that Committee members should receive training to ensure that they have the necessary levels of knowledge and understanding to exercise their functions. In addition, training is a requirement of the Council's Standing Orders. 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.

Board members are also required to undertake 2 training sessions per year as detailed in the Training Policy. While typically the Funds deliver more than 2 training sessions per year, due to COVID-19 outbreak the number of sessions able to proceed was significantly reduced. However, the Funds were able to deliver training sessions and meet the Training Plan requirements. The training needs analysis conducted in 2019 will continue to be used to direct training in the coming year as the Funds continue to seek out training opportunities to support members.

In 2020/21, attendance for both Pensions Committee and Pension Board members' training is outlined below.

	22 – 23/10/20	01/10/20	08/10/20	Overall Attendance
Pensions Committee				
Cllr Malik	✓	✓	✓	**100%**
Cllr Reynolds	✓	**X**	**X**	**33%**
Cllr Crockett	**X**	**X**	**X**	**0%**
Cllr MacGregor	✓	✓	✓	**100%**
Cllr Bell	✓	✓	✓	**100%**
Cllr Cooke	✓	✓	✓	**100%**
Cllr Delaney	✓	**X**	**X**	**33%**
Cllr Henrickson	✓	✓	✓	**100%**
Cllr Wheeler	✓	✓	**X**	**67%**
Pensions Board				
Cllr Allan	**X**	**X**	**X**	**0%**
Cllr McKelvie	✓	✓	✓	**100%**
Cllr Cowe	**X**	✓	✓	**67%**
Ian Black	**n/a**	**n/a**	**n/a**	**n/a**
Ian Hodgson	**n/a**	**X**	**X**	**0%**
Neil Stirling	✓	✓	✓	**100%**
Morag Lawrence	✓	✓	✓	**100%**
Alan Walker	✓	**X**	✓	**67%**
Liam Knox	**X**	✓	**X**	**33%**

Notes:

- Ian Black resigned in July 2020 before any training sessions were conducted.

Training Topics

LGC Investment Seminar - 22 – 23 October 2020

A virtual seminar held over two days, this event covered a range of topics including:

- The impact of COVID-19 on investments
- Climate change and sustainability
- Infrastructure
- Collaboration between Funds

Scottish LGPS Conference 2020 - 1 October 2020 & 8 October 2020 -

An online conference with a number of presentations and panels covering:

- Pension administration
- Triennial valuations
- Governance
- Investment markets

5. Administration and Performance

This year's report focuses on the continued move towards digital communications and processes, administration performance, the actuarial valuation and the completion of a buy-in policy.

Rebrand and Website Development

2020/21 saw the Funds undertake an extensive rebrand exercise and develop a new website. The objective of this was to create a memorable brand identity that is current, inclusive and relatable.

The Funds wanted to reposition themselves to appeal to its wide membership, which resulted in the formation of a comprehensive set of brand guidelines including a new logo, colour scheme and tone of voice. The brand guidelines were subsequently applied across communications.

The Funds' website also underwent development to produce an intuitive, mobile-friendly and user-focused online space where our members could feel engaged and informed. As part of the website refreshment all content was reviewed, navigation was simplified and features such as interactive calculators and animations were installed. Further user-friendly features such as an improved search function and secure areas were also added to allow for quicker identification of required content.

The results of the website relaunch have exceeded expectations, with year on year comparison showing:

- 30.5% increase in users
- 40% increase in sessions
- 18% increase in average session duration
- 48% increase in page views

During 2020/21 the Funds utilised the website as a source of communication with its members by providing service updates and news articles and it will continue to promote the website as a useful tool to all members.

Going Digital

As the office remained closed with most staff working from home during 2020/21, members were encouraged to self-serve where possible by using the Funds' secure online portal, My Pension.

My Pension's updating features were widely promoted with members encouraged to make use of online forms to edit personal details and submit death grant nominations.

2020/21 saw the addition of an upload document option becoming available allowing documents to swiftly reach staff whilst easing the administration workload.

Membership of My Pension continues to grow and as at 31 March 2021 there were over 28,000 members registered for My Pension with 13,999 active members, 8,527 deferred members and 6,408 pensioner members signed up.

As at 31 March 2021, 38,595 (+16%) calculations have been performed via My Pension with 7,809 (+69%) updates processed on the system showing the increasing popularity and usage of the site.

Annual Benefit Statements

In 2019/20 the Funds issued all Annual Benefit Statements (ABS) digitally through My Pension. This was highly advantageous for the Funds and meant that in 2020/21, this could be repeated with further enhancements put in place. To alert members of the ABS availability, members were split into 3 categories:

- Those who were already registered during the 2019 ABS mailing would receive email notifications.
- Those who registered between 2019's ABS and 2020's ABS would receive a letter notifying them of their statement and the intention to email them in future years instead of writing.
- All unregistered members would receive a letter with an activation key allowing them to register online.

Moving ABS online has had numerous benefits, in particular it allows for further segmentation of members, so members only receive information relevant to themselves. Other benefits include reductions upon the environmental impact, paper usage, costs and time savings.

The overall percentage achieved for providing benefit statements to more than 42,000 active and deferred members prior to the 31 August deadline was 99.66% (99.86% in 2019/20).

Pension Administration Strategy

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

NESPF processing performance

Key performance measurement	Target	Work Volume	Target Achieved	2020/21	2019/20
Letter notifying death in service to dependent	5 days	43	31	72%	88%
Letter notifying retirement estimate	10 days	457	430	94%	98%
Letter notifying actual retirement benefit	10 days	1,755	1,325	76%	96%
Letter notifying deferred benefit	10 days	1,983	1,377	69%	91%
Letter notifying amount of refund	10 days	1,373	1,272	93%	95%
Letter detailing transfer in quotes	10 days	71	43	61%	84%
Letter detailing transfer out quotes	10 days	342	113	33%	76%

Impact of the pandemic

This year proved to be very challenging for administration because of the pandemic and majority of staff having to work from home. Volumes of work remained high and performance suffered as a direct result of homeworking.

Volumes for death in service (0) and transfers in (-6) were almost identical compared to 2019/20 with deceases for retirements (-317), refunds (-100) and transfers out (-90). There was a significant reduction for estimates (-572), although members were being encouraged to use benefit projectors in our secure portal, and a significant increase for deferred leavers (681).

Performance was down for all measurements however this was not unexpected as despite changing working practises and following industry guidance it simply takes longer to process benefits from home than it does in the office. Death in service and refund processing remained above 90% and retirals recovered from 62% at the end of first quarter to 77% for the whole year. Transfers and deferred benefits suffered the most because the priority was to process and pay death and retirement benefits timeously.

To address this, the Funds delivered transfer out quotations online so members can securely access information that will allow them to meet with their financial advisor and make an informed decision as to whether they want to proceed. We discovered in 2019/20 less than 25% of quotations provided resulted in benefits being transferred out of the Scheme. Work was carried out with our software supplier to automate deferred benefit processing and both developments will contribute to achieving performance levels of previous years; however the biggest contributor to recovery will be when staff can safely return to the office.

Employer data provision

Participating employers continued to send good quality, timely monthly data in line with our requirements and this happened despite the majority of office staff working from home during the lockdown.

Communicating with Employers was maintained by the Employer Relationship Team (ERT) through email, quarterly bulletins and virtual online meetings. This allowed the team to continue providing a service and administering the scheme for the employers.

Administration Review

With workload increasing because of regulatory change, the McCloud age discrimination ruling and the challenges of homeworking, it was felt that the time was right to undertake a review of administration with the Scheme actuary.

Scope for the review was prepared by Mercer following consideration of a paper provided by the Fund and a meeting with officers. Fieldwork was to be carried out remotely with review samples provided via a secure portal.

The review had 4 key areas:

1. Process (weighted at 80%) – the review sample included a range of the most common administration tasks performed between February and September 2020.
2. Management information – the review sample included a range of quantitative and qualitative information.
3. People – the review sample included a variety of job roles, internal communications and documentation as well as output from meetings with staff and process walkthroughs.
4. Capacity analysis – was derived from data contained within task created and completed reports using estimated task completion times.

Work commenced at end of October and following 18 Microsoft Teams calls and 140 document uploads the final report was produced on 18 December 2020.

The report highlighted areas of strength including:

- Common and scheme specific data scores were very strong, indicating high data quality.
- System calculation automation is accurate and efficient for majority of processes.
- I-Connect is an efficient and effective tool for obtaining member data from employers in relation to CARE service and loading this to the pension administration system.
- The Funds can produce strong management information and reports that can provide estimates of effort, staff utilisation and provide an indication of process efficiency.

Key recommendations contained in the report included improved final pay provision, a calculation matrix to reduce volume of checking, implement bulk processing, review system generated documentation, reduce manual processes following automated updates, investigate centralised printing, review how documentation is uploaded to the system, improve management information, create formal process for staff to suggest change and continue to move processes online.

The Funds are committed to delivering improvements during the next 12 to 18 months that will increase operating efficiency and improve service provision.

Data Quality

The quality of data held by the Funds impacts on all aspects of funding, administration and calculation of benefits. Due to the method of data collection as well as the checking and reconciliation processes undertaken on a monthly basis, information held on our database is of a consistently high quality. This ensures that the Funds, the participating employers and the members can have confidence in the calculated benefits and the accuracy of the valuation put on the liabilities by the Scheme actuary.

As part of the annual scheme return all LGPS funds are required to score the quality of their data. For accurate scores that are comparable to other funds, the Funds have contracted with Aquila Heywood to use their Data Quality Analysis Tool. The scores below were reported in the 2019 and 2020 annual scheme return:

	2019	2020
Common Data	98.3%	98.3%
Scheme Specific Data	97.1%	98.3%

Even though the scores remain high, work continues to improve and maintain data quality through the implementation of the Data Quality Improvement Plan. The plan, used in conjunction with the in-depth reports provided as part of the data analysis service contract with Heywood work towards meeting 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.

The impact of COVID-19 has impacted on the ability to carry out some of the planned improvements in 2020. However, these exercises will be carried out upon the return to normal working practices.

Aberdeen City Council Transport Fund – Pensioner Liabilities Buy-in

In 2020, the Fund purchased a Bulk Annuity Buy-In Policy (buy-in) with Rothesay Life PLC. This policy underwrites the liabilities of 1,371 pensioner members of the Aberdeen City Council Transport Fund (ACCTF) as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension. It is the first of its kind for the LGPS in Scotland.

The project began after First Group expressed their desire to reduce the risk associated with their LGPS pension liabilities and to streamline their administrative requirements. First Group had subsidiaries within both the Strathclyde No.3 Transport Fund and the ACCTF. It was agreed that the Funds would first merge prior to securing the pensioner liabilities through a buy-in.

This merger would involve the transfer of members and assets from the Strathclyde No.3 Transport Fund to the ACCTF. The merger was a substantial project and has been a key administrative task since 2019. It involved close working partnerships with other Funds, employers and third parties. Internally, it saw teams collaborate to guarantee the smooth transition of financial assets and data, whilst ensuring affected members were kept fully informed and engaged throughout.

Following the completion of the merge, the next stage, procuring the buy-in policy could commence. The buy-in provides multiple benefits for the ACCTF. Given that the ACCTF is a closed Fund, with a maturing membership profile, de-risking has become one of the main Fund objectives. The buy-in allows the Fund to reduce the risk to both itself and First Bus.

Furthermore, a buy-in, as opposed to a buy-out, means that the administration and payment of benefits remain the responsibility of the ACCTF. As such member benefits remain unaffected and pensions continue to be paid by the Fund in accordance with LGPS regulations.

The procurement process for the buy-in began early 2020. Despite initial delays arising from the COVID-19 pandemic and the subsequent volatility of financial markets, the Fund entered into a contract with Rothesay Life Plc in November 2020. A purchase price of £232 million (£222m Stock & £10m Cash) was paid to the insurance provider in November 2020.

The Fund are pleased to have contractually agreed this long term arrangement with Rothesay Life PLC. In doing so, it has met the requirements of the employer, First Bus. The policy also provides greater certainty to the Fund and the Scheme actuary.

Actuarial Valuation

The triennial exercise to value the liabilities held within the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund commenced at the start of 2020 in the middle of the uncertainty around the pandemic. The valuation as at 31 March 2020 was carried out by Mercer, the Scheme actuary, to determine the overall funding level(s) as well as determine the individual contribution rates for all participating employers within both Funds.

All work including determining the methodology and assumptions that were to be applied by the Scheme actuary, and the gathering and reconciliation of member data were all carried out whilst working from home, adding extra complexity to the process. However, indicative results and suggested contribution requirements were available for employers in early November with the virtual financial forum being held later that month. This allowed the Employer Relationship Team to begin the process of communicating with the individual employers around the appropriateness of the assumptions used by the actuary, affordability and funding.

The valuation certificate was signed off by the Scheme actuary in March 2021 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels and the finalised rates were issued to all employers, provided to the Scottish Public Pensions Agency (SPPA) and published on the Funds website following the completion of the actuarial process.

Visit Scotland Consolidation

In accordance with a Direction of the Scottish Ministers issued on 25 August 2020 the assets and liabilities held within the NESPF for VisitScotland were transferred to Lothian Pension Fund as the new responsible authority. This large scale exercise involving the majority of Scottish Funds took place over 2020/21 to ensure that all member records and pension payroll were transferred to the new provider with little or no impact to the members themselves. The NESPF members were transferred as part of phase one of the exercise therefore the administration and pension payroll became the responsibility of Lothian Pension Fund from September 2020.

The value of the assets held in respect of the transferred liabilities were agreed by the two Fund actuaries with the payment being made in March 2021.

6. Financial Performance

2020/21 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£143m	Contributions Receivable	£11m
£168m	Benefits Payable	£11m
£27m	Management Expenses	£650k
£1,462m	Net Return on Investments	£19m
£5,777m	Net Assets of the Fund at the End of Year	£305m

Key Statistics

North East Scotland Pension Fund		Aberdeen City Council Transport Fund
48	Total Number of Employers	2
69,375	Total Membership	1,604

2,071

Votes at AGMs

42%

All Fund Members Registered for MSS

34.1

Staff Employed (FTE)

2,123

Members to Staff Ratio

North East Scotland Pension Fund Financial Summary

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Deductions)**	**(15,456)**	**(18,219)**	**(19,697)**	**(30,977)**	**(51,481)**
Net Investment Income Change in Market Value **Net Return on Investment**	**648,411**	**329,035**	**363,300**	**(71,648)**	**1,462,128**
Net Increase/ (Decrease) in Fund	**632,955**	**310,816**	**343,603**	**(102,625)**	**1,410,647**
Fund Balance as at 31 March (Market Value)	**3,814,748**	**4,125,564**	**4,469,167**	**4,366,542**	**5,777,189**

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	Actual Spend 2020/21 £'000	Budget or Forecast* 2020/21 £'000	Over or (Under) Spend 2020/21 £'000
Administration Expenses	1	2,236	2,422	(186)
Oversight and Governance Expenses		713	685	28
Investment Management Expenses*	2	23,820	18,491	5,329
Management Expenses Total		**26,769**	**21,598**	**5,171**

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. Over 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 over spend is largely associated with the recovery in market value following the COVID-19 outbreak.

Membership Statistics

NESPF	**2016/17**	**2017/18**	**2018/19**	**2019/20**	**2020/21**
Active	25,329	25,568	25,892	26,275	26,315
Pensioners	19,111	20,023	21,029	22,156	22,692
Deferred	16,888	17,218	17,846	17,965	17,704
Frozen Leavers	2,232	2,435	2,759	3,021	2,664
Total	**63,560**	**65,244**	**67,526**	**69,417**	**69,375**

Active membership has continued to increase steadily over the last few years. This may be as a result of auto enrolment and the way employment records are held on payroll systems meaning that members may have multiple payroll records to reflect their different employment contracts. Pensioner records have increased dramatically as a result of changing regulations which allow members to access their pensions from age 55 onwards. A frozen leaver exercise to encourage members to take their unclaimed refund was carried out in early 2020 and has reduced the number of these records held.

Management Expenses

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Administration	1,563	1,638	1,634	1,822	2,236
Oversight and Governance	468	467	474	422	713
Investment Management	16,455	19,092	18,665	17,953	23,820
Total Management Expenses	**18,486**	**21,197**	**20,773**	**20,197**	**26,769**

Unit Cost Per Member

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Administrative Unit Cost per Member	24.59	25.11	24.20	26.25	32.23
Oversight and Governance Unit Cost per Member	7.36	7.16	7.02	6.08	10.28
Investment Management Unit Cost per Member	258.89	292.62	276.41	258.62	343.35
Total Cost per Member	**290.84**	**324.89**	**307.63**	**290.95**	**385.86**

Aberdeen City Council Transport Fund Financial Summary

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Deductions)**	**(1,731)**	**(2,669)**	**(1,900)**	**(7,024)**	**(758)**
Net Investment Income Change in Market Value **Net Return on Investment**	**15,454**	**2,774**	**7,129**	**(5,836)**	**18,860**
Revaluation of Insurance Buy-In Contract	**0**	**0**	**0**	**0**	**(22,320)**
Net Increase/ (Decrease) in Fund	**13,723**	**105**	**5,229**	**(12,860)**	**(4,218)**
Transfer of Cash/Stock	**0**	**0**	**0**	**216,388**	**0**
Fund Balance as at 31 March (Market Value)	**99,966**	**100,071**	**105,300**	**308,828**	**304,610**

Membership Statistics

Transport Fund	2016/17	2017/18	2018/19	2019/20	2020/21
Active	61	48	42	77	71
Pensioners	423	434	429	1,373	1,372
Deferred	121	114	110	171	153
Frozen Leavers	9	9	9	9	8
Total	**614**	**605**	**590**	**1,630**	**1,604**

The increase in membership seen from 2018/19 to 2019/20 was as a result of the merge of the Strathclyde No. 3 Fund into the Aberdeen City Council Transport Fund. As the ACCTF is a closed admission and it is very mature in nature, the combined membership totals will therefore continue to reduce on an annual basis from 2020/21 thereon.

Management Expenses

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000
Administration	50	51	50	60	72
Oversight and Governance	38	72	31	49	131
Investment Management	157	868	231	181	447
Total Management Expenses	**245**	**991**	**312**	**290**	**650**

Unit Cost Per Member

	2016/17 £	2017/18 £	2018/19 £	2019/20 £	2020/21 £
Administrative Unit Cost per Member	81.43	84.30	84.75	36.81	44.89
Oversight and Governance Unit Cost per Member	61.89	119.01	52.54	30.06	81.67
Investment Management Unit Cost per Member	255.70	1,434.71	391.52	111.04	278.68
Total Cost per Member	**399.02**	**1,638.02**	**528.81**	**177.91**	**405.24**

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.

7. Economic and Market Background

During a very tumultuous year with the COVID-19 pandemic significantly impacting markets, the MSCI All World index ended the year up 16%. After a sharp decline in March, global equities rallied in the second quarter, the strongest quarter since 2009, and continued to rise during the second half of the year. Travel restrictions, social distancing measures, lockdowns and a transition to “working from home” became the new normal for millions of people around the globe. Positive vaccine news in the fourth quarter presented a turning point in the fight against COVID-19. The market responded positively as the MCSI All World index gained another 15% in Q4. Global stock markets made a strong start to 2021 with the MSCI All World index up 4.6%.

In contrast, bond markets sold off as investors focused on the prospects for higher inflation. The Biden administration’s investment plans overwhelmed any concern around the path of interest rates, but central bankers may have a difficult task ahead in balancing rising inflation and monetary policy. Rising bond yields undermined longer-duration sectors and value-related names outperformed in the later part of the quarter. Regionally, the US and UK led markets while Emerging Markets and Developed Asia lagged.

US Equities

The global spread of coronavirus shook financial markets with high levels of volatility and a historical sell-off in March. The S&P 500 rallied during the second half of the year with growth stocks driving market performance. Positive investor sentiment came from encouraging news about the development of COVID-19 vaccines, the election of President Biden, and the U.S. government’s passage of various stimulus packages. This optimism spilled into 2021; however, performance during the first few months of 2021 was characterised by value as it began to outperform growth in the market.

UK Equities

COVID-19 caused one of the most rapid falls in equity markets ever witnessed. At the height of the market sell-off, all assets fell amid fears around the stability of the financial system. Announcements of fiscal and monetary stimulus were ongoing and provided some respite throughout the period. The market rallied with November’s vaccine news and then again to the Brexit trade deal, with domestically focused areas of the market outperforming. Rising bond yields undermined longer-duration sectors and a rebound in cyclical earnings drove a rally in value-related areas of the market. This continued into the first quarter of 2021 optimism around recovery trumped concerns around virus variants.

European Equities

European markets were generally characterised by historically high volatility amid the pandemic. However, following positive vaccine news and roll-out, markets have seen the start of a significant recovery. In particular, the value sectors of the market led the recovery rally. Since then, markets have largely traded around high-level macro narratives regarding the re-opening of economies, vaccine roll outs and data, a likely earnings recovery as well as inflationary pressures and interest rate moves. Macro data remains strong and markets are optimistic about Europe’s outlook as vaccine rollouts progress and the strength of the global consumer shines through.

Emerging Markets Equities

Much of 2020 was driven by shifts in investor sentiment surrounding COVID-19. Countries that were able to respond (and rebound) quickly, such as China and South Korea, dominated performance, while a lack of investor confidence caused many smaller markets to lag, despite material improvements in economic conditions. Towards the end of 2020 however, saw a major reversal in market support driven by a positive vaccination news and a more stable geopolitical environment, leading to a rotation from growth into cyclical value that has persisted into 2021.

Japanese Equities

The Japanese stock market fell due to high COVID-19 infection rates globally, geopolitical risk and the US-China relationship impacting markets. Toward the end of the 2020, the Nikkei Stock Average hit a 30-year high due to the enactment of additional fiscal policies in the US. The market has shown a resilient performance due to the distribution of vaccines outside Japan and the continuation of accommodative monetary policies in Japan and the US. Subsequently, there were some negative reactions to fluctuating US stocks and rising US interest rates. Despite the support of monetary easing policies around the world, it advanced toward mid-March owing to the commencement of the administration of vaccines in Japan, robust corporate earnings, and rising expectations for additional fiscal policies in the US.

Bonds

The second quarter of 2020 was broadly characterised by a rebound in investor sentiment following a historic sell-off in the second half of the first quarter. Developed market government bond yields were generally range-bound given the countering forces of significant debt issuance to fund large fiscal packages and ultra-accommodative easing from central banks, while euro-zone peripheral spreads compressed tighter on positive policy developments. Riskier assets rallied across asset classes and regions to pare back much of the losses from the first quarter which continued into the third quarter. This subsided in September amid concerns of policy fatigue and the sustainability of the pick-up in economic activity.

From a monetary policy perspective, the most significant development came from the US Fed and its newly announced flexible inflation rate. The forward guidance points to a willingness to allow inflation to run above 2% given the persistent tendency to undershoot, and so that inflation averages 2% over “some time”.

The year ended with strong performance in risk assets, capping off a remarkable turnaround from the first quarter. US Treasury yields sold off on the back off the US election outcome and positive vaccine news, while government bond yields were range-bound in other areas such as the UK, Germany and Japan.

Expectations of faster real economic growth driven by vaccination roll-out and easing lockdowns meant developed market government bonds yields were sold off sharply across regions including Australia, the UK, the US and Germany.

UK Property

The UK commercial Real Estate market was dominated by coronavirus-fighting measures which saw many businesses suffer extended closures and challenging trading conditions. According to the Centre for Retail Research, 52 retailers in 2020 entered into administration. We have seen a trend of online companies buying brands out of administration but leaving behind the physical stores, fuelling occupational demand in the industrial sector.

These impacts were crystallised when the Royal Institution of Chartered Surveyors and major valuers unanimously added a “Material Valuation Uncertainty” clause (MUC) to their real estate valuations as at 31 March 2020. Majority of UK open-ended Real Estate funds suspended trading as they were prevented from being able to issue a ‘reliable’ NAV. Transaction volumes were down by c.80%, £3 billion in Q2 vs £15.4 billion in Q1. As more transactional evidence emerged it became possible for valuers to incrementally lift the MUC clauses on the most defensive assets and by September the MUC was lifted from virtually all remaining asset sub-sectors.

Offices saw vacancy rates increase at pace convincing occupiers to return space to the market. On average, London availability has risen by 30% in 2020, pushing one third of submarkets into double digit vacancy. As a result, we expect rents in Central London to fall in the first half of 2021 however regional central business district offices are expected to be more resilient.

Many of the risks at the end of last year have in part been lessened in 2021, and we can look to a quicker, more complete recovery with a greater degree of confidence. The Q1 2021 performance of the MSCI/AREF UK All Balanced Property Fund Index has helped justify the positive outlook for UK Real Estate. Delivering a 2.2% total return in Q1, this has been the best quarterly return for the benchmark since Q4-17 and the strongest Q1 performance since 2015.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:			
FTSE All Share Index	26.7	3.2	6.3
FTSE All World Index	39.6	13.8	14.9
FTSE All World ex UK Index	40.0	14.2	15.1
FTSE North American Index	42.4	17.0	16.7
FTSE European (ex UK) Index	35.0	8.4	11.1
FTSE Japan Index	26.0	6.7	11.6
FTSE Developed Asia (ex Japan) Index	50.5	9.1	12.6
FTSE Emerging Markets Index	40.3	7.3	12.6
Bonds:			
BOFAML UK Gilts All Stocks	-5.6	2.5	2.9
ML UK Corporate Bonds	7.0	4.1	4.6
FTA Index Linked All Stocks	2.3	3.3	5.8
Source: Bloomberg			

8. 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.

There are a range of fund managers employed to again spread risk, with different style biases, each with clear and documented agreements in place detailing their investment mandates. The Funds also employ an independent Global Custodian.

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

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

Asset Structure 2020/21

Asset Class	**Distribution as at 31 March 2020**		**Distribution as at 31 March 2021**	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	65.5	57.5	68.8	55.0
Bonds / Credit	20.0	20.0	15.5	22.5
Property / Infrastructure	12.6	20.0	11.7	20.0
Cash / Other	1.9	2.5	4.0	2.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

The NESPF continues to re-balance assets in line with its revised investment strategy, aiming to de-risk by reducing exposure to equities and increasing real assets and alternatives.

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

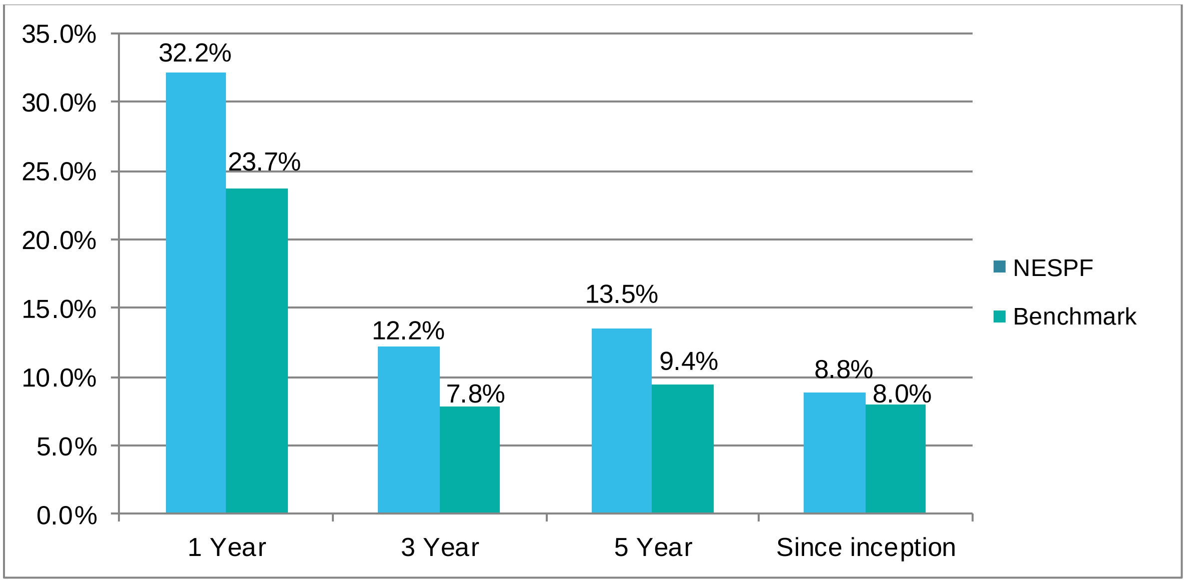
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been very strong, with a bounce back in valuations as optimism of coming out of lockdown and an economic recovery gathered momentum. Given that recovery in Equity valuations in particular, the Fund continues to re-balance and fold in investment gains made. The outperformance in the 1 year performance number of 32.2% versus benchmark of 23.7% is attributable to active management providing additional value to the Fund.

It is notable that the Fund continues to outperform the benchmark returns over all periods and comparators such as CPI and Average Earnings over the longer term. This provides assurance that the Fund's Investment Strategy works and will continue to deliver the required returns over the longer term.

The graph below shows the 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	2018/19 %	2019/20 %	2020/21 %	Since Inception Annualised %
CPI*	1.9	1.5	0.7	2.5
Average Earning*	3.2	2.4	4.0	2.8
NESPF Return	8.5	-1.8	32.2	8.8

*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.

9. ACCTF De-Risking Strategy and Performance

Over the course of last year, the Strathclyde Transport Fund (No.3 Fund) has formally merged with the Aberdeen City Council Transport Fund. Given the merger and strong asset performance over the last year, both funds have achieved their investment objectives of being 100% funded. In terms of re-organising the merged Transport Fund, an insurance ‘Buy-In’ has been completed for both sets of liabilities which covers future benefit payments of those combined liabilities. Remaining assets have an interim investment strategy in place to manage volatility, whilst the exercise is being conducted into the best solution to align to the new target.

10. Risk

A key element to risk management is the structured delegation of powers from the Council to the Pensions Committee and then to Senior Officers. To complement the delegation to Senior Managers, there is extensive and detailed accountability back to Committee on how these delegations have been exercised. Full details of the structure of delegated powers are contained in the Pension Funds' 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 services are very dependent upon third party contracts ranging from IT through to investment managers. All are subject to regular review and monitoring.

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee and can be found within the Committee packs. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified.

11. 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 Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2020 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

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

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

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

13. Environmental, Social and Governance Issues

Responsible Investment & Engagement

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

What does this look like in practice?

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

<u>Collaboration</u>

There are limits to the influence we can achieve as a single investor and we believe greater progress can be made through collaboration with other investors. Our main collaboration is with the Local Authority Pension Fund Forum (LAPFF) and our External fund managers.

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £300 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues. Councillor M. Tauqeer Malik, our Pensions Committee convenor, is a member of the LAPFF executive committee.

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

1. **<u>Mining & Human Rights</u>**

   Context - The mining sector has long faced challenges from investors on climate change. Along with CCLA and other investors, LAPFF played a role in developing the 2016 'Aiming for A' resolutions filed with AngloAmerican, Glencore, and Rio Tinto. However, the sector has also long faced human rights challenges. These challenges have been magnified in the last few years through the tailings dam collapses at Mariana and Brumadinho, and the destruction of culturally significant caves at Juukan Gorge in mid-2020.

   Activities - The human rights implications of mining activities have started to increase in importance relative to climate impacts of mining companies.

   One aspect of this awareness has emerged to social actors, including workers and communities. The other angle of this development is the increased role of community voice contributing to investor understanding of corporate conduct.

LAPFF specifically has focused on engaging with mining company chairs to ensure that they see effective community engagement as an important strategic consideration for their companies.

Outcomes - The result is increased pressure on mining companies to comply with international human rights standards, both legal and voluntary. This includes an imperative for mining companies to uphold the new Global Tailings Standard produced by the Principles for Responsible Investment, the UN Environment Programme, and the International Council on Mining and Metals.

Of particular relevance has been the provision in UN Guiding Principle 11, stating: 'The responsibility to respect human rights is a global standard of expected conduct for all business enterprises wherever they operate.'

For the first time, a group of investors have convened to discuss the mining sector and engagement with affected communities in order to help inform this standard of expected conduct. This group represents a powerful additional tool in investors' engagement toolkit with mining companies, one the Forum expects to yield significant benefits in both human rights and investment terms.

2. Climate Change

Context - The Forum was lead investor with ArcelorMittal for a couple of years through the ClimateAction 100+ collective engagement, and initial meetings suggested there was scope for a greater strategic and business focus on the required climate transition. The aim was to promote net zero target setting for the group and to support technologies and partnerships most suited to directly meeting these objectives.

Activities - A number of meetings have been held with ArcelorMittal over the course of the year, as well as the submission of questions to the AGM. An issue raised consistently in meetings with company representatives has been around the use of hydrogen in steelmaking to decarbonise the process.

Outcomes - It was thus welcome to hear that the company had produced its first steel with hydrogen from renewables in 2020 in Europe. The announcement during the year that the company will reduce CO2 emissions by 30% by 2030 in Europe was later followed by the setting of an objective for the group as a whole to be carbon-neutral by 2050.

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

Fund Managers

Through our fund managers we can engage with companies more directly by raising concerns and meeting with Senior Management and Executives. For example, our Fund Manager helped ensure further health and safety practices were implemented within one of the biggest automotive companies to increase protection of staff.

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

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

- Climate Action 100
- Carbon Disclosure Project
- UN Principles for Responsible Investment

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

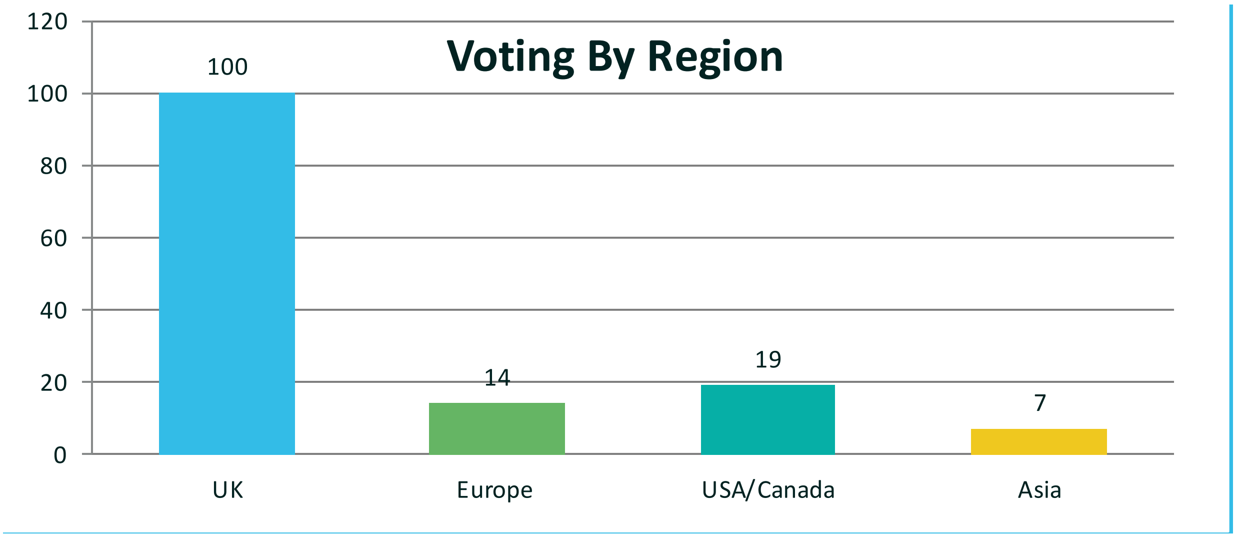
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

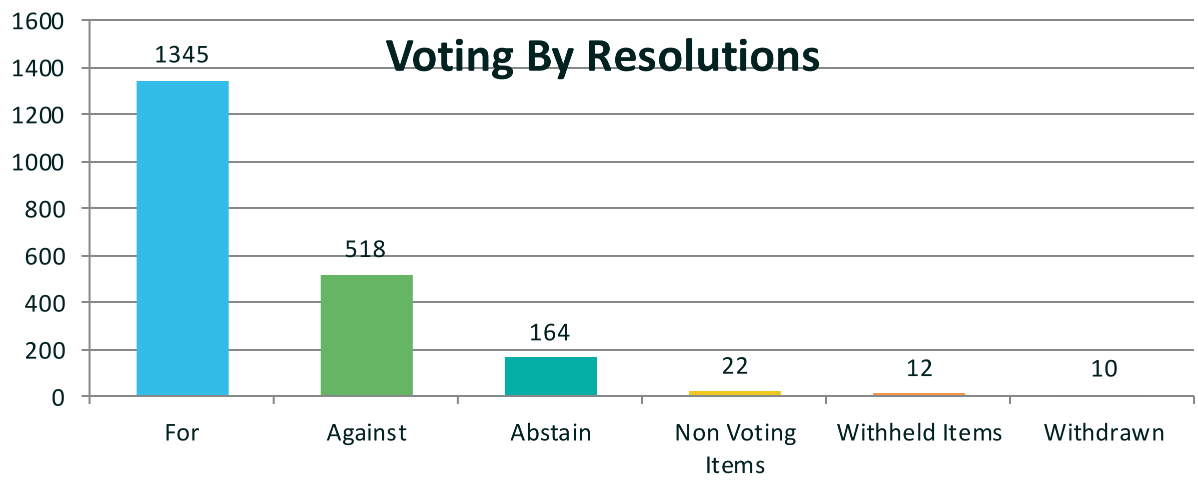
Voting

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

The Funds vote in-house on all our active managers holdings and over the last year have voted at 140 Annual General Meetings/Special meetings on 2071 resolutions. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

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





During the year to 31 March 2021, 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.
- Concerns over sustainability policies and 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.

14. 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 2020/21 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

17 September 2021

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 audited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 17 September 2021.

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 audited 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 2021.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
17 September 2021

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 2020/21 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 level 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;
- 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.

Following the COVID-19 outbreak, all Council Committees were suspended. The purpose of the Urgent Business Committee (UBC) is to determine business of an urgent nature which might otherwise have been reported to Full Council or other Committees and Sub-Committees.

During the period of suspension, both Committee and Board members were in regular contact with Officers to receive updates, demonstrating an ongoing commitment to the effective governance of the Fund. Board and Committee meetings resumed in September 2020.

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 is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2020/21, 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.

The focus of internal audit was on the Pension Funds' Pension Payroll with the outcome reported to the June 2021 Pensions Committee together with any identified areas of good practice, improvement, and procedural compliance.

The Chief Internal Auditor's annual report concluded that in his opinion reasonable assurance can be placed upon the adequacy and effectiveness of the NESPF's framework of governance, risk management and control in the year to 31 March 2021. The full Internal Audit report can be found on the Fund's website www.nespf.org.uk.

At the Pensions Committee meeting on 25 June 2021, the 2021/22 internal audit plan was approved to review pension systems. The audit will focus on IT systems and consider whether appropriate control is being exercised including access, contingency planning, disaster recovery and data input.

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 2020/21, 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 2020/21 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	**Jonathan Belford, CPFA**	**Councillor M. Tauqeer Malik**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council

17 September 2021

Governance Compliance Statement

Principle	Compliance
1. Structure	
a) That employer representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Partially compliant as per the Scheme Governance Compliance Statement
b) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Fully compliant as per the Scheme Governance Compliance Statement
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-Scheme employers, e.g. admitted bodies), ii) Scheme members (including deferred and pensioner Scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Partially compliant as per the Scheme Governance Compliance Statement
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.	Fully compliant as per the Scheme Governance Compliance Statement
3. Voting	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Compliance Statement

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 2020/21 financial year and its position at year end as at 31 March 2021.

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 (Scotland) Regulations.

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

Investment Income

Interest income is recognised in the Fund 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 accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

The 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 accruals basis.

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £9,830,496 in 2020/21 (2019/20 £6,047,983).

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 2021 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 a Note to the Accounts.

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2021 was £670,855,928 (31 March 2020 £485,085,848).

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.

Insurance Buy-In Contract

In 2020/21, ACCTF purchased a bulk annuity insurance buy-in contract with Rothesay Life PLC. The insurer underwrites the risk of meeting the liabilities of a specified group of pensioners on the ACCTF pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension.

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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:

- Definition of a Business: Amendments to IFRS 3 Business Combinations
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16.

These amendments help give clarification or are generally minor in nature. Overall, these new or amended standards are not expected to have a significant impact on the Financial Statements.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2021

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	2019/20	2020/21
		£'000	**£'000**
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2	30,857	32,047
Employers' Contributions	2	110,335	110,072
Transfer Values	3	2,811	1,369
Other Income		4	4
Additions		**144,007**	**143,492**
Retirement Pensions	4	114,657	129,178
Retirement Allowances	4	30,298	22,545
Death Gratuities	4	4,189	5,278
Contributions Refunded	5	571	328
Transfer Values	5	5,072	10,875
Withdrawals		**154,787**	**168,204**
Net (Additions)/Withdrawals from dealings with members		**10,780**	**24,712**
Management Expenses	6a	**20,197**	**26,769**
Net (Additions)/Withdrawals including Fund Management Expenses		**30,977**	**51,481**
Return on Investment			
Investment Income	7	56,494	59,548
Taxes on Income	7	(178)	(135)
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	(127,964)	1,402,715
Net Return on Investments		**(71,648)**	**1,462,128**
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		**(102,625)**	**1,410,647**
Opening Net Assets of the Fund		**4,469,167**	**4,366,542**
Net Assets of the Fund at the end of the year		**4,366,542**	**5,777,189**

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	**£'000**
Investment Assets			
Equities		1,372,264	2,258,827
Pooled Funds	9	2,124,895	2,308,311
Direct Property	13	348,750	361,325
Private Equity – Other		322,825	432,023
Private Debt		83,435	136,979
Funds held by Investment Managers		60,266	70,372
ACC Loans Fund Deposit	19	67,480	54,605
Investment Income Due		3,685	9,113
Investment Sales Amount Receivable		0	255
Investment Purchases Returned Amount Receivable		0	2,788
Total Investment Assets		**4,383,600**	**5,634,598**
Investment Liabilities			
Investment Purchases Amount Payable		(1,711)	(306)
Net Investment Assets		**4,381,889**	**5,634,292**
Long Term Assets	18a	**81**	**467**
Current Assets	18b	15,106	180,351
Current Liabilities	18c	(30,534)	(37,921)
Net Current Assets/(Liabilities)		**(15,428)**	**142,430**
Net Assets of the Fund at the end of the year		**4,366,542**	**5,777,189**

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
17 September 2021

The unaudited accounts were authorised on 25 June 2021 and the audited accounts were authorised for issue by Jonathan Belford on 17 September 2021.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2021

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	2019/20	2020/21
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2a	129	133
Employers' Contributions	2a	1,908	1,800
Other Income	2b	348	9,073
Additions		**2,385**	**11,006**
Retirement Pensions	3	7,061	9,816
Retirement Allowances	3	1,734	969
Death Gratuities	3	324	78
Transfer Value Paid	4	0	251
Withdrawals		**9,119**	**11,114**
Net (Additions)/Withdrawals from dealings with members		**6,734**	**108**
Management Expenses	5a	290	650
Net (Additions)/Withdrawals including Fund Management Expenses		**7,024**	**758**
Return on Investment			
Investment Income	6	224	480
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7a	(6,060)	18,380
Net Return on Investments		**(5,836)**	**18,860**
Revaluation of Insurance Buy In Contract	13c	**0**	**(22,320)**
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		**(12,860)**	**(4,218)**
Transfer of Strathclyde Transport Fund Assets (Cash & Stock)	7b	**216,388**	**0**
Opening Net Assets of the Fund		**105,300**	**308,828**
Net Assets of the Fund at the end of the year		**308,828**	**304,610**

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2021

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

	Notes	2019/20	2020/21
		£'000	£'000
Investment Assets			
Bonds		164,934	60,164
Pooled Funds	8	135,282	13,248
Funds held by Investment Managers		8,304	22,599
ACC Loans Fund Deposit	16	429	2,010
Investment Income Due		148	55
Investment Sales Amount Receivable		0	0
Total Investment Assets		**309,097**	**98,076**
Investment Liabilities			
Investment Purchases Amount Payable		(675)	0
Net Investment Assets		**308,422**	**98,076**
Insurance Buy In Contract		0	206,442
Lifetime Tax Allowance		269	242
Long Term Assets	15a	**269**	**206,684**
Current Assets	15b	909	796
Current Liabilities	15c	(772)	(946)
Net Current Assets/ (Liabilities)		**137**	**(150)**
Net Assets of the Fund at the end of the year		**308,828**	**304,610**

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
17 September 2021

The unaudited accounts were authorised on 25 June 2021 and the audited accounts were authorised for issue by Jonathan Belford on 17 September 2021.

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 2020.

Information from the 2020 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£4,367,000,000
Liabilities	£4,254,000,000
Surplus	£ 113,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	103%

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 12 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 21.7% (the Primary contribution rate.) By spreading the surplus over 12 years the Secondary contribution rate for the whole Fund is -2.5% meaning that the average employer contribution rate is 19.2% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2020 Actuarial Valuation report. This sets out the contributions for each employer over the 3 year period to 31 March 2024.

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 2024. 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 2024 onwards will be revised as part of the next actuarial valuation as at 31 March 2023 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate (past service)	3.35% p.a.
Discount Rate (future service)	3.60% p.a.
Assumed Long Term Price Inflation (CPI)	2.10% p.a.
Salary Increases – Long term	3.60% p.a.
Salary Increases – Short term	Varied by employer*
Pension Increases in Payment	2.10% p.a.

*Short term pay restraint was allowed for over the three years following the valuation.

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 £6,003m (2020 £5,252m). Included within the calculation for 2021 is the estimated cost of extending GMP indexation to all members reaching State Pension Age after 6th April 2021 in line with Government requirements. In addition, the figure shown includes the effect of transferring responsibility for pre 1986 pension increase liabilities of £8.7m to the ACCTF on 31 March 2021. These figures are used for the statutory accounting purposes by North East Scotland Pension Fund and comply 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	2019/20	2020/21
	£'000	£'000
Employees' Normal Contributions	**30,857**	**32,047**
Employers' Normal Contributions	107,777	107,424
Employers' Deficit Recovery Contributions	2,558	2,648
Total Employers' Contributions	**110,335**	**110,072**
Total	**141,192**	**142,119**

By Authority	2019/20	2020/21
	£'000	£'000
Administering Authority	40,926	40,221
Scheduled Bodies	86,618	87,681
Admitted Bodies*	13,648	14,217
Total	**141,192**	**142,119**

*There is no longer a requirement to separate out Transferee Bodies for the above analysis. Therefore, Transferee Bodies (£5,390 2020/21 and £4,921 2019/20) will be included within the total for Admitted Bodies.

Note 3: Transfers in from other Pension Funds

	2019/20	2020/21
	£'000	£'000
Individual Transfers	2,811	1,369
Total	**2,811**	**1,369**

Note 4: Benefits Payable

By Category	2019/20	2020/21
	£'000	£'000
Pensions	114,657	129,178
Commutation and Lump Sum Retirement Benefits	30,298	22,545
Lump Sum Death Benefits	4,189	5,278
Total	**149,144**	**157,001**

By Authority	2019/20	2020/21
	£'000	£'000
Administering Authority	41,103	40,249
Scheduled Bodies	94,819	103,910
Admitted Bodies*	13,222	12,842
Total	**149,144**	**157,001**

*There is no longer a requirement to separate out Transferee Bodies for the above analysis. Therefore, Transferee Bodies (£1,814 2020/21 and £2,010 2019/20) will be included within the total for Admitted Bodies.

Note 5: Payment to and on Account of Leavers

	2019/20	2020/21
	£'000	£'000
Refunds to Members Leaving Service	565	341
Payments for Members Joining State Scheme	6	(13)
Individual Transfers	5,072	4,221
Bulk Transfers*	0	6,654
Total	**5,643**	**11,203**

*Bulk Transfer of Visit Scotland to Lothian Pension Fund

Note 6a: Management Expenses

	2019/20	2020/21
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	1,203	1,252
Information Technology	400	491
Supplies & Services	115	136
Accommodation	84	334
Printing and Publications	20	23
Administration Expenses Total	**1,822**	**2,236**
Pension Fund Staffing Costs – Investment	168	172
Pension Fund Committee	16	3
Pension Board	8	0
External Audit Fee	40	42
Internal Audit Fee	7	7
Actuarial Fees	49	321
General Expenses	134	168
Oversight and Governance Expenses Total	**422**	**713**
Investment Management	10,293	11,950
Performance Fees	6,048	9,830
Direct Operating Property Expenses	664	744
Transaction Costs	823	1,154
Custody Fees	125	142
Investment Management Expenses Total	**17,953**	**23,820**
Management Expenses Grand Total	**20,197**	**26,769**

Note 6b: Investment Management Expenses by Asset Class

2020/21	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	4,880	8,386		1,074	14,340
Pooled Funds	629	267		80	976
Direct Property	1,026		744		1,770
Private Equity	4,194	1,067			5,261
Private Debt	1,221	110			1,331
Subtotal	**11,950**	**9,830**	**744**	**1,154**	**23,678**
				Custody Fees	142
				Grand Total	**23,820**

2019/20	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	2,477	5,158		589	8,224
Pooled Funds	652			234	886
Property	1,056		664		1,720
Private Equity	5,131	890			6,021
Private Debt	977				977
Subtotal	**10,293**	**6,048**	**664**	**823**	**17,828**
				Custody Fees	125
				Grand Total	**17,953**

Note 6c: Analysis of Transaction Costs

Commission £'000	Fees/Tax £'000	2019/20 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2020/21 Total £'000
192	397	**589**	Equities	297	777	**1,074**
0	234	**234**	Pooled Funds	0	80	**80**
192	**631**	**823**	**Total**	**297**	**857**	**1,154**

Note 7: Investment Income

	2019/20	2020/21
	£'000	**£'000**
Equity Dividends	25,573	20,825
Property Rental Income	17,442	16,634
Interest on Cash Deposit	1,395	160
Pooled Funds	7,506	12,207
Private Equity	670	3,223
Private Debt	1,946	6,695
Other (including P/L from Currency & Derivatives)	1,962	(196)
Total	**56,494**	**59,548**
Tax		
Withholding Tax – Equities	(178)	(25)
Withholding Tax – Pooled Infrastructure	0	(75)
Withholding Tax – Private Equity	0	(35)
Total Tax	**(178)**	**(135)**
Net Total	**56,316**	**59,413**

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2020	**Purchases**	**Sales**	**Change in Market Value**	**Market Value 31 March 2021**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	1,372,264	501,526	(504,555)	889,592	2,258,827
Pooled Funds	2,124,895	535,484	(749,953)	397,885	2,308,311
Property	348,750	29,153	(18,715)	2,137	361,325
Private Equity	322,825	52,486	(51,681)	108,393	432,023
Private Debt	83,435	50,167	(1,331)	4,708	136,979
	4,252,169	**1,168,816**	**(1,326,235)**	**1,402,715**	**5,497,465**
Other					
Cash	127,746				124,977
Investment Income Due	3,685				9,113
Investment Sales Amount Receivable	0				255
Investment Purchases Returned Amount Receivable	0				2,788
Investment Purchases Amount Payable	(1,711)				(306)
Net Investment Assets	**4,381,889**				**5,634,292**

Reconciliation of Movements in Investment and Derivatives (continued)

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	1,688,329	146,422	(474,723)	12,236	1,372,264
Pooled Funds	1,979,846	441,993	(135,175)	(161,769)	2,124,895
Property	328,025	28,849	0	(8,124)	348,750
Private Equity	280,903	51,997	(42,637)	32,562	322,825
Private Debt	18,428	73,883	(6,007)	(2,869)	83,435
	4,295,531	**743,144**	**(658,542)**	**(127,964)**	**4,252,169**
Other					
Cash	178,671				127,746
Investment Income Due	5,799				3,685
Investment Sales Amount Receivable	664				0
Investment Purchases Returned Amount Receivable	0				0
Investment Purchases Amount Payable	(890)				(1,711)
Net Investment Assets	**4,479,775**				**4,381,889**

Note 9: Analysis of Investments

	2019/20	2020/21
	£'000	**£'000**
Equities	**1,372,264**	**2,258,827**
Pooled Funds Breakdown:		
Bonds	790,122	746,001
Equities	847,033	1,170,458
Diversified Growth Funds	310,820	186,158
Infrastructure - Unit Trust	98,094	103,840
Infrastructure - Limited Partnership	78,826	101,854
Pooled Funds	**2,124,895**	**2,308,311**
Direct Property	348,750	361,325
Private Equity	322,825	432,023
Private Debt	83,435	136,979
Other Investments	**755,010**	**930,327**
Funds held by Investment Managers	60,266	70,372
ACC Loans Fund Deposit	67,480	54,605
Investment Income Due	3,685	9,113
Investment Sales Amount Receivable	0	255
Investment Purchases Returned Amount Receivable	0	2,788
Other Balances	**131,431**	**137,133**
Investment Assets Total	**4,383,600**	**5,634,598**
Investment Liabilities		
Investment Purchases Amounts Payable	(1,711)	(306)
Investment Liabilities Total	**(1,711)**	**(306)**
Net Investment Assets	**4,381,889**	**5,634,292**

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2021.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2021.

Note 11: Investments Analysed by Fund Manager

	31 March 2020		31 March 2021	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,234,017	28.3	1,454,889	25.2
Baillie Gifford	1,022,435	23.4	1,824,861	31.6
BlackRock Asset Management	388,970	8.9	504,659	8.7
BlackRock Diversified Growth Fund	158,096	3.6	186,163	3.2
Blackrock Renewable Power III	0	0.0	8,571	0.2
Baring Asset Managers	(3)	0.0	0	0.0
AAM Property (API)	370,869	8.5	387,485	6.7
AAM Property Residential	9,138	0.2	21,064	0.4
HarbourVest	136,620	3.1	212,576	3.7
Standard Life	22,567	0.5	18,049	0.3
ACC Loans Fund Deposit	67,480	1.5	54,605	1.0
Global Custodian	15,409	0.4	9,659	0.1
Partners Group	58,066	1.3	56,183	0.9
Maven Capital	1,541	0.0	1,182	0.0
Capital Dynamics	36,306	0.8	53,061	0.9
RCP Advisors	23,743	0.6	35,923	0.6
Unigestion	47,941	1.1	48,742	0.8
Invesco Diversified Growth Fund	152,724	3.5	0	0.0
Russell Multi Asset Credit	91,021	2.1	108,399	1.9
Russell Transition	312	0.0	16	0.0
Aviva Infrastructure	98,094	2.3	103,840	1.8
Hermes Infrastructure	78,933	1.8	96,218	1.7
Alcentra	53,683	1.2	70,523	1.2
Hayfin Direct Lending	29,752	0.7	66,455	1.2
Insight Credit	284,175	6.5	311,169	5.4
	4,381,889	**100.3**	**5,634,292**	**97.5**
Net Long and Current Assets				
Bank Account	27	0.0	164,003	2.9
Long Term and Current Debtors Less Creditors	(15,374)	(0.3)	(21,106)	(0.4)
Net Assets	**4,366,542**	**100.0**	**5,777,189**	**100.0**

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

Security	Market Value 31 March 2020	% of Net Investment Assets	Market Value 31 March 2021	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund	416,221	9.50	562,934	9.99
MPF UK Equity Pooled Fund	402,869	9.19	561,352	9.96
MPF UK Index Linked Gilts	206,888	4.72	326,454	5.79
Insight Investment Mgt Global Funds	284,175	6.49	311,148	5.52

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 2020	Collateral Percentage	31 March 2021	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	305,518		384,346	
Total Exposure	**305,518**		**384,346**	
Total Collateral	**329,942**	**108%**	**406,101**	**106%**

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

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

Note 13: Property Holdings

	2019/20	2020/21
	£'000	£'000
Opening Balance	**328,025**	**348,750**
Purchases	27,671	28,538
Construction	676	614
Subsequent Expenditure	502	1
Disposals	0	(18,715)
Net Increase in Market Value	(8,124)	2,137
Closing Balance	**348,750**	**361,325**

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

Unlike 2019-20, Savills' valuation of the Fund's property portfolio no longer includes a 'material valuation uncertainty' clause, as there is adequate quantum of market evidence that exists upon which to base an opinion of value.

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

	2019/20	2020/21
	£'000	£'000
Within One Year	17,266	16,722
Between One Year and Five Years	62,912	60,965
Later than Five Years	98,659	98,716
Total	**178,837**	**176,403**

In accordance with IAS17, the above table has been presented using the 'break date' of the lease agreements.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2020-21 has seen no adjustment being required for a credit loss allowance.

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 by Net Assets Statement heading. No financial assets were reclassified during the accounting period.

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

31 March 2020				31 March 2021		
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			
1,372,264			Equities	2,258,827		
2,124,895			Pooled Funds	2,308,311		
322,825			Private Equity	432,023		
83,435			Private Debt	136,979		
	127,746		Cash		124,977	
	3,685		Other Investment Balances		12,156	
	15,187		Debtors		180,818	
3,903,419	**146,618**		**Subtotal**	**5,136,140**	**317,951**	
			Financial Liabilities			
		(1,711)	Other Investment Balances			(306)
		(30,534)	Creditors			(37,921)
		(32,245)				**(38,227)**
3,903,419	**146,618**	**(32,245)**	**Financial Instruments Total**	**5,136,140**	**317,951**	**(38,227)**
			Non-Financial Instruments			
348,750			Property	361,325		
4,252,169	**146,618**	**(32,245)**		**5,497,465**	**317,951**	**(38,227)**
		4,366,542	**Net Assets of the Fund**			**5,777,189**

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

31 March 2020		31 March 2021
£'000	**Financial Assets**	**£'000**
(119,840)	Fair Value through Profit and Loss	1,400,578
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(119,840)	**Net Gains and Losses on Financial Instruments**	**1,400,578**
	Non-Financial Instruments	
(8,124)	Fair Value through Profit and Loss	2,137
(127,964)	**Net Gains and Losses of the Fund**	**1,402,715**

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 Tim Ainsley MRICS under the supervision of Claire Magowan MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for	

		in accordance with the *RICS Valuation Professional Standard*	existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with *International Private Equity and Venture Capital Valuation Guidelines* (2018)	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

Values at 31 March 2021	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	4,465,284		670,856	**5,136,140**
Non-Financial Assets at Fair Value through Profit and Loss		361,325		**361,325**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**4,465,284**	**361,325**	**670,856**	**5,497,465**

Values at 31 March 2020	Quoted Market Price Level 1	Using Observable Inputs Level 2	With Significant Unobservable Inputs Level 3	Total
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	3,418,333		485,086	**3,903,419**
Non-Financial Assets at Fair Value through Profit and Loss		348,750		**348,750**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**3,418,333**	**348,750**	**485,086**	**4,252,169**

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

	Market Value 31 March 2020	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2021
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Infrastructure – Limited Partnership	78,826	31,030	(912)	912	(8,002)	101,854
Private Equity	322,825	52,486	(51,681)	35,228	73,165	432,023
Private Debt	83,435	50,167	(1,331)	1,331	3,377	136,979
Total	**485,086**					**670,856**

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

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 2021**.**

	Assessed Valuation Range (+/-)	Value at 31 March 2021	Value on Increase	Value on Decrease
		£'000	**£'000**	**£'000**
Infrastructure – Limited Partnership	30%	101,854	132,410	71,298
Private Equity	30%	432,023	561,630	302,416
Private Debt	30%	136,979	178,073	95,885
Total		**670,856**	**872,113**	**469,599**

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 2020/21 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Bonds	7.0%
Overseas Bonds	7.0%
UK Equities	15.9%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	30.0%
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 2021**	**% Change**	**Value on Increase**	**Value on Decrease**
	£'000		**£'000**	**£'000**
UK Bonds	326,453	7.0	349,305	303,601
Overseas Bonds	419,548	7.0	448,916	390,180
UK Equities	1,475,045	15.9	1,709,577	1,240,513
Overseas Equities	1,954,240	20.5	2,354,859	1,553,621
Pooled – Diversified Growth Funds	186,158	12.5	209,428	162,888
Infrastructure - Other	103,840	13.0	117,339	90,341
Infrastructure - Limited Partnership	101,854	30.0	132,410	71,298
Private Equity	432,023	30.0	561,630	302,416
Private Debt	136,979	30.0	178,073	95,885
Total	**5,136,140**		**6,061,537**	**4,210,743**

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	206,888	7.5	222,405	191,371
Overseas Bonds	583,234	7.5	626,977	539,491
UK Equities	991,938	16.5	1,155,608	828,268
Overseas Equities	1,227,358	20.5	1,478,966	975,750
Pooled – Diversified Growth Funds	310,821	12.5	349,674	271,968
Infrastructure - Other	98,094	13.0	110,846	85,342
Infrastructure - Limited Partnership	78,826	30.0	102,474	55,178
Private Equity	322,825	30.0	419,673	225,977
Private Debt	83,435	30.0	108,466	58,404
Total	**3,903,419**		**4,575,089**	**3,231,749**

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 2020 and 31 March 2021 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 2020	As at 31 March 2021
	£'000	£'000
Cash and Cash Equivalents	127,746	124,977
Cash Balances	27	164,003
Bonds	790,122	746,001
Total	**917,895**	**1,034,981**

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 2021**	**Impact**	
		+ 1%	**- 1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	124,977	126,227	123,727
Cash Balances	164,003	165,643	162,363
Bonds	746,001	753,461	738,541
Total	**1,034,981**	**1,045,331**	**1,024,631**

Exposure to Interest Rate Risk	**Asset Values as at 31 March 2020**	**Impact**	
		+ 1%	**- 1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	127,746	129,023	126,469
Cash Balances	27	27	27
Bonds	790,122	798,023	782,221
Total	**917,895**	**927,073**	**908,717**

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 2021 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Asset Value as at 31 March 2021
	£'000	£'000
Overseas Quoted Securities	811,137	1,391,306
Overseas Unquoted Securities	359,274	499,439
Overseas Unit Trusts	791,417	982,482
Overseas Global Pooled Bonds	208,038	0
Total Overseas Assets	**2,169,866**	**2,873,227**

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 9.7%.

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

A 9.7% 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 2021	Potential Market Movement	
		+9.7%	-9.7%
	£'000	£'000	£'000
Overseas Quoted Securities	1,391,306	1,526,263	1,256,349
Overseas Unquoted Securities	499,439	547,885	450,993
Overseas Unit Trust	982,482	1,077,783	887,181
Overseas Global Pooled Bonds	0	0	0
Total	**2,873,227**	**3,151,931**	**2,594,523**

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Potential Market Movement	
		+10.0%	-10.0%
	£'000	£'000	£'000
Overseas Quoted Securities	811,137	892,251	730,023
Overseas Unquoted Securities	359,274	395,201	323,347
Overseas Unit Trust	791,417	870,559	712,275
Overseas Global Pooled Bonds	208,038	228,842	187,234
Total	**2,169,866**	**2,386,853**	**1,952,879**

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 2021 was £288,980,000 (31 March 2020 £127,773,000). This was held with the following institutions as shown below:

Summary	**Rating**	**Balance as at 31 March 2020**	**Balance as at 31 March 2021**
		£'000	**£'000**
Liquidity Funds			
HSBC Liquidity Funds	AA-	34,412	40,450
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	67,480	54,605
HSBC	AA-	25,854	29,922
Subtotal		**127,746**	**124,977**
Bank Current Accounts			
Clydesdale Bank	A-	**27**	**164,003**
Total		**127,773**	**288,980**

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 2021 the value of illiquid assets was £1,032,180,928 which represented 17.9% of the total net assets of the Fund (31 March 2020 £833,835,848 which represented 19.1% of the total net assets).

Note 18a: Long Term Assets

	31 March 2020	31 March 2021
	£'000	£'000
Merge – Transport Funds	81	467
Total Long Term Assets	**81**	**467**

Note 18b: Current Assets

	31 March 2020	31 March 2021
	£'000	£'000
Employees' Contributions due	2,498	2,601
Employers' Contributions due	7,513	7,946
Sundry Debtors	5,068	5,801
Subtotal	**15,079**	**16,348**
Bank	27	164,003
Total Current Assets	**15,106**	**180,351**

Note 18c: Current Liabilities

	31 March 2020	31 March 2021
	£'000	£'000
Sundry Creditors	19,744	33,990
Benefits Payable	10,790	3,931
Total Current Liabilities	**30,534**	**37,921**

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 £1,736,111 (2019/20 £1,534,042).

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 £54,605,000 (2019/20 £67,480,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £53,854 (2019/20 £870,248) 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 2019/20	**Accrued Pension 2020/21**
		£'000	**£'000**
Steven Whyte	Director of Resources	42	44
Jonathan Belford	Chief Officer - Finance	36	38

Governance

As at 31 March 2021, 9 members of the Pensions Committee and 7 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 2020/21, Elected Members' had interests in Sport Aberdeen, Aberdeen International Youth Festival, Aberdeen Foyer, Aberdeen Sports Village, Grampian Valuation Joint Board and Aberdeen Endowments Trust.

Note 21: Contractual Commitments as at 31 March 2021

As at 31 March 2021 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	**Undrawn Commitments**
	£'000	**£'000**
HarbourVest	184,823	21,399
Standard Life	44,045	13,831
Partners Group	86,037	19,165
Maven (SLF)	6,308	44
Capital Dynamics	60,000	16,260
RCP Advisors	32,616	5,580
Unigestion	55,370	9,547
AAM Residential Property	30,000	8,908
Hermes Infrastructure	100,000	2,931
Alcentra EDL	85,185	16,412
Hayfin DLF	85,185	20,843
Blackrock Renewable	72,479	66,141
Total	**842,048**	**201,061**

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:

2019/20		Income (AVCs Paid by Members)		2020/21
£'000				£'000
33		Standard Life		11
2,428		Prudential		1,355

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 2020				31 March 2021
£'000				£'000
1,135		Standard Life		1,114
23,480		Prudential		19,713

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently 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 of the scheme. Insurance bonds are drawn up in favour of the Pension Funds and payment will only be triggered in the event of an employer default. The scheme actuary has been requested to carry out a review of the bond requirement for four admitted bodies as a result of the completion of the triennial valuation as at 30 March 2020.

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 23 Community Admission Bodies and Transferee Admission Bodies currently participating in the scheme.

UK and European law require 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 (GMP). To allow the government to continue to meet these requirements an interim solution was introduced. This means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increase on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. Recent guidance has confirmed that the UK Government extend this requirement to include members reaching State Pension Age after 6 April 2021 onwards.

The McCloud judgement, a legal decision around the Sargent/McCloud cases, has meant that protections put in place for older members when scheme changes were applied in 2015 were deemed as age discriminatory. The impact of this ruling has meant that it is likely that the underpin put in place to ensure that members have not lost out as a result of the introduction of the CARE scheme will be applied to younger members too. The government have outlined their intended approach to remedy this issue which will have a financial impact on the liabilities held.

The cost of both extending the GMP Indexation to all affected members and the increased benefits arising from the McCloud judgement has been taken into account by the scheme actuary when assessing the value of the liabilities for the valuation as at 31 March 2020. The combined effect of these has increased the past service liabilities by broadly £45 million and increased the Primary Contribution Rate requirement by 0.8% per annum from 2020 to 2022.

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. For 2020/21 one employer terminated from the Fund. The assets and liabilities held for this employer were subsumed by the scheme guarantor with a calculated termination fee of zero due upon exit from the Fund. As at 31 March 2021 there are no participating employers in the process of terminating from the Fund.

Changes to the current regulations are expected in 2021 to provide administration authorities greater flexibility in their approach to participating employers exiting from the scheme. These changes seek to allow employers to meet the cost of the scheme over a period of time without accruing more liabilities.

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 Assets Statement as at 31 March 2021 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 £432 million. Private Debt £137 million. Pooled Infrastructure (Unquoted) £102 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 Statement of Accounts was authorised for issue by the Chief Officer – Finance on 17 September 2021. 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 2021, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 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:

	2019/20	**2020/21**
	£'000	**£'000**
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,386	2,390
Aberdeenshire Council	1,380	1,381
Moray Council	720	707
Scottish Water	1,286	1,291
Other	310	289
Total	**6,082**	**6,058**

	2019/20	**2020/21**
	£	**£**
Associated Payroll Cost	**4**	**4**

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial Report for the Aberdeen City Council Transport Fund was provided as at 31 March 2020. Information from the 2020 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£309,000,000
Liabilities	£272,000,000
Surplus	£ 37,000,000

Funding Level

The Level of Funding in terms of the Percentage of Assets available to meet Liabilities	114%

The valuation included the assets and liabilities transferred to the ACCTF from the Strathclyde No. 3 Fund during 2019/20.

Achieving the Solvency Funding Target

The calculated primary contribution requirement rate for the active membership of the ACCTF as of 31 March 2020 is 43.7% plus £140,000 per annum. However, the calculated surplus, including allowing for the impact of the McCloud judgement, is enough to offset this for their projected working lifetime. This has allowed the administering authority to agree that no employer contributions will be required for the period of 01 April 2021 to 31 March 2024. This reflects the certified rate outlined in the ACCTF Actuarial Valuation Report as at 31 March 2020.

Contribution requirements for the period from 1 April 2024 onwards will be revised as part of the next actuarial valuation as at 31 March 2023 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate	0.70% p.a.
Assumed Long Term Price Inflation (CPI)	2.25% p.a.
Salary Increases – First Aberdeen	2.75% p.a.
Salary Increases – First Glasgow	3.625% p.a.
Pension Increases in Payment	2.25% p.a.

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.

Post Valuation Events

Following the merge of the Strathclyde No.3 Fund into the ACCTF, the Fund has entered into a buy-in arrangement with Rothesay Life Plc. This policy insures the pensions that were in payment for both First Aberdeen and First Glasgow as at 19 November 2020. The policy is another step in the de-risking strategy for this maturing, closed Fund.

Historically, some First Aberdeen members were members of the NESPF whilst they were employed under the Grampian Regional Transport Authority. Following deregulation and the creation of the ACCTF responsibility for pension increase on the benefits accumulated before 26 October 1986 remained with the NESPF. The recharging of these benefits was carried out monthly on a £ for £ basis. For administrative ease First Group agreed that the responsibility for these liabilities could be transferred to the ACCTF and therefore a capitalisation payment of £8.7m was made in respect of the calculated value.

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 £238m (2020 £217m). 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 2a: Contributions Receivable

	2019/20	2020/21
	£'000	£'000
Employees' Normal Contributions	**129**	**133**
Employers' Normal Contributions	408	300
Employers' Deficit Recovery Contributions	1,500	1,500
Total Employers' Contributions	**1,908**	**1,800**
Total	**2,037**	**1,933**

	2019/20	2020/21
	£'000	£'000
Scheduled Bodies	2,037	1,933
Total	**2,037**	**1,933**

Note 2b: Other Income

	2019/20	2020/21
	£'000	£'000
Pre 1986 Monthly Payments (Ended Jan'21)	348	291
Pre 1986 Final Settlement	0	8,782
Total	**348**	**9,073**

Note 3: Benefits Payable

	2019/20	2020/21
	£'000	£'000
Pensions	7,061	9,816
Commutation and Lump Sum Retirement Benefits	1,734	969
Lump Sum Death Benefits	324	78
Total	**9,119**	**10,863**

	2019/20	2020/21
	£'000	£'000
Scheduled Bodies	9,119	10,863
Total	**9,119**	**10,863**

Note 4: Payment to and on Account of Leavers

	2019/20	2020/21
	£'000	£'000
Individual Transfers	0	251
Total	**0**	**251**

Note 5a: Management Expenses

	2019/20	2020/21
	£'000	£'000
Pension Fund Staffing Costs – Administration	40	42
Information Technology	12	15
Supplies and Services	4	4
Accommodation	3	10
Printing and Publications	1	1
Administration Expenses Total	**60**	**72**
Pension Fund Staffing Costs – Investment	8	9
Pension Fund Committee	1	0
External Audit Fee	1	1
Actuarial Fees	34	116
General Expenses	5	5
Oversight and Governance Expenses Total	**49**	**131**
Investment Management	163	427
Custody Fees	18	20
Investment Management Expenses Total	**181**	**447**
Management Expenses Grand Total	**290**	**650**

Note 5b: Investment Management Expenses by Asset Class

2020/21	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**
Bonds	173	0	0	**173**
Pooled Funds	254	0	0	**254**
Subtotal	**427**	**0**	**0**	**427**
			Custody Fees	20
			Grand Total	**447**

2019/20	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**
Bonds	62	0	0	**62**
Pooled Funds	101	0	0	**101**
Subtotal	**163**	**0**	**0**	**163**
			Custody Fees	18
			Grand Total	**181**

Note 6: Investment Income

	2019/20	2020/21
	£'000	**£'000**
Bonds	113	457
Pooled Funds	44	20
Interest on Cash Deposits	40	1
Other (including P/L from Currency & Derivatives)	27	2
Total	**224**	**480**
Tax -		
Withholding Tax – Bonds	0	0
Withholding Tax – Pooled Funds	0	0
Total Tax	**0**	**0**
Net Total	**224**	**480**

Note 7a: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2020	Purchases	Sales	Change in Market Value	Market Value 31 March 2021
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	164,934	138,829	(246,596)	2,997	60,164
Pooled Funds	135,282	25,815	(163,232)	15,383	13,248
	300,216	**164,644**	**(409,828)**	**18,380**	**73,412**
Other					
Cash	8,733				24,609
Investment Income Due	148				55
Investment Sales Amount Receivable	0				0
Investment Purchases Amount Payable	(675)				0
Net Investment Assets	**308,422**				**98,076**

	Market Value 31 March 2019	Purchases	Sales	Change in Market Value	Market Value 31 March 2020
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	27,793	145,755	(8,310)	(304)	164,934
Pooled Funds	76,192	223,147	(158,301)	(5,756)	135,282
	103,985	**368,902**	**(166,611)**	**(6,060)**	**300,216**
Other					
Cash	4,321				8,733
Investment Income Due	3				148
Investment Sales Amount Receivable	918				0
Investment Purchases Amount Payable	(3,999)				(675)
Net Investment Assets	**105,228**				**308,422**

Note 7b: Transfer of Strathclyde Transport Fund Assets

	2019/20	2020/21
	£’000	**£’000**
Cash	180,500	0
Pooled Investment – Unit Trust	35,888	0
Total	**216,388**	**0**

Note 8: Analysis of Investments

	2019/20	2020/21
	£’000	**£’000**
Bonds	**164,934**	**60,164**
Pooled Funds Breakdown:		
Bonds	66,554	13,248
Equities	35,360	0
Diversified Growth Funds	33,368	0
Pooled Funds	**135,282**	**13,248**
Cash Deposits	8,733	24,609
Investment Income Due	148	55
Investment Sales Amount Receivable	0	0
Other Balances	**8,881**	**24,664**
Investment Assets Total	**309,097**	**98,076**
Investment Liabilities		
Investment Purchases Amount Payable	(675)	0
Investment Liabilities Total	**(675)**	**0**
Net Investment Assets	**308,422**	**98,076**

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2020		31 March 2021	
	£'000	%	£'000	%
Schroders	103,888	33.7	95,250	97.2
Schroders (Transition)	204,105	66.2	816	0.8
ACC Loans Fund Deposit	429	0.1	2,010	2.0
Net Investment Assets	**308,422**	**100.0**	**98,076**	**100.0**

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

Security	Market Value 31 March 2020	% of Net Investment Assets	Market Value 31 March 2021	% of Net Investment Assets
	£'000		£'000	
Schroder SSF Sterling Liq Fund	3,516	1.1	13,248	13.5
UK Treasury 1.25% IL 22/11/2032	0	0.0	5,044	5.1
LGIM Active Corporate Bond	33,830	11.0	0	0.0
Schroder Pension Mgt Life DGF Series 8	21,703	7.0	0	0.0
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	15,924	5.2	0	0.0

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

There was no stock lending in operation as at 31 March 2021.

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 by Net Assets Statement heading. No financial assets were reclassified during the accounting period.

31 March 2020				31 March 2021		
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			
164,934			Fixed Interest	60,164		
135,282			Pooled Funds	13,248		
0			Insurance Buy-In Contract	206,442		
	8,733		Cash		24,609	
	148		Other Investment Balances		55	
	1,178		Debtors		1,038	
300,216	**10,059**	**0**	**Subtotal**	**279,854**	**25,702**	**0**
			Financial Liabilities			
		(675)	Other Investment Balances			0
		(772)	Creditors			(946)
300,216	**10,059**	**(1,447)**		**279,854**	**25,702**	**(946)**
		308,828	**Financial Instruments Total**			**304,610**
0			**Non - Financial Instruments**	**0**		
300,216	**10,059**	**(1,447)**		**279,854**	**25,702**	**(946)**
		308,828	**Net Assets of the Fund**			**304,610**

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

31 March 2020		31 March 2021
£'000		£'000
	Financial Assets	
(6,060)	Change in Market Value of Investments	18,380
0	Revaluation of Insurance Buy-In Contract	(22,320)
(6,060)	**Fair Value through Profit and Loss**	**(3,940)**
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(6,060)	**Net Gains and Losses on Financial Instruments**	**(3,940)**
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
(6,060)	**Net Gains and Losses of the Fund**	**(3,940)**

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 Aberdeen City Council Transport 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
Insurance Buy-In Contract	Level 3	Provided by the Fund's Actuary allowing for estimated level pensions paid and the change in the discount rate used to value the Buy In.	Key underlying inputs for the valuation are the discount rate and life expectancy.	Adjustments to discount rate and life expectancy.

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2021	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	73,412	0	206,442	**279,854**
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)	**73,412**	**0**	**206,442**	**279,854**

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2020	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	300,216	0	0	**300,216**
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)	**300,216**	**0**	**0**	**300,216**

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

Bulk Annuity Insurance Buy-In Contract

	Total
	£'000
Opening Balance as at 1 April 2020	**0**
Stock Transfer	210,058
Cash Transfer	22,108
Level Pensions Paid by Insurer	(3,404)
Actuarial Revaluation	(22,320)
Closing Market Value as at 31 March 2021	**206,442**

Note 13d: Sensitivity of Assets Valued at Level 3

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

		Valuation 31 March 2021	Valuation Increase	Valuation Decrease
Change in Assumptions	**Adjustment**	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	206.4	220.3	193.9
Life Expectancy Adjustment	(+/-) 1 Year	206.4	216.3	197.1

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

Note 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 2020/21 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.0%
UK Bonds	7.0%
Overseas Bonds	7.0%
UK Equities	15.9%
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 2021	% Change	Value on Increase	Value on Decrease
	£’000		**£’000**	**£’000**
UK Bonds	73,412	7.0	78,551	68,273
UK Equities	0	15.9	0	0
Overseas Equities	0	20.5	0	0
Pooled – Diversified Growth Funds	0	12.5	0	0
Total	**73,412**		**78,551**	**68,273**

Asset Type	Value as at 31 March 2020	% Change	Value on Increase	Value on Decrease
	£’000		**£’000**	**£’000**
UK Bonds	231,488	7.5	248,850	214,126
UK Equities	15,924	16.5	18,551	13,297
Overseas Equities	19,436	20.5	23,420	15,452
Pooled – Diversified Growth Funds	33,368	12.5	37,539	29,197
Total	**300,216**		**328,360**	**272,072**

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 2020 and 31 March 2021 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 2020	As at 31 March 2021
	£'000	£'000
Cash and Cash Equivalents	8,733	24,609
Cash Balances	733	758
Bonds	231,488	73,412
Total	**240,954**	**98,779**

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 2021	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	24,609	24,855	24,363
Cash Balances	758	766	750
Bonds	73,412	74,146	72,678
Total	**98,779**	**99,767**	**97,791**

Exposure to Interest Rate Risk	Asset Values as at 31 March 2020	Impact	
		+1%	-1%
	£'000	£'000	£'000
Cash and Cash Equivalents	8,733	8,820	8,646
Cash Balances	733	740	726
Bonds	231,488	233,803	229,173
Total	**240,954**	**243,363**	**238,545**

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 2021 and as at the previous year end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2020	Asset Value as at 31 March 2021
	£'000	£'000
Overseas Unit Trusts	19,436	0
Total Overseas Assets	**19,436**	**0**

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 9.7%.

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

A 9.7% 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 2021	Potential Market Movement	
		+9.7%	**-9.7%**
	£'000	**£'000**	**£'000**
Overseas Unit Trust	0	0	0
Total	**0**	**0**	**0**

Assets Exposed to Currency Risk	Asset Value as at 31 March 2020	Potential Market Movement	
		+10.0%	**-10.0%**
	£'000	**£'000**	**£'000**
Overseas Unit Trust	19,436	21,380	17,492
Total	**19,436**	**21,380**	**17,492**

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 2021 was £25,367,000 and at 31 March 2020 £9,466,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2020	Balance as at 31 March 2021
		£’000	**£’000**
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	429	2,010
HSBC	AA-	8,304	22,599
Subtotal		**8,733**	**24,609**
Bank Current Accounts			
HSBC	AA-	731	756
Clydesdale Bank	A-	2	2
Total		**9,466**	**25,367**

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. There were no illiquid investment assets as at 31 March 2021 and 31 March 2020.

However, the Fund does hold a long term asset with Rothesay Life PLC of £206,442,000 as at 31 March 2021 (Nil as at 31 March 2020). The insurer underwrites the liabilities for a specified group of pensioners and will pay the cost of monthly pension payments for this group so long as they or their dependants are entitled to a pension.

Note 15a: Long Term Assets

	31 March 2020	31 March 2021
	£'000	£'000
Insurance Buy-In Contract	0	206,442
Lifetime Tax Allowance	269	242
Total Long Term Assets	**269**	**206,684**

Note 15b: Current Assets

	31 March 2020	31 March 2021
	£'000	£'000
Employees' Contributions due	3	3
Employers' Contributions due	132	7
Sundry Debtors	41	28
Subtotal	**176**	**38**
Bank	733	758
Total Current Assets	**909**	**796**

Note 15c: Current Liabilities

	31 March 2020	31 March 2021
	£'000	£'000
Sundry Creditors	285	360
Benefits Payable	487	586
Total Current Liabilities	**772**	**946**

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 £57,854 (2019/20 - £53,751).

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 £2,010,000 (2019/20 - £429,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £426 (2019/20 - £2,590) for the Aberdeen City Council Transport Fund.

Note 17: Contingent Assets/Liabilities

UK and European law require 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 (GMP). To allow the government to continue to meet these requirements an interim solution was introduced. This means that public sector pension schemes are required to provide full Consumer Price Index (CPI) pension increase on GMP benefits for members who reach State Pension age between 6 April 2016 and 5 April 2021. Recent guidance has confirmed that the UK Government extend this requirement to include members reaching State Pension Age after 6 April 2021 onwards.

The McCloud judgement, a legal decision around the Sargent/McCloud cases, has meant that protections put in place for older members when scheme changes were applied in 2015 were deemed as age discriminatory. The impact of this ruling has meant that it is likely that the underpin put in place to ensure that members have not lost out as a result of the introduction of the CARE scheme will be applied to younger members too. The government have outlined their intended approach to remedy this issue which will have a financial impact on the liabilities held.

The cost of both extending the GMP Indexation to all affected members and the increased benefits arising from the McCloud judgement has been taken into account by the scheme actuary when assessing the value of the liabilities for the valuation as at 31 March 2020. The combined effect of these has increased the past service liabilities by broadly £2 million and increased the Primary Contribution Rate requirement by >0.1% per annum from 2020 to 2022.

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.

Governance

In 2020/21, one Board member had an interest in First Group plc.

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 Assets Statement at 31 March 2021 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.
Insurance Buy-In Contract	The Insurance Buy-In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note13d Sensitivity Analysis.

Note 21: Events after the Balance Sheet Date

The Statement of Accounts was authorised for issue by the Chief Officer – Finance on 17 September 2021. 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 2021, 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.

Independent Auditor’s Report

Independent auditor’s report to the members of Aberdeen City Council as administering authority for North East Scotland Pension Fund and the 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 North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the funds) for the year ended 31 March 2021 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 2020/21 (the 2020/21 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the financial transactions of the funds during the year ended 31 March 2021 and of the amount of 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 2020/21 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 five 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 concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work I have performed, I have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the funds' ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

Risks of material misstatement

I report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that I identified and my judgements 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 the 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.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the funds are complying with that framework;
- identifying which laws and regulations are significant in the context of the funds;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which my procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the funds' controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

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.

Reporting on other requirements

Statutory other information

The Chief Officer - Finance is responsible for the statutory other information in the annual report. The statutory other information comprises the information other than the financial statements and my auditor's report thereon.

My responsibility is to read all the statutory other information and, in doing so, consider whether the statutory 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 this gives rise to a material misstatement in the financial statements themselves. If, based on the work I have performed, I conclude that there is a material misstatement of this statutory other information, I am required to report that fact. I have nothing to report in this regard.

My opinion on the financial statements does not cover the statutory other information and I do not express any form of assurance conclusion thereon except to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

Opinions 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; and
- 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 the 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

17 September 2021

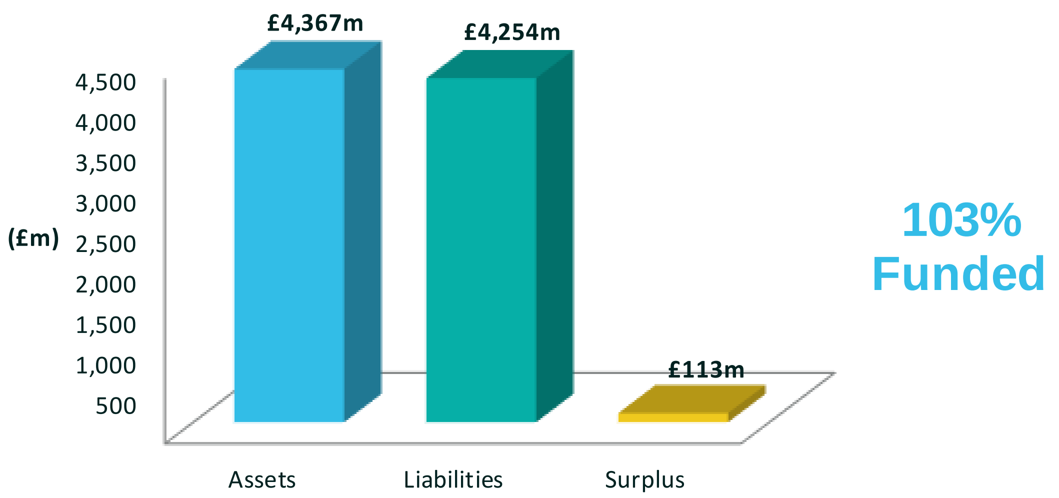
Appendix 1 – Statement by the Consulting Actuary

ACCOUNTS FOR THE YEAR ENDED 31 MARCH 2021 - 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 2020 to determine the contribution rates with effect from 1 April 2021 to 31 March 2024.



On the basis of the assumptions adopted, the Fund's assets of £4,367 million represented 103% of the Fund's past service liabilities of £4,254 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £113 million.

The valuation also showed that a Primary contribution rate of 21.7% 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 FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this.

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the average weighted spread period adopted is 12 years and the total initial surplus offset (the “Secondary rate” for 2021/22) is an offset of approximately 2.5% of pay per annum (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS), including the estimated costs in relation to the McCloud judgement.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2021.

In practice, each individual employer’s position is assessed seperately 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 Solvency Funding Target and the Primary rate of contribution were as follows:

	For past service liabilities (Funding Target)	**For future service liabilities (Primary rate of contribution)**
Rate of return on investments (discount rate)	3.35% per annum	3.60% per annum
Rate of pay increases (long term)*	3.6% per annum	3.6% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.1% per annum	2.1% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.1% 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 2023. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2024.

The McCloud Judgement

The “McCloud judgement” refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2015. The above funding level and Primary contribution rate include an allowance for the estimated cost of the McCloud judgement.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2020. Both before and after this date we have seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has far-reaching consequences in terms of funding and risk, which were considered as part of the valuation process, but will need to be kept under review. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events, and this was reflected in the valuation approach. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. Further flexibilities allowing for intervaluation contribution reviews are expected to be consulted on soon.

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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of pay increases*	3.6% per annum	4.2% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.8% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.7% 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 (detailed in last year's statement in respect of the 31 March 2020 figures, and updated to the 2020 valuation assumptions for 31 March 2021). Full details of 2020 valuation assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields decreased, from 2.4% p.a. vs 2.1% p.a. resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year. In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. 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 2020 was estimated as £5,252 million, including an estimate of the potential impact of the McCloud Judgement.

Interest over the year increased the liabilities by c£124 million. Allowing for net benefits accrued/paid over the period then increased the liabilities by c£33 million (this includes the impact of early retirements/augmentations). There was an increase in liabilities of £594 million made up of "actuarial losses" i.e the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed. This also accounts for the incorporation of the 31 March 2020 actuarial valuation results into the IAS26 figures.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £6,003 million.

GMP Indexation

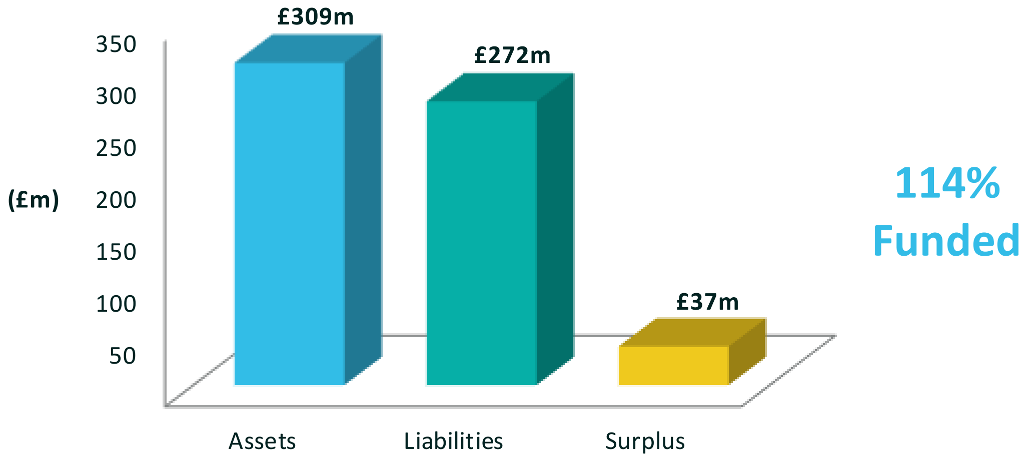
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Pre 1986 recharges

Previously recharges were passed from the ACCTF to the NESPF for c£350,000 p.a. The liabilities quoted above at 31 March 2020 are shown gross of the related liabilities which were recharged to the NESPF in respect of pre 1986 pension increases, whilst the liabilities shown at 31 March 2021 are net of these. This is because a capitalisation payment of £8.7m was made to the ACCTF on 30 March 2021 in respect of these, which means that they are now the responsibility of the ACCTF.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2020 to determine the contribution rates with effect from 1 April 2021 to 31 March 2024.



On the basis of the assumptions adopted, the Fund's assets of £309 million represented 114% of the Fund's past service liabilities of £272 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £37 million. The valuation also showed that a Primary contribution rate of 43.7% of pensionable pay per annum was required from the employer. Due to the rapidly declining payroll, admin expenses have been quoted as a £ amount separately meaning an additional £140,000 p.a. is payable on top of the above rate. 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 FSS is to achieve and maintain a solvency funding level of 100% of liabilities (the solvency funding target). In line with the FSS, where a shortfall exists at the effective date of the valuation a recovery plan will be put in place which requires additional contributions to correct the shortfall. Equally, where there is a surplus it is usually appropriate to offset this against contributions for future service, in which case contribution reductions will be put in place to allow for this. The FSS sets out the process for determining the recovery plan. The surplus at the last actuarial valuation date (including allowance for the estimated costs in relation to the McCloud judgement) is sufficient to offset the primary contribution requirements for the projected future working lifetime of the active membership. Therefore the administering authority and employers have agreed that no employer contributions will be required for the period of the rate certificate.

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2021.

The valuation was carried out using the attained age actuarial method and the main actuarial assumptions used for assessing the Solvency 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)	0.7% per annum
Rate of pay increases (short term)	n/a
Rate of pay increases (long term)	2.75% per annum (First Aberdeen) 3.625% per annum (First Glasgow)
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.25% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.25% per annum

Note that the CPI assumption differs pre and post 2030. The pension increase and salary assumptions reference CPI. As such the above are broad single equivalent figures

The assets were assessed at market value (note that the buy-in occurred after the valuation date).

The next triennial actuarial valuation of the Fund is due as at 31 March 2023. Based on the results of this valuation, the contribution rate payable will be revised with effect from 1 April 2024.

The McCloud Judgement

The "McCloud judgement" refers to a legal challenge in relation to historic benefit changes for all public sector schemes being age discriminatory. The Government has accepted that remedies are required for all public sector pension schemes and a consultation was issued in July 2020 including a proposed remedy for the LGPS. The key feature of the proposed remedy was to extend the final salary underpin to a wider group of members for service up to 31 March 2022. This applies to all members who were active on or before 31 March 2012 and who either remain active or left service after 1 April 2015. In line with guidance issued by the LGPS Scheme Advisory Board, the above funding level and Primary contribution rate include an allowance for the estimated cost of the McCloud judgement.

Impact of COVID-19

The valuation results and employer contributions above were assessed as at 31 March 2020. Both before and after this date we have seen significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic. This potentially has consequences in terms of funding and risk, which were considered as part of the valuation process, but will need to be kept under review. We believe that it is important to take stock of the situation as opposed to making immediate decisions in what is an unprecedented set of events, and this was reflected in the valuation approach. The position will be kept under review by the Administering Authority who will monitor the development of the situation and keep all stakeholders informed of any potential implications so that the outcome can be managed effectively. Further flexibilities allowing for intervaluation contribution reviews are expected to be consulted on soon.

First Glasgow, pensioner buy-in transaction and pre 1986 recharges

First Glasgow Limited was admitted as an employer to the Fund in late 2019 and the 2020 valuation was therefore the first valuation of the ACCTF as a multi-employer Scheme. The Fund subsequently completed a £232m pensioner buy-in transaction with the Rothesay Life Plc in November 2020. This transaction insures the pension payments of 1,371 pensioners across both employers through a pensioner-only buy-in.

In relation to existing and former employees of First Aberdeen Ltd, pension increases in deferment and payment in respect of benefits accrued prior to 26 October 1986 were previously recharged monthly on a £ for £ basis to the North East Scotland Pension Fund (NESPF). This was because as part of the deregulation of transport services the liability remained with the Grampian Regional Transport Authority (a historic employer in the NESPF) and not First Aberdeen Ltd. Recharges passed to the NESPF were c£350,000 p.a.. The liabilities quoted at the 31 March 2020 are shown net of the liabilities which are recharged to the NESPF in respect of the pre 1986 pension increases, whilst the liabilities shown at 31 March 2021 are gross of these. This is because a capitalisation payment of £8.7m was made on 30 March 2021 in respect of these which means that they are now the responsibility of the ACCTF.

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 2021 (the 31 March 2020 assumptions are included for comparison):

	31 March 2020	31 March 2021
Rate of return on investments (discount rate)	2.4% per annum	2.1% per annum
Rate of pay increases (First Aberdeen)	2.6% per annum	3.2% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.2% per annum	2.8% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.1% per annum	2.7% per annum

The demographic assumptions are the same as those used for funding purposes (detailed in last year's statement in respect of the 31 March 2020 figures, and updated to the 2020 valuation assumptions for 31 March 2021). Full details of 2020 valuation assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields decreased, from 2.4% p.a. vs 2.1% p.a. resulting in a lower discount rate being used for IAS26 purposes at the year-end than at the beginning of the year. In addition, the expected long-term rate of CPI inflation increased during the year, from 2.1% p.a. to 2.7%. 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 2020 was estimated as £217 million.

Interest over the year increased the liabilities by c£5 million. Allowing for net benefits accrued/paid over the period then decreased the liabilities by c£10 million (this includes the impact of early retirements/augmentations). There was an increase in liabilities of £26 million made up of "actuarial losses" i.e the effects of the changes in the actuarial assumptions used, referred to above, offset to a small extent by the fact that the 2021 pension increase award was less than assumed. This also accounts for the incorporation of the 31 March 2020 actuarial valuation results into the IAS26 figures.

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2021 is therefore £238 million.

GMP Indexation

The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 6 April 2021 onwards. This will give rise to a further cost to the LGPS and its employers, and an estimation of this cost was included within the IAS26 liabilities calculated last year and is again included in the overall liability figure above.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited

May 2021

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2020	New Admissions	Ceased	Employers as at 31 March 2021
Scheduled Bodies	11	0	1	10
Admission Bodies	39	0	1	38
Total	**50**	**0**	**2**	**48**

Ceased during 2020/21:

1.	Visit Scotland	Scheduled
2.	Inspire Catering Scotland LLP	Admitted

Participating Employers as at 31 March 2021:

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.	NESTRANS	Scheduled
11.	Robertson Facilities Management (Shire)	Admitted
12.	Bon Accord Care Ltd	Admitted
13.	Bon Accord Support Services Ltd	Admitted
14.	Aberdeen Heat & Power Ltd	Admitted
15.	Station House Media Unit	Admitted
16.	Aberdeen Sports Village	Admitted
17.	Sport Aberdeen	Admitted
18.	Robertson Facilities Management (City)	Admitted
19.	Forth & Oban Ltd	Admitted
20.	Alcohol and Drugs Action	Admitted
21.	Idverde UK	Admitted
22.	Citymoves Dance Agency	Admitted
23.	Xerox (UK) Ltd	Admitted
24.	Forth and Oban Ltd (Shire)	Admitted
25.	Aberdeen Endowments Trust	Admitted
26.	North East Sensory Services	Admitted
27.	Aberlour Child Care Trust	Admitted
28.	Fraserburgh Harbour Commissioners	Admitted

29.	Peterhead Port Authority	Admitted
30.	Robert Gordon University	Admitted
31.	Robert Gordon’s College	Admitted
32.	Aberdeen Cyrenians	Admitted
33.	Mental Health Aberdeen	Admitted
34.	Fersands & Fountain Community Project	Admitted
35.	SCARF	Admitted
36.	Inspire (Partnership Through Life) Ltd	Admitted
37.	Archway	Admitted
38.	St Machar Parent Support Project	Admitted
39.	Printfield Community Project	Admitted
40.	HomeStart Aberdeen	Admitted
41.	Aberdeen Foyer	Admitted
42.	HomeStart NEA	Admitted
43.	Pathways	Admitted
44.	Outdoor Access Trust for Scotland	Admitted
45.	Osprey Housing	Admitted
46.	Aberdeen Performing Arts	Admitted
47.	Sanctuary Scotland Housing Association Ltd	Admitted
48.	Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled
2.	First Glasgow	Scheduled