North East Scotland Pension Fund

Annual Report & Accounts

For the period 1 April 2021 to 31 March 2022

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

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Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2021/22 Annual Report and Accounts.

Following the COVID-19 outbreak in 2020 and subsequent market volatility, 2021/22 continued to be a difficult period. While there was optimism through the rollout of Covid vaccinations and a gradual return to a more familiar, pre-pandemic world, the rise of Covid variants, intermittent lockdowns and restrictions, and the invasion of Ukraine, meant 2021/22 was a rather unpredictable year.

However, the North East Scotland Pension Fund has navigated through these financial challenges, with total asset value increasing from £5,777m to £5,902m as at 31 March 2022.

In such turbulent times, it is imperative that the Fund maintains its long term approach which has delivered successful outcomes over many years. Our diversified portfolio helps spread the risk of exposure to any one investment area or stock, minimising the impact of financial shocks.

Meanwhile the asset value for the Aberdeen City Council Transport Fund (ACCTF) fell from £304.6m to £290.1m.

Administratively, the Fund continued to make use of technological improvements and systems to push administration and communications online. In line with the Administration Review, the Fund conducted a recruitment drive resulting in 6 additional posts being filled. This will ensure the Fund continues to meet its requirements moving forward and deliver an exceptional service to all members, employers and other stakeholders.

Looking ahead to 2022/23, challenges remain. The rising cost of living, increasing interest rates and global unrest presents some uncertainties. However, the Fund will continue to move forward and adapt to these changing situations. Over the next twelve months the Fund will commence implementing the Administration Review recommendations, drastically updating our procedures and processes for better outcomes. Furthermore, the final step of the transfer and buy in process of the Transport Fund is set to be complete this year, with the Transport Fund merging into the Main Fund.

My sincere thanks to my colleagues on the Pensions Committee and Pension Board, our advisors and, above all, our staff for their hard work and efforts during this year.

Councillor John Cooke
Pensions Committee Convener

2. About the North East Scotland Pension Fund

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

The LGPS is a defined benefit public sector pension scheme that was established under the Superannuation Fund Act 1972. It is one of the main public sector pension schemes in Scotland and provides members with a range of valuable benefits including an annual pension, lump sum payments and a range of pension provisions for family and loved ones. The LGPS is administered locally by 11 government authorities, with Aberdeen City Council acting as the administering authority for the North East.

The NESPF, is comprised of two funds;

1. **The North East Scotland Pension Fund,** sometimes referred to as the Main Fund. With an asset value of over £5.9 billion and 72,000 members it is the third largest LGPS fund in Scotland.

2. **The Aberdeen City Council Transport Fund (ACCTF):** Created in 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen. From 2019 it also includes staff from First Glasgow who transferred from Strathclyde Pension Fund.

For clarity, any reference to “the Fund” will encompass both the NESPF and ACCTF unless otherwise specified.

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

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

3. Administration 2021/22

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pension Board
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

4. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

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

Membership 2021/22

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 2021/22

	25/06/21	17/09/21	10/12/21	25/03/22	Overall Attendance
Cllr Malik	✓	✓	✓	✓	**100%**
Cllr Reynolds	✓	X	✓	x	**50%**
Cllr Crockett	✓	✓	✓	✓	**100%**
Cllr MacGregor	✓	✓	✓	✓	**100%**
Cllr Bell	✓	✓	✓	x	**75%**
Cllr Cooke	✓	Sub	✓	✓	**100%**
Cllr Delaney	✓	✓	✓	✓	**100%**
Cllr Henrickson	✓	✓	✓	✓	**100%**
Cllr Wheeler	✓	✓	✓	✓	**100%**

Notes:

- September 2021 – Councillor Cooke sent Councillor Allard in his absence.

Pension Board

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

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

Membership 2021/22

Unison
Morag Lawrence (Substitute: Kenny Luke)

GMB
Neil Stirling (Vice Chair)

Unite
Alan Walker (Substitute: Graham Gavin Resigned: August 2021)

UCATT
Liam Knox
Resigned September 2021

Gordon Walters
Joined January 2022

Admitted/Scheduled Bodies
Mr Ian Hodgson (First Bus)

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 2021/22

	25/06/21	17/09/21	10/12/21	25/03/22	Overall Attendance
Cllr Yvonne Allan	✓	✓	✓	✓	**100%**
Cllr Alistair McKelvie	✓	✓	✓	X	**75%**
Cllr John Cowe	X	✓	✓	✓	**75%**
Ian Hodgson	✓	✓	✓	✓	**100%**
Neil Stirling	✓	✓	✓	✓	**100%**
Morag Lawrence	✓	Sub	✓	Sub	**100%**
Alan Walker	✓	✓	✓	✓	**100%**
Liam Knox	✓	n/a	n/a	n/a	**100%**
Gordon Walter	n/a	n/a	n/a	✓	**100%**

Notes:

- Liam Knox resigned on 15 September 2021
- Gordon Walter joined Pension Board on 12 January 2022
- Kenny Luke attended as the substitute for Morag Lawrence on both 17 September 2021 and 25 March 2022

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

In assisting with compliance, the Board can report the Fund to the Pensions Regulator for non-compliance with guidance or regulations. In 2021/22 no issues were reported by the Board to the Pensions Regulator.

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

Conflicts of Interest

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

Every 12 months all individuals complete a '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
- if the conflict is so fundamental that it cannot be managed in any other way, the member can resign.

Pensions Committee members are governed by the national Councillors' Code of Conduct. Training on the Code of Conduct was delivered by Aberdeen City Council in May 2021.

Committee and Board Training 2021/22

While Pensions Committee members are not legally obliged to undertake training, the Fund feels strongly that Committee members should receive training to ensure that they have the necessary level of knowledge and understanding to exercise their functions. In accordance with the Training Plan, Committee and Board members are expected to undertake 2 days of training per year. Recording and monitoring of attendance at meetings or training events ensures the requirements of the Training Plan are met.

In 2021/22, attendance for both Pensions Committee and Pension Board members' training is shown below;

	No. of Training Sessions Attended	Training Sessions Attended (See below for corresponding training sessions)							
Pensions Committee									
		A	**B**	**C**	**D**	**E**	**F**	**G**	**H**
Cllr Malik	**2**		✓		✓				
Cllr Reynolds	**3**			✓	✓	✓			
Cllr Crockett	**1**			✓					
Cllr MacGregor	**3**				✓	✓	✓		
Cllr Bell	**3**		✓			✓	✓		
Cllr Cooke	**2**					✓	✓		
Cllr Delaney	**3**	✓						✓	✓
Cllr Henrickson	**4**			✓	✓	✓	✓		
Cllr Wheeler	**0**								
Pensions Board									
Cllr Allan	**2**			✓	✓				
Cllr McKelvie	**3**			✓	✓		✓		
Cllr Cowe	**1**			✓					
Ian Hodgson	**2**			✓	✓				
Neil Stirling	**2**			✓		✓			
Morag Lawrence	**5**		✓	✓	✓	✓	✓		
Alan Walker	**4**	✓	✓	✓		✓			
Liam Knox	**0**								
Gordon Walters	**1***								

*The training listed below in 2021 is not applicable as Gordon Walters joined the Pensions Board in January 2022 and received Introductory training from the Pensions Manager.

Training Sessions:

A. PLSA Conference 18-19 May 2021
The first event of the year was PLSA Local Authority Conference. This is the largest event of its kind organised for Local Government Pension Schemes, exploring a variety of topics such as investment, administration challenges and funding.

B. PLSA ESG Conference – 30 June – 2 July 2021
PLSA's first ESG Conference focused on a range of ESG topics including the impact and financial risks of climate change, social inequality, threats to biodiversity and the need to build back better following COVID-19.

C. Annual Accounts Training – 26 August 2021
Training hosted by the Chief Officer – Finance and the Pensions Manager which focused on the NESPF Annual Report and Accounts.

D. Governance & Investments Training – 6 October 2021

The first of two virtual training sessions led by Highland Pension Fund for all LGPS Committee and Board members in Scotland. This training examined Governance requirements and investment concerns for LGPS funds.

E. LGC Investment Seminar - 21 – 22 October 2021

Held over two days in Edinburgh, this event covered a range of topics including:

- Investment strategies
- Climate change, net zero and sustainability
- Infrastructure
- New Regulator Code of Practice

F. Pension Administration Training – 29 October 2021

The second Scottish Local Government Pension Scheme training which focused on current issues for pensions administration and an overview of administration reporting.

G. SPS Current Investment Issues for Pension Funds – 9 November 2021

Conference discussing investment themes such as high-yield strategies, ESG and low-carbon transition, cost transparency and endgame strategies.

H. SPS LAPF Sustainable Investment Strategies – 18 November 2021

Focusing on range of sustainable and impact investment strategies, with contributions from local authority pension fund representatives and industry experts.

5. Administration and Performance

This year's report focuses on the continued move towards digital communications and processes, administration performance and data quality.

Going Digital

The Fund's member self-service portal, My Pension, continued to be a key tool in providing member information and support throughout 2021/22. With COVID-19 restrictions continuing to limit office working, members were encouraged to self-serve where practical, particularly through the use of My Pension's projectors, online forms and death grant nominations.

2021/22 saw several new features applied to My Pension, including an enhanced upload document page allowing members to upload multiple documents in a single request. The direct interaction My Pension offers between staff and members has been greatly beneficial in reducing reliance on paper and manual administration.

Membership of My Pension continues to grow and as at 31 March 2022 there was more than 34,900 members (+14%) registered for My Pension with 15,377 active members, 9,672 deferred members and 7,933 pensioner members signed up.

In the previous 12 months, 43,329 calculations have been performed on My Pension with 3,932 updates processed on the system, demonstrating continued widespread use of the site.

The Fund's website continues to be another avenue through which members can attain valuable information. The Communications Team regularly update the website with timely data, documentation, and news articles. As at 31 March 2022, key performance indicators for the site were:

- 62,475 users (+11%)
- 45,557 sessions (+14%)
- 2,976 calculations run (+20%)
- 973 contact form submissions (+62%)

Annual Benefit Statements

Following on from the previous year's successes of issuing all Annual Benefit Statements (ABS) digitally through My Pension, the Fund repeated this process for 2021/22.

Moving ABS online offers several advantages, most notably it allows for vast 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 costs of benefit statements have continued to reduce. This is due to:

- Reduced mailing costs – There has been a significant drop in the mailing of letters for ABS as the Fund makes greater use of email. Mailing is the single most expensive element in the ABS process, with mailing costing three times as much as printing.
- Reduced printing costs – While letters are still issued to those not registered with My Pension, there is significantly less issued compared to previous years resulting in a reduction of stationery costs.

The cost of each ABS letter is approximately 53p whereas each email notification costs only 18p. In the long term as we continue to push more members onto My Pension, the Fund will continue to reduce the cost of ABS.

Issuing ABS digitally also offers scope for the Fund to monitor the effectiveness of its ABS campaign and based on results implement changes in subsequent years. Using strategic A/B testing and utilising key performance indicators such as the open rate and click through rate of email campaigns ensures the Fund can modify approaches to maximise engagement with members. As more data is compiled through testing the Fund can further tailor its communications to meet the needs of each target audience.

The overall percentage achieved for providing benefit statements to more than 43,000 active and deferred members prior to the 31 August deadline was 99.64% (99.66% in 2020/21).

Pension Administration Strategy

The Pension Administration Strategy (PAS) focuses on Fund processing against key performance measurements and the quantity and quality of data provided by employers.

NESPF processing performance

Key performance measurement	Target	Work Volume	Target Achieved	2021/22	2020/21
Letter notifying death in service to dependent	5 days	41	37	90%	72%
Letter notifying retirement estimate	10 days	483	467	97%	94%
Letter notifying actual retirement benefit	10 days	2,115	1,818	86%	76%
Letter notifying deferred benefit	10 days	1,176	1,085	92%	69%
Letter notifying amount of refund	10 days	1,306	1,248	96%	93%
Letter detailing transfer in quotes	10 days	111	67	60%	61%
Letter detailing transfer out quotes	10 days	476	276	58%	33%

KPI Performance

This year saw target percentages achieved recover from the previous year, with improvements in all but one measurement despite the ongoing challenges presented by the global pandemic. New procedures and additional resources made this possible along with a greater office presence, as more staff returned to our premises.

Death in service, estimates, deferred benefits and transfer out processing all saw target percentages achieved increase from previous year.

Retirement processing saw a significant improvement, increasing 10% with 500 more cases processed within target. The volume of cases has returned to levels achieved pre-pandemic.

Refund performance has been consistent throughout the pandemic with percentages remaining above 90% and volumes processed above 1,300.

The amount of estimate and transfer out requests continues to be below pre-pandemic levels however contributing to this is the option for members to securely carry out benefit estimates and transfer out quotations online through our secure portal, My Pension.

The overall percentage for targets achieved across all measurements increased from 76% to 88% and expectation for 2022/23 is that this will return to pre-pandemic levels exceeding 90%.

Employer data provision

The Fund continues to work with employers to ensure that good quality, timely monthly data is provided to the Fund. All employers provide data in line with Fund requirements through the secure online portal i-Connect. This directly updates our member database with contribution and pay information as well as ensuring that personal data and contracted hours also mirror the information held by the employer.

The benefits to the Fund of using this system over the last few years cannot be understated.

- The quality of the data held has greatly improved over this period ensuring that we can have reliance on the information held for the calculation of benefits and for actuarial valuation purposes.
- Contribution payments are now tightly controlled via the reporting and reconciliation processes that are undertaken monthly within the team using the data provided at a member level.
- Time and resources required to carry out year end reconciliation and checking has reduced from 328 days (2014) to 30 days (2021).
- Errors and training requirements for employers can be identified easily due to the validations on the system and the checking carried out after each file upload.
- Members have access to up to date information on their individual pension record through My Pension.

For the year 2021/22, i-Connect processed over 1.01 million data 'events' including new starts, leavers, contributions and pay uploads. The work undertaken by the team to check, reconcile and agree this information ensures that the Fund is in the best position to meet the administrative requirements of processing the benefits held.

Data Quality

The quality of data held by the Fund 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 monthly, information held on our database is of a consistently high quality. This ensures that the Fund, participating employers, and members can have confidence in the calculated benefits and the accuracy of the valuation put on the liabilities by the Scheme actuary.

The annual scheme return requires all LGPS funds to score the quality of their data. For accurate scores that are comparable to other funds, the Fund have contracted with Heywood to use their Data Quality Analysis Tool. The annul scheme return scores for 2020 and 2021 are:

	2020	2021	Target
Common Data	98.3%	98.1%	100%
Scheme Specific Data	98.3%	98.8%	100%

The results for 2021 show a reduction in the Common Data score of 0.2%. This relates directly to the number of 'gone away' members that are held within the administration database. Due to the pandemic and resource issues the team have been unable to undertake a tracing exercise in accordance with the Data Quality Improvement Plan. This exercise will be carried out in Summer 2022 following the appointment of a tracing service provider through the National LGPS Framework.

The increase in the Scheme Specific Data in 2021 follows a change to the parameters on one of the tests for Guaranteed Minimum Pension and National Insurance (NI) earnings. The test has been amended to be more accurate and now takes account members who paid reduced NI contributions during their membership (small stamp) which has reduced the fails from 1,067 to 230.

Even though the scores remain high, work continues to improve and maintain data quality using in-depth reports provided by Insights business intelligence software. In accordance with the Data Quality Improvement Plan, the Fund 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 pandemic has impacted on the ability to carry out some of the planned improvements however these will be carried out upon the return to normal working practices.

McCloud Judgement

In December 2018, the Court of Appeal ruled in McCloud vs Ministry of Justice that "transitional protection" offered to some members as part of pension reforms amounted to unlawful discrimination. In July 2019 following the employment tribunal, the Government stated the difference in treatment would be remedied across all public sector schemes.

Draft LGPS regulations published for the remedy extend protections and eligible member benefits will require recalculation to establish if Final Salary benefits would have exceeded CARE benefits.

Although historically we have received data required to calculate Final Salary benefits, we are engaging with employers to identify any missing or incorrect data. Once we are satisfied data is complete, we will start to recalculate eligible members benefit entitlements during the remedy period from 1 April 2015 to 31 March 2022.

Work is ongoing with our software provider to test new programs that will enable us to bulk recalculate benefits and based on the draft regulations we will have more than

16,000 to do. If transitional protection is further extended when the final regulations are published later in the year, then an already significant workload will further increase. Progress delivering the McCloud remedy will be included in quarterly PAS reporting to the Pensions Committee.

6. Financial Performance

2021/22 at a Glance		
North East Scotland Pension Fund		Aberdeen City Council Transport Fund
£152m	Additions	£139k
£158m	Withdrawals	£23m
£27m	Management Expenses	£366k
£158m	Net Return on Investments	£3m
£5,902m	Net Assets of the Fund at the End of the Year	£290m

Key Statistics

North East Scotland Pension Fund		Aberdeen City Council Transport Fund
46	Total Number of Employers	1
72,076	Total Membership	1,566

1,956

Votes at AGMs

47%

All Fund Members Registered for MSS

36.3

Staff Employed (FTE)

2,029

Members to Staff Ratio

North East Scotland Pension Fund Financial Summary

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Withdrawals)**	**(18,219)**	**(19,697)**	**(30,977)**	**(51,481)**	**(33,048)**
Net Investment Income Change in Market Value **Net Return on Investment**	**329,035**	**363,300**	**(71,648)**	**1,462,128**	**157,704**
Net Increase/ (Decrease) in Fund	**310,816**	**343,603**	**(102,625)**	**1,410,647**	**124,656**
Fund Balance as at 31 March (Market Value)	**4,125,564**	**4,469,167**	**4,366,542**	**5,777,189**	**5,901,845**

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 separately from any of the employing bodies which participate in the Fund. The only exception to this is a small investment in Aberdeen City Council's Loan Fund, which varies year on year and represents surplus cash from contributions not yet transferred to the fund managers.

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

Budget

	Note	Actual Spend 2021/22 £'000	Budget or Forecast* 2021/22 £'000	Over or (Under) Spend 2021/22 £'000
Administration Expenses	1	2,388	2,687	(299)
Oversight and Governance Expenses	2	615	797	(182)
Investment Management Expenses		23,901	24,971	(1,070)
Management Expenses Total		**26,904**	**28,455**	**(1,551)**

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

1. Under spend – New staff posts only recently filled.

2. Under spend – New staff post filled during year. No training event held in London. Less investment and actuarial consultancy work.

Membership Statistics

NESPF	2017/18	2018/19	2019/20	2020/21	2021/22
Active	25,568	25,892	26,275	26,315	26,961
Pensioners	20,023	21,029	22,156	22,692	23,854
Deferred	17,218	17,846	17,965	17,704	18,150
Frozen Leavers	2,435	2,759	3,021	2,664	3,111
Total	**65,244**	**67,526**	**69,417**	**69,375**	**72,076**

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 because of changing regulations which allow members to access their pensions from age 55 onwards. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a refund of their contributions.

Management Expenses

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Administration	1,638	1,634	1,822	2,236	2,388
Oversight and Governance	467	474	422	713	615
Investment Management	19,092	18,665	17,953	23,820	23,901
Total Management Expenses	**21,197**	**20,773**	**20,197**	**26,769**	**26,904**

Unit Cost Per Member

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Administrative Unit Cost per Member	25.11	24.20	26.25	32.23	33.13
Oversight and Governance Unit Cost per Member	7.16	7.02	6.08	10.28	8.53
Investment Management Unit Cost per Member	292.62	276.41	258.62	343.35	331.61
Total Cost per Member	**324.89**	**307.63**	**290.95**	**385.86**	**373.27**

Aberdeen City Council Transport Fund Financial Summary

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Contributions Less Benefits and Expenses paid **Net Additions/ (Withdrawals)**	**(2,669)**	**(1,900)**	**(7,024)**	**(758)**	**(23,416)**
Net Investment Income Change in Market Value **Net Return on Investment**	**2,774**	**7,129**	**(5,836)**	**18,860**	**3,083**
Revaluation of Insurance Buy In Contract	**0**	**0**	**0**	**(22,320)**	**5,758**
Net Increase/ (Decrease) in Fund	**105**	**5,229**	**(12,860)**	**(4,218)**	**(14,575)**
Transfer of Cash/Stock	**0**	**0**	**216,388**	**0**	**0**
Fund Balance as at 31 March (Market Value)	**100,071**	**105,300**	**308,828**	**304,610**	**290,035**

Membership Statistics

Transport Fund	2017/18	2018/19	2019/20	2020/21	2021/22
Active	48	42	77	71	61
Pensioners	434	429	1,373	1,372	1,365
Deferred	114	110	171	153	132
Frozen Leavers	9	9	9	8	8
Total	**605**	**590**	**1,630**	**1,604**	**1,566**

The increase in membership seen from 2018/19 to 2019/20 was because 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

	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	2021/22 £'000
Administration	51	50	60	72	81
Oversight and Governance	72	31	49	131	157
Investment Management	868	231	181	447	128
Total Management Expenses	**991**	**312**	**290**	**650**	**366**

Unit Cost Per Member

	2017/18 £	2018/19 £	2019/20 £	2020/21 £	2021/22 £
Administrative Unit Cost per Member	84.30	84.75	36.81	44.89	51.72
Oversight and Governance Unit Cost per Member	119.01	52.54	30.06	81.67	100.26
Investment Management Unit Cost per Member	1,434.71	391.52	111.04	278.68	81.74
Total Cost per Member	**1,638.02**	**528.81**	**177.91**	**405.24**	**233.72**

Remuneration Report

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

Key management personnel for the Funds are explained in the North East Scotland Pension Fund and the Transport Fund Annual Accounts. Councillor and senior employee remuneration is detailed within the Remuneration Report of Aberdeen City Council's Financial Statements.

7. Economic and Market Background

Coming into 2021, the tone in financial markets was one of a renewed sense of optimism about global growth, albeit differentiated between countries and regions, and raised expectations about a pickup in inflation. Vaccine rollout programmes began to reach their later stages in major economies allowing governments to remove lockdown restrictions despite concerns over the Delta variant. Q3 saw a more volatile period for financial markets owing to a combination of rising developed market government bond yields on monetary policy normalisation speculation, and fears of a default in Chinese property developer, Evergrande. 2021 ended on a positive note for riskier assets. After a bout of risk aversion towards the end of the year following the outbreak of Omicron, financial markets quickly rebounded and were further supported by evidence that the new variant was less severe than previous COVID-19 strains, despite being more infectious. The first quarter of 2022 was categorised by volatility primarily driven by oscillating optimism on the Russia-Ukraine conflict and hawkish central bank commentary. Regionally, developed market equities and emerging market equities (to a greater degree) declined steeply whereas UK equity markets made positive gains.

US Equities

U.S. stocks rallied higher in the second, third, and fourth quarters of 2021, despite periods of volatility and investor concerns related to rising inflation, supply chain bottlenecks, and the emergence of new Covid variants. Investor sentiment waned at the start of the 2022 calendar year, and a confluence of factors pushed U.S. stock prices lower including rising interest rates, high inflation, and unthinkable violence and human tragedy in Europe. The broad market S&P 500 Index recorded its worst January since 2009 and officially hit correction territory (a 10%+ decline) in February, before rallying higher in March to close out the annual period.

UK Equities

The UK equity market rose through the period, helped by strong virus inoculation programs and a strong rebound earnings result. However, equity markets remained sensitive to inflation indicators and policymakers became more hawkish as the year progressed. Markets were further conflated by the emergence of new COVID-19 variants throughout the year. As we entered 2022, stock markets weakened as they absorbed the humanitarian and geopolitical ramifications of Russia's invasion of Ukraine and the likely economic impacts. The war has exacerbated inflationary concerns with key commodities across energy and agriculture rising sharply in price. The UK equity market delivered good performance relative to global equities.

European Equities

European equity markets were strong during 2021 reflecting the ongoing market recovery from COVID-19, a cyclical rebound, positive earnings revisions, and underlying accommodative policies. Nevertheless, short but violent rotations, owing to changes in expectations for inflation, interest rates and indeed Covid restrictions, punctuated the market in 2021. So far in 2022, market dynamics have already varied to a great degree; moving from a significant risk-on environment, as the market bid up on strong growth and inflation expectations, to significant risk-off, with sharp market declines, in the face of increasing conflict between Russia and Ukraine.

Emerging Markets Equities

2021 was a volatile period for Emerging Market equities. While stronger commodity prices supported by pent-up global demand were net positive, concerns of accelerated tightening in developed markets to combat inflationary pressures, regulatory overhang in China, and a resurgence of COVID-19 across markets weighed on returns. Despite a very positive start to the year, markets turned sharply ending 2021 down -4.6%. China was hit especially hard as Evergrande's ongoing liquidity crisis shook foreign investors. Similarly, outbreaks across the country and maintenance of a strict zero Covid policy led to a material slowdown in economic activity.

Japanese Equities

The Japanese stock market was weak due to the spread of COVID-19, concerns about the declaration of a third state of emergency, and caution regarding earnings announcements. The market temporarily advanced in Q3 as a change in the Japanese government's leadership was announced and expectations for economic measures by the new administration increased. However, soon after, it declined as investors became more risk averse due to new COVID-19 variant spreads. In Q1 2022, the market recovered due to factors such as increased hopes for progress to be made in peace negotiations between Ukraine and Russia, the interest rate hike decided by the US Federal Open Market Committee (FOMC) being not too far from market expectations, the Bank of Japan's decision to maintain large-scale easing, and the weakening of the yen.

Bonds

The start of 2021 was categorised by a sense of optimism surrounding global growth. The focus from central banks was primarily on how best to normalise policy in a non-disruptive manner. Concerns around waves of COVID-19 continued to linger, with waves of new cases driven by more infectious variants.

Against a stronger economic backdrop and higher inflation, the US Federal Reserve (Fed) was careful with its communication around recalibrating monetary policy with much speculation around the timing of tapering and interest rate hikes. While citing higher inflation as being "transitory" through much of 2021, the Fed also moved away from this language towards the end of the year acknowledging the risk of more persistent, higher inflation. In Europe, the European Central Bank (ECB) maintained a very accommodative policy stance through the Pandemic Emergency Purchase Programme (PEPP), despite reducing the pace modestly in Q4. China's most significant development came from Evergrande as the company was unable to meet a payment on one of its bond obligations as it struggled to handle its $305 billion in outstanding liabilities. However, some of this weakness subsided after the People's Bank of China (PBOC) intervened through cutting the Reserve Requirement Ratio (RRR) by 50 basis points on two separate occasions. Developed market government bond yields ended the year higher given the sharp sell-off in the first quarter. Emerging market debt – both local and hard currency – endured a more challenging year owing to concerns around developed market central banks withdrawing liquidity and idiosyncratic stories.

The start of the year was characterised by a sharp increase in volatility across financial markets. Concerns around inflation and a more hawkish narrative from the Fed, as well as escalating geopolitical tensions between Russia and Ukraine unsettled markets. February was ultimately overshadowed by geopolitical concerns surrounding Russia and Ukraine. Most risk assets struggled in this environment and bond yields remained volatile, finishing slightly higher over the month. Markets tumbled as investors tried to process the enormity of the situation and the potential economic impact of sanctions on Russia – a significant exporter of commodities. Sentiment for risk assets in March was driven by oscillating optimism on the Russia-Ukraine conflict and hawkish central bank commentary. Notwithstanding geopolitical uncertainties and the potential economic implications, policymakers have suggested that they consider upside inflation risk as the more pressing issue to tackle unless the growth outlook markedly worsens.

UK Property

Over the year to Q1 2022, the UK commercial real estate market experienced a recovery from the COVID-19 pandemic, despite being presented with headwinds such as inflation concerns, the Omicron variant, and supply chain issues. UK All property returned 14.5% in 2021, an incredibly strong performance. Transaction volumes also picked up in 2021, only being 8% below the pre-Brexit peak of £73.7 billion.

Despite the restart, not every real estate sector has benefitted equally, and we have been given a first taste of the pandemic's lasting impact on real estate markets. The standout performer was Logistics, particularly last mile and "just-in-case" warehouses where demand far outstrips supply especially in the London urban logistics market, with rents in some cases rising over 30% year-on-year following competition amongst location-critical occupiers. The push to last mile logistics has been driven by the increase in online shopping with 24.3% of retail shopping being online compared to 19.4% in 2019. All in all, industrial returned 31.5% over 2021.

The Office and Retail sectors saw a more mixed performance, with asset location and quality becoming an even larger driver of performance. An uneven restart challenged workers' ability and willingness to return to the office. Retail sector transaction volumes hit c.£7.5 billion in 2021, just below the 10-year average and c.70% above 2020 volumes. We continue to see the polarisation across the retail sector and high street and shopping centres significantly underperformed UK All Property returning -5.2% and -10.0%, respectively. Pressure on the retail sector continues with large workforce absences due to COVID-19 infection coupled with workforce vacancies following Brexit.

The Russia/Ukraine situation has had a large impact on global energy and commodity markets, contributing to high inflation and supply chain issues. In the UK, CPI stands at 6.2% as of February 2022 and is broadly anticipated to peak above 8% and remain high over the remainder of 2022. Logistics will suffer from higher build cost, with steel heading to £300 per ton, which may curtail future supply and expose developers to additional construction risk. Despite moderating from £4.3 billion investment in January to £3.1 billion in February, real estate transaction volumes in the UK have remained stable, however the true extent of the drag on activity arising from geopolitical uncertainty will only come through in the following months.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:			
FTSE All Share Index	13.0	5.3	4.7
FTSE All World Index	14.8	14.8	11.6
FTSE All World ex UK Index	14.5	15.1	11.7
FTSE North American Index	19.2	17.8	14.0
FTSE European (ex UK) Index	6.3	9.6	7.0
FTSE Japan Index	-2.4	6.3	5.0
FTSE Developed Asia (ex Japan) Index	2.2	8.2	6.2
FTSE Emerging Markets Index	-3.6	5.4	5.2
Bonds:			
BOFAML UK Gilts All Stocks	-5.1	-0.5	0.6
ML UK Corporate Bonds	-5.1	1.1	1.6
FTA Index Linked All Stocks	5.1	3.2	3.1

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 Fund 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 Fund takes proper advice at reasonable intervals regarding their investments, through their appointed advisors.

Asset Structure 2021/22

Asset Class	**Distribution as at 31 March 2021**		**Distribution as at 31 March 2022**	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	68.8	55.0	64.9	55.0
Bonds / Credit	15.5	22.5	20.0	22.5
Property / Infrastructure	11.7	20.0	13.1	20.0
Cash / Other	4.0	2.5	2.0	2.5
Total	**100.0**	**100.0**	**100.0**	**100.0**

During this period, NESPF has continued to grow and re-balance assets in line with its investment strategy. Equity gains have been folded into assets such as Real Assets, Credit and Index Linked Bonds.

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

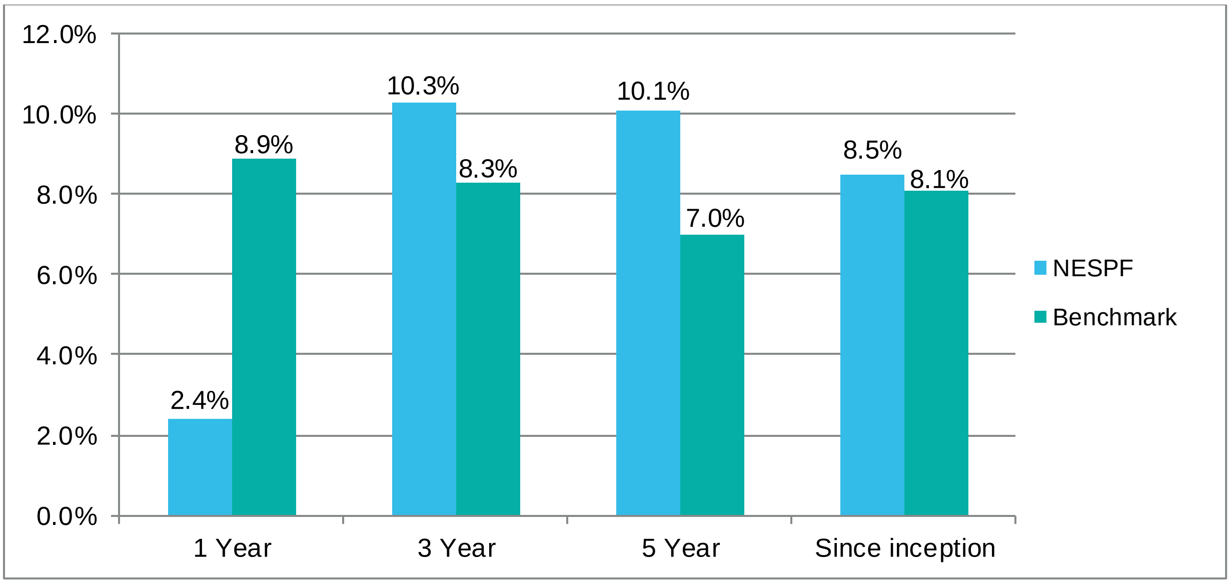
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds / Credit	22.5% (range +/- 5%)
Property / Infrastructure	20.0% (range +/- 5%)
Cash / Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been positive, and were strongly positive until the volatility in the first quarter of 2022. A combination of market sentiment being affected by the conflict in Ukraine and the spectre of interest rates rising more sharply to address inflation, saw both Equities and Bonds decline in value during the quarter. NESPF's re-balancing and positioning more towards Real Assets, Credit and Index Linked Bonds helped in that regard, as a number of those assets come with direct inflation linkage.

It is notable that the NESPF continues to outperform the benchmark returns over longer periods and similarly 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 NESPF'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 NESPF are linked either to wage inflation or to price inflation. It is the NESPF's performance against these benchmarks that affect the long term employer contribution rate, which is variable. Over the longer term, the performance of the NESPF remains ahead of both Average Earnings and CPI.

Year Ending	2019/20 %	2020/21 %	2021/22 %	Since Inception Annualised %
CPI*	1.5	0.7	7.0	1.9
Average Earning*	2.4	4.0	7.0	3.0
NESPF Return	-1.8	32.2	2.4	8.5

*Source: Office of National Statistics

Investment Management Structure

Details of the Investment Management Structures are in the "Investments Analysed by Fund Manager" Notes to the Accounts for both Funds.

9. ACCTF De-Risking Strategy and Performance

In 2020/21, the Strathclyde Transport Fund formally merged with the Aberdeen City Council Transport Fund. In terms of re-organising the merged Transport Fund, an insurance 'Buy-In' was completed for both sets of liabilities (approximately two thirds of the total) which covers future benefit payments of those combined liabilities.

Remaining assets have now been transitioned into a new investment strategy, which is a liability driven / matched solution that seeks to hedge out inflation and interest rate risk. The Funding level is over 100%, with excess cash invested into Securitised Credit.

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 Fund's Governance Statement.

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

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

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

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

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

Risk Management

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

11. Funding Strategy Statement

The long term objective of the Fund 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 Fund 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 Fund's 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 Fund's 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 Fund has a duty to engage with the companies we invest in on environmental, social and governance (ESG) issues, and to work with others to effect change.

What does this look like in practice?

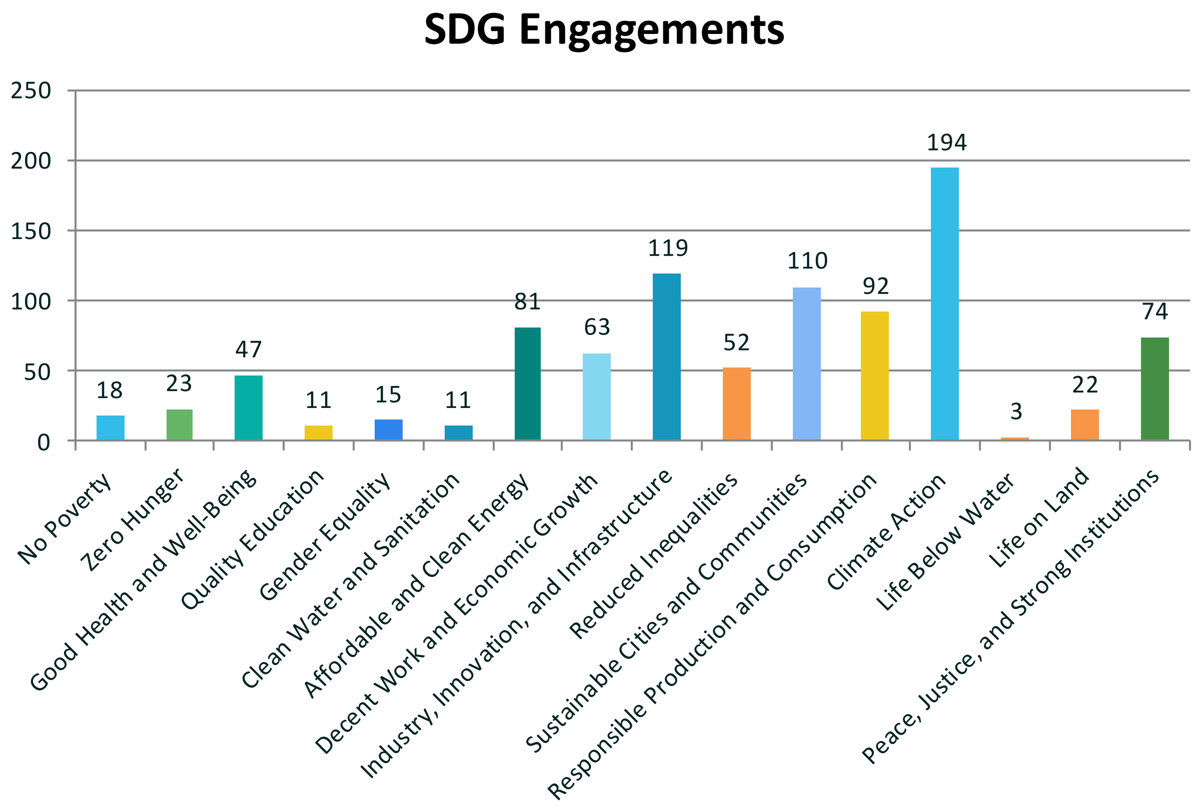
There are several things that we as an investor can do to make changes for the better.

Collaboration

There are limits to 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.

The below graph breaks down the engagements LAPFF has carried out in relation to the Sustainable Development Goals (SDG). The 17 SDGs are integrated, they recognize that action in one area will affect outcomes in others, and that development must balance social, economic, and environmental sustainability.



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

1. **<u>Climate</u>**

   Context - As part of long term engagement with National Grid, LAPFF has been pushing for group wide net zero targets to be set, particularly for scope 3 emissions, by far the largest proportion of the company's emissions.

   Activities - Ongoing engagement has been taking place for the group's net zero transition plan to be put to shareholders for approval at the AGM. In addition, LAPFF asked about alignment with the new International Energy Agency Net Zero pathway and setting short term targets to 2025.

   Outcomes - In 2020, an interim target of 20 percent reduction in scope 3 emissions by 2030 was announced. This was followed by an updated target to reduce emissions 37.5 percent below the 1990 baseline by 2034, a target aligned with the science-based targets initiative.

   The board putting a 'Say on Climate' resolution to the 2021 AGM. The resolution seeks approval for annual reporting on the company's net zero strategy action plan up to 2030, and progress against emission reduction targets from the 2022 AGM.

   National Grid's commitment to be able to fully operate the grid with zero carbon by 2025, has been supported by its buying of WPD, the UK's largest electricity distribution business, to strategically pivot its UK portfolio towards electricity.

2. **Plastics**

Context - Plastics continue to pollute the environment and drain resources associated with the fight against climate change. Rising levels of plastic found in our ecosystems are quickly becoming more and more hazardous to environments, animals, and humans.

Activities - This year, LAPFF joined a collaborative engagement which seeks to tackle the problem of microfibers coming away from clothes during a wash cycle and entering marine ecosystems through our waterways.

An estimated 9.4 trillion microfibres are being released every week from washes in the UK, resulting in 63 percent of shrimp in the North Sea containing synthetic fibres.

The Forum teamed up with Legal & General Investment Management (LGIM) to engage with Dixons Carphone and Sainsbury on their sourcing policies and application of microfilters in white label goods.

Outcomes - After some initial hesitancy, Dixon's has now started stocking washing machines with microfiber filters and Sainsbury has stated a preliminary intention to stock these products as the emerging technology develops.

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

Other ways the Pension Fund collaborates are by being members/signatories of the following ESG initiatives:

- Climate Action 100
- Carbon Disclosure Project
- Principles of 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.

Fund Managers

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

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

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

Solar Panel Installation

The Fund is investing just under £1 million to install 3,000 photovoltaic solar panels on to the roof of a distribution warehouse owned by the Fund in Wolverhampton.

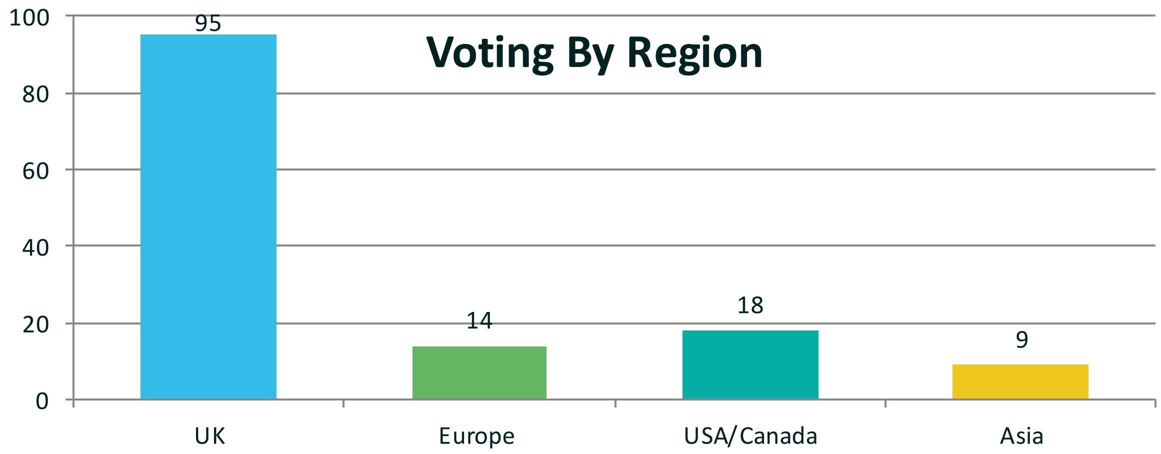
Once finished, the panels will be able to produce 979,200 kWh of electricity per annum, which is enough to boil a kettle 8,901,818 times or is the equivalent annual electricity use of 268 average UK households. The electricity generated will save 248 tonnes of CO2 emissions per annum, which is comparable to planting 1,550 trees.

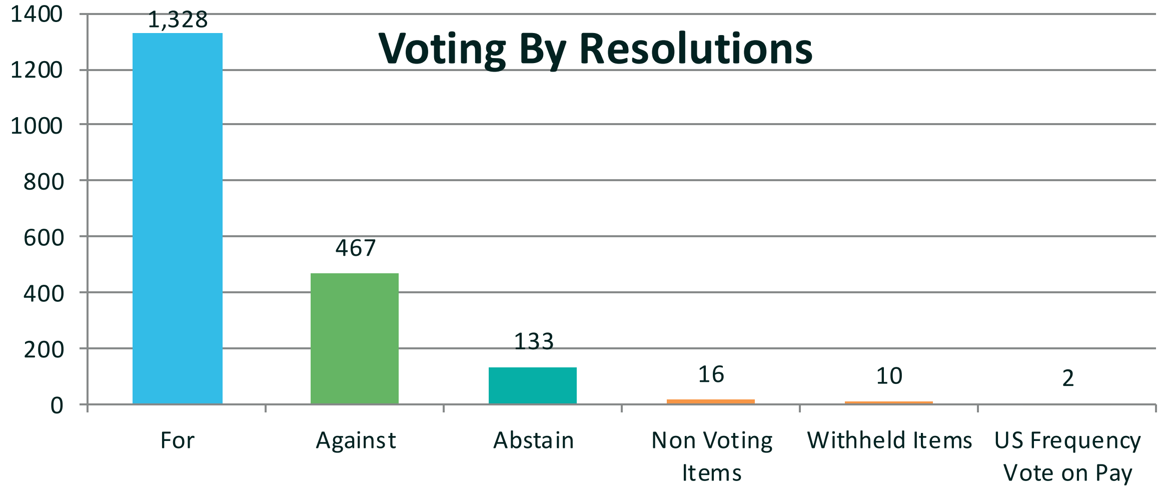
Voting

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

The Fund votes in-house on all our active managers holdings and over the last year have voted at 136 Annual General Meetings/Special meetings on 1,956 resolutions. The Fund's 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 Fund's voting record can be found on our website https://www.nespf.org.uk/about/investment/responsible-investment/voting/





During the year to 31 March 2022, 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.

14. Acknowledgement

The production of the Unaudited 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 2021/22 Unaudited Annual Report and Accounts.

Angela Scott	**Jonathan Belford, CPFA**	**Councillor John Cooke**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council

24 June 2022

Statement of Responsibilities

The North East Scotland Pension Fund is 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 Fund, that officer is the Chief Officer - Finance for Aberdeen City Council.

- Manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.

- Ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014) and so far, as is compatible with the legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).

- Approve the Annual Accounts for signature.

I confirm that these Unaudited Annual Accounts were approved for signature by the Pensions Committee at its meeting on 24 June 2022.

Signed on behalf of Aberdeen City Council

Councillor John Cooke
Pensions Committee Convener

The Chief Officer - Finance responsibilities:

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

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

- 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 Unaudited Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2022.

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

Annual Governance Statement

Scope of Responsibility

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

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

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Fund's affairs and facilitating the effective exercise of its 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 Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2021/22 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

The Fund 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 Fund;
- 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 Fund 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 Fund's 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 Fund has 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 Fund have responsibility for conducting, at least annually, a review of the effectiveness of their control environment including the system of internal control.

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

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances include internal financial controls and provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2021/22, 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 Fund.

Assurance from Internal Audit

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

The focus of internal audit was on the Pension Fund' s 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 the NESPF had an effective framework for Governance, Risk Management and Control for the period 1 April 2021 to 31 March 2022. The full Internal Audit report can be found on the Fund's website www.nespf.org.uk.

At the Pensions Committee meeting on 25 March 2022, the 2022/25 3 year internal audit plan was approved. These audits will focus on:

- 2022-23: Pension Fund Governance arrangements including Risk Management
- 2023-24: Pension Fund Investment Strategy
- 2024-25: Pension Fund Payroll

External Audit and Other External Scrutiny

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

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non-compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of the Pensions Committee. In 2021/22, 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 Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2021/22 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott	**Jonathan Belford, CPFA**	**Councillor John Cooke**
Chief Executive	**Chief Officer – Finance**	**Pensions Committee Convener**

On behalf of Aberdeen City Council

24 June 2022

Governance Compliance Statement

Principle	Compliance
1. Structure	
a) That employer representatives of participating LGPS employers, admitted bodies and Scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	Fully compliant 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).	Fully 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 Fund's Accounts have been prepared in accordance with the Code of Practice on local authority accounting in the UK (the Code).

The Annual Accounts summarise the Fund's transactions for the 2021/22 financial year and its position at year end as at 31 March 2022.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

Interest income is recognised in the Fund 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 £7,823,073 in 2021/22 (2020/21 £9,830,496).

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 2022 and are determined as follows:

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

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

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 2022 was £755,405,560 (31 March 2021 £670,855,928).

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

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

- Property, Plant and Equipment: Proceeds before Intended Use. This amendment to IAS 16 amends the standard to prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced while bringing the asset to operating capability.

The Fund will be required to reflect this change, as necessary in its 2022/23 Annual Accounts. It is not anticipated that these changes will have a significant impact on the Fund’s financial statements.

The implementation of IFRS 16 for Lease Accounting which should have been adopted with effect from 1 April 2022 has now been deferred until 1 April 2024 with the Fund having the option to adopt earlier if they decide to do so. This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the specific exception criteria. The Fund has opted to defer implementation at this time.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2022

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	2020/21	2021/22
		£'000	**£'000**
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2	32,047	33,563
Employers' Contributions	2	110,072	115,929
Transfer Values	3	1,369	2,776
Other Income		4	4
Additions		**143,492**	**152,272**
Retirement Pensions	4	129,178	124,135
Retirement Allowances	4	22,545	25,758
Death Gratuities	4	5,278	5,674
Contributions Refunded	5	328	490
Transfer Values	5	10,875	2,359
Withdrawals		**168,204**	**158,416**
Net (Additions)/Withdrawals from dealings with members		**24,712**	**6,144**
Management Expenses	6a	26,769	26,904
Net (Additions)/Withdrawals including Fund Management Expenses		**51,481**	**33,048**
Return on Investment			
Investment Income	7	59,548	71,323
Taxes on Income	7	(135)	(390)
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	1,402,715	86,771
Net Return on Investments		**1,462,128**	**157,704**
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		**1,410,647**	**124,656**
Opening Net Assets of the Fund		**4,366,542**	**5,777,189**
Net Assets of the Fund at the end of the year		**5,777,189**	**5,901,845**

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Investment Assets			
Equities		2,258,827	2,319,608
Pooled Funds	9	2,308,311	2,345,916
Direct Property	13	361,325	427,375
Private Equity – Other		432,023	503,189
Private Debt		136,979	136,137
Funds held by Investment Managers		70,372	137,997
ACC Loans Fund Deposit	19	54,605	58,375
Investment Income Due		9,113	2,264
Investment Sales Amount Receivable		255	7,155
Investment Purchases Returned Amount Receivable		2,788	0
Total Investment Assets		**5,634,598**	**5,938,016**
Investment Liabilities			
Investment Purchases Amount Payable		(306)	(14,395)
Net Investment Assets		**5,634,292**	**5,923,621**
Long Term Assets	18a	**467**	**0**
Current Assets	18b	180,351	12,926
Current Liabilities	18c	(37,921)	(34,702)
Net Current Assets/(Liabilities)		**142,430**	**(21,776)**
Net Assets of the Fund at the end of the year		**5,777,189**	**5,901,845**

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2022

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	2020/21	2021/22
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	2a	133	124
Employers' Contributions	2a	1,800	14
Other Income	2b	9,073	1
Additions		**11,006**	**139**
Employer Surplus Refund (Exit Payment)	3	0	12,500
Retirement Pensions	4	9,816	9,620
Retirement Allowances	4	969	827
Death Gratuities	4	78	242
Transfer Value Paid	5	251	0
Withdrawals		**11,114**	**23,189**
Net (Additions)/Withdrawals from dealings with members		**108**	**23,050**
Management Expenses	6a	650	366
Net (Additions)/Withdrawals including Fund Management Expenses		**758**	**23,416**
Return on Investment			
Investment Income	7	480	233
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8a	18,380	2,850
Net Return on Investments		**18,860**	**3,083**
Revaluation of Insurance Buy In Contract	14c	**(22,320)**	**5,758**
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		**(4,218)**	**(14,575)**
Opening Net Assets of the Fund		**308,828**	**304,610**
Net Assets of the Fund at the end of the year		**304,610**	**290,035**

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2022

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

	Notes	2020/21	2021/22
		£'000	£'000
Investment Assets			
Bonds		60,164	63,010
Pooled Funds	9	13,248	22,238
Funds held by Investment Managers		22,599	21,644
ACC Loans Fund Deposit	17	2,010	58
Investment Income Due		55	58
Total Investment Assets		**98,076**	**107,008**
Investment Liabilities			
Investment Purchases Amount Payable		0	(21,594)
Net Investment Assets		**98,076**	**85,414**
Insurance Buy In Contract		206,442	202,000
Lifetime Tax Allowance		242	216
Long Term Assets	16a	**206,684**	**202,216**
Current Assets	16b	796	3,317
Current Liabilities	16c	(946)	(912)
Net Current Assets/ (Liabilities)		**(150)**	**2,405**
Net Assets of the Fund at the end of the year		**304,610**	**290,035**

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
24 June 2022

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.

Post Valuation Events

The government proposal on the remedy in relation to the 'McCloud' judgement was consulted upon in July 2020. However, for the purposes of the valuation the estimated costs of applying the remedy were included for calculation of the funding level and Primary contribution rate.

As a result of the impact of Covid 19, the conflict in Ukraine and the cost of living crisis there has been significant volatility in world markets. This has far reaching consequences for the Fund in relation to both funding and risk. The situation requires careful monitoring at a Fund and actuarial level and therefore the position will be kept under review and carefully considered as part of the valuation process.

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 £6,107m (2021 £6,003m). Included within the calculation for 2022 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 annual recharge of pre 86 benefits obligations from the ACCTF to the NESPF are no longer included in this calculation as a result of a capitalisation payment of £8.7m made to the ACCTF in March 2021 meaning that the responsibility for these benefits now lies entirely with the ACCTF.

The IAS 26 figures are used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the standardised accounting requirements.

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	2020/21	2021/22
	£'000	£'000
Employees' Normal Contributions	**32,047**	**33,563**
Employers' Normal Contributions	107,424	113,362
Employers' Deficit Recovery Contributions	2,648	2,567
Total Employers' Contributions	**110,072**	**115,929**
Total	**142,119**	**149,492**

By Authority	2020/21	2021/22
	£'000	£'000
Administering Authority	40,221	38,971
Scheduled Bodies	87,681	95,243
Admitted Bodies	14,217	15,278
Total	**142,119**	**149,492**

Note 3: Transfers in from other Pension Funds

	2020/21	2021/22
	£'000	£'000
Individual Transfers	1,369	2,776
Total	**1,369**	**2,776**

Note 4: Benefits Payable

By Category	2020/21	2021/22
	£'000	£'000
Pensions	129,178	124,135
Commutation and Lump Sum Retirement Benefits	22,545	25,758
Lump Sum Death Benefits	5,278	5,674
Total	**157,001**	**155,567**

By Authority	2020/21	2021/22
	£'000	£'000
Administering Authority	40,249	41,337
Scheduled Bodies	103,910	97,409
Admitted Bodies	12,842	16,821
Total	**157,001**	**155,567**

Note 5: Payment to and on Account of Leavers

	2020/21	2021/22
	£'000	£'000
Refunds to Members Leaving Service	341	492
Payments for Members Joining State Scheme	(13)	(2)
Individual Transfers	4,221	2,232
Bulk Transfers*	6,654	127
Total	**11,203**	**2,849**

*Bulk Transfer of Visit Scotland to Lothian Pension Fund

Note 6a: Management Expenses

	2020/21	2021/22
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	1,252	1,361
Information Technology	491	459
Supplies & Services	136	131
Accommodation	334	426
Printing and Publications	23	11
Administration Expenses Total	**2,236**	**2,388**
Pension Fund Staffing Costs – Investment	172	192
Pension Fund Committee	3	6
Pension Board	0	1
External Audit Fee	42	43
Internal Audit Fee	7	9
Actuarial Fees	321	212
General Expenses	168	152
Oversight and Governance Expenses Total	**713**	**615**
Investment Management	11,950	12,692
Performance Fees	9,830	7,823
Direct Operating Property Expenses	744	1,184
Transaction Costs	1,154	2,040
Custody Fees	142	162
Investment Management Expenses Total	**23,820**	**23,901**
Management Expenses Grand Total	**26,769**	**26,904**

Note 6b: Investment Management Expenses by Asset Class

2021/22	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Equities	4,919	6,939		1,984	13,842
Pooled Funds	235	407		56	698
Direct Property	1,184		1,184		2,368
Private Equity	4,814	(54)			4,760
Private Debt	1,540	531			2,071
Subtotal	**12,692**	**7,823**	**1,184**	**2,040**	**23,739**
				Custody Fees	162
				Grand Total	**23,901**

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
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**

Note 6c: Analysis of Transaction Costs

Commission £'000	Fees/ Tax £'000	2020/21 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2021/22 Total £'000
297	777	**1,074**	Equities	708	1,276	**1,984**
0	80	**80**	Pooled Funds	0	56	**56**
297	**857**	**1,154**	**Total**	**708**	**1,332**	**2,040**

Note 7: Investment Income

	2020/21	2021/22
	£'000	**£'000**
Equity Dividends	20,825	21,331
Property Rental Income	16,634	17,896
Interest on Cash Deposit	160	130
Pooled Funds	12,207	15,993
Private Equity	3,223	2,649
Private Debt	6,695	10,268
Other (including P/L from Currency & Derivatives)	(196)	3,056
Total	**59,548**	**71,323**
Tax		
Withholding Tax – Equities	(25)	(238)
Withholding Tax – Pooled Infrastructure	(75)	0
Withholding Tax – Private Equity	(35)	(152)
Total Tax	**(135)**	**(390)**
Net Total	**59,413**	**70,933**

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2021	Purchases	Sales	Change in Market Value	Market Value 31 March 2022
	£’000	**£’000**	**£’000**	**£’000**	**£’000**
Equities	2,258,827	3,253,202	(3,002,363)	(190,058)	2,319,608
Pooled Funds	2,308,311	315,266	(401,606)	123,945	2,345,916
Property	361,325	8,089	(2,129)	60,090	427,375
Private Equity	432,023	144,785	(172,047)	98,428	503,189
Private Debt	136,979	7,015	(2,223)	(5,634)	136,137
	5,497,465	**3,728,357**	**(3,580,368)**	**86,771**	**5,732,225**
Other					
Cash	124,977				196,372
Investment Income Due	9,113				2,264
Investment Sales Amount Receivable	255				7,155
Investment Purchases Returned Amount Receivable	2,788				0
Investment Purchases Amount Payable	(306)				(14,395)
Net Investment Assets	**5,634,292**				**5,923,621**

Reconciliation of Movements in Investment and Derivatives (continued)

	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**

Note 9: Analysis of Investments

	2020/21	2021/22
	£'000	**£'000**
Equities	**2,258,827**	**2,319,608**
Pooled Funds Breakdown:		
Bonds	746,001	1,025,291
Equities	1,170,458	1,090,534
Diversified Growth Funds	186,158	0
Infrastructure - Unit Trust	103,840	114,011
Infrastructure - Limited Partnership	101,854	116,080
Pooled Funds	**2,308,311**	**2,345,916**
Direct Property	361,325	427,375
Private Equity	432,023	503,189
Private Debt	136,979	136,137
Other Investments	**930,327**	**1,066,701**
Funds held by Investment Managers	70,372	137,997
ACC Loans Fund Deposit	54,605	58,375
Investment Income Due	9,113	2,264
Investment Sales Amount Receivable	255	7,155
Investment Purchases Returned Amount Receivable	2,788	0
Other Balances	**137,133**	**205,791**
Investment Assets Total	**5,634,598**	**5,938,016**
Investment Liabilities		
Investment Purchases Amounts Payable	(306)	(14,395)
Investment Liabilities Total	**(306)**	**(14,395)**
Net Investment Assets	**5,634,292**	**5,923,621**

Note 10: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2022.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2022.

Note 11: Investments Analysed by Fund Manager

	31 March 2021		31 March 2022	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,454,889	25.2	1,582,819	26.9
Baillie Gifford	1,824,861	31.6	1,329,092	22.5
BlackRock Asset Management	504,659	8.7	1,018,010	17.3
BlackRock Diversified Growth Fund	186,163	3.2	0	0
Blackrock Renewable Power III	8,571	0.2	14,767	0.3
AAM Property (API)	387,485	6.7	465,719	7.9
AAM Property Residential	21,064	0.4	27,844	0.5
HarbourVest	212,576	3.7	362,849	6.1
Standard Life	18,049	0.3	0	0
ACC Loans Fund Deposit	54,605	1.0	58,375	1.0
Global Custodian	9,659	0.1	65,161	1.1
Partners Group	56,183	0.9	54,952	0.9
Maven Capital	1,182	0.0	625	0
Capital Dynamics	53,061	0.9	0	0
RCP Advisors	35,923	0.6	0	0
Unigestion	48,742	0.8	54,129	0.9
Russell Multi Asset Credit	108,399	1.9	107,397	1.8
Russell Transition	16	0.0	0	0
Aviva Infrastructure	103,840	1.8	114,011	1.9
Hermes Infrastructure	96,218	1.7	101,421	1.7
Alcentra	70,523	1.2	65,978	1.1
Hayfin Direct Lending	66,455	1.2	70,159	1.2
Insight Credit	311,169	5.4	425,610	7.2
Allianz Home Equity	0	0.0	4,703	0.1
	5,634,292	**97.5**	**5,923,621**	**100.4**
Net Long and Current Assets				
Bank Account	164,003	2.9	15	0.0
Long Term and Current Debtors Less Creditors	(21,106)	(0.4)	(21,791)	(0.4)
Net Assets	**5,777,189**	**100.0**	**5,901,845**	**100.0**

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

Security	Market Value 31 March 2021	% of Net Investment Assets	Market Value 31 March 2022	% of Net Investment Assets
	£'000		**£'000**	
MPF UK Equity Pooled Fund	561,352	9.96	549,547	9.28
MPF International Equity Index Pooled Fund	562,934	9.99	540,986	9.13
MPF UK Index Linked Gilts	326,454	5.79	492,285	8.31
Insight Investment Mgt Global Funds	311,148	5.52	425,610	7.18

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 2021	Collateral Percentage	31 March 2022	Collateral Percentage
	£'000		**£'000**	
Stock on Loan				
Equities	384,346		569,160	
Total Exposure	**384,346**		**569,160**	
Total Collateral	**406,101**	**106%**	**601,644**	**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

	2020/21	2021/22
	£'000	**£'000**
Opening Balance	**348,750**	**361,325**
Purchases	28,538	3,991
Construction	614	4,098
Subsequent Expenditure	1	0
Disposals	(18,715)	(2,129)
Net Increase in Market Value	2,137	60,090
Closing Balance	**361,325**	**427,375**

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.

It remains to be seen what impact the conflict in Ukraine will have on property markets and the situation will be closely monitored. However, the valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

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

	2020/21	2021/22
	£'000	**£'000**
Within One Year	16,722	17,115
Between One Year and Five Years	60,965	63,016
Later than Five Years	98,716	93,432
Total	**176,403**	**173,563**

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 2021-22 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 2021				31 March 2022		
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			
2,258,827			Equities	2,319,608		
2,308,311			Pooled Funds	2,345,916		
432,023			Private Equity	503,189		
136,979			Private Debt	136,137		
	124,977		Cash		196,372	
	12,156		Other Investment Balances		9,419	
	180,818		Debtors		12,926	
5,136,140	**317,951**		**Subtotal**	**5,304,850**	**218,717**	
			Financial Liabilities			
		(306)	Other Investment Balances			(14,395)
		(37,921)	Creditors			(34,702)
		(38,227)				**(49,097)**
5,136,140	**317,951**	**(38,227)**	**Financial Instruments Total**	**5,304,850**	**218,717**	**(49,097)**
			Non-Financial Instruments			
361,325			Property	427,375		
5,497,465	**317,951**	**(38,227)**		**5,732,225**	**218,717**	**(49,097)**
		5,777,189	**Net Assets of the Fund**			**5,901,845**

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

31 March 2021		31 March 2022
£'000	**Financial Assets**	**£'000**
1,400,578	Fair Value through Profit and Loss	26,681
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
1,400,578	**Net Gains and Losses on Financial Instruments**	**26,681**
	Non-Financial Instruments	
2,137	Fair Value through Profit and Loss	60,090
1,402,715	**Net Gains and Losses of the Fund**	**86,771**

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

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2022	**Level 1**	**Level 2**	**Level 3**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Financial Assets at Fair Value through Profit and Loss	4,549,444		755,406	**5,304,850**
Non-Financial Assets at Fair Value through Profit and Loss		427,375		**427,375**
Financial Liabilities at Fair Value through Profit and Loss	0			**0**
Net Investment Assets (Fair Value)	**4,549,444**	**427,375**	**755,406**	**5,732,225**

	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	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**

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 2021	**Purchases during the year & Derivative Payments**	**Sales during the year & Derivative Receipts**	**Realised Gains & Losses**	**Unrealised Gains & Losses (a)**	**Market Value 31 March 2022**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Infrastructure – Limited Partnership	101,854	8,746	(1,372)	1,372	5,480	116,080
Private Equity	432,023	144,785	(172,047)	70,385	28,043	503,189
Private Debt	136,979	7,015	(2,223)	2,223	(7,857)	136,137
Total	**670,856**	**160,546**	**(175,642)**	**73,980**	**25,666**	**755,406**

(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 2022**.**

	Assessed Valuation Range (+/-)	**Value at 31 March 2022**	**Value on Increase**	**Value on Decrease**
		£'000	**£'000**	**£'000**
Infrastructure – Limited Partnership	26%	116,080	146,261	85,899
Private Equity	26%	503,189	634,018	372,360
Private Debt	26%	136,137	171,533	100,741
Total		**755,406**	**951,812**	**559,000**

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 Adviser, the Fund has determined that the following movements in market price risk are possible for the 2021/22 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	26.0%
Private Equity	26.0%
Private Debt	26.0%
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 Adviser's most recent review. This analysis assumes that all other variables, particularly foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value as at 31 March 2022	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	492,285	7.5	529,206	455,364
Overseas Bonds	533,006	7.5	572,981	493,031
UK Equities	957,027	16.0	1,110,151	803,903
Overseas Equities	2,453,115	20.5	2,956,004	1,950,226
Pooled – Diversified Growth Funds	0	12.5	0	0
Infrastructure - Other	114,011	13.0	128,832	99,190
Infrastructure - Limited Partnership	116,080	26.0	146,261	85,899
Private Equity	503,189	26.0	634,018	372,360
Private Debt	136,137	26.0	171,533	100,741
Total	**5,304,850**		**6,248,986**	**4,360,714**

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**

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 2021 and 31 March 2022 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 2021	As at 31 March 2022
	£’000	£’000
Cash and Cash Equivalents	124,977	196,372
Cash Balances	164,003	15
Bonds	746,001	1,025,291
Total	**1,034,981**	**1,221,678**

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 2022**	**Impact**	
		+ 1%	**- 1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	196,372	198,336	194,408
Cash Balances	15	15	15
Bonds	1,025,291	1,035,544	1,015,038
Total	**1,221,678**	**1,233,895**	**1,209,461**

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**

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 2022 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2021	Asset Value as at 31 March 2022
	£'000	£'000
Overseas Quoted Securities	1,391,306	978,422
Overseas Unquoted Securities	499,439	559,775
Overseas Unit Trusts	982,482	1,073,993
Total Overseas Assets	**2,873,227**	**2,612,190**

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 9.4%.

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

A 9.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the Net Assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2022	Potential Market Movement	
		+9.4%	-9.4%
	£'000	£'000	£'000
Overseas Quoted Securities	978,422	1,070,394	886,450
Overseas Unquoted Securities	559,775	612,394	507,156
Overseas Unit Trust	1,073,993	1,174,948	973,038
Total	**2,612,190**	**2,857,736**	**2,366,644**

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
Total	**2,873,227**	**3,151,931**	**2,594,523**

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 2022 was £196,387,000 (31 March 2021 was £288,980,000). This was held with the following institutions as shown below:

Summary	**Rating**	**Balance as at 31 March 2021**	**Balance as at 31 March 2022**
		£'000	**£'000**
Liquidity Funds			
HSBC Liquidity Funds	AA-	40,450	95,772
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	54,605	58,375
HSBC	AA-	29,922	42,225
Subtotal		**124,977**	**196,372**
Bank Current Accounts			
Clydesdale Bank	A-	**164,003**	**15**
Total		**288,980**	**196,387**

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 2022 the value of illiquid assets was £1,182,780,560 which represented 20.0% of the total net assets of the Fund (31 March 2021 £1,032,180,928 which represented 17.9% of the total net assets of the Fund)

Note 18a: Long Term Assets

	31 March 2021	31 March 2022
	£'000	**£'000**
Merge – Transport Funds	467	0
Total Long Term Assets	**467**	**0**

Note 18b: Current Assets

	31 March 2021	31 March 2022
	£'000	**£'000**
Employees' Contributions due	2,601	2,743
Employers' Contributions due	7,946	8,069
Sundry Debtors	5,801	2,099
Subtotal	**16,348**	**12,911**
Bank	164,003	15
Total Current Assets	**180,351**	**12,926**

Note 18c: Current Liabilities

	31 March 2021	31 March 2022
	£'000	**£'000**
Sundry Creditors	25,952	23,001
Benefits Payable	11,969	11,701
Total Current Liabilities	**37,921**	**34,702**

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 £1,773,912 (2020/21 £1,736,111).

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 £58,375,000 (2020/21 £54,605,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £89,722 (2020/21 £53,854) 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 2020/21	**Accrued Pension 2021/22**
		£'000	**£'000**
Steven Whyte	Director of Resources	44	46
Jonathan Belford	Chief Officer - Finance	38	40

Governance

As at 31 March 2022, 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 2021/22 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 2022

As at 31 March 2022 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios:

	Contractual Commitments	Undrawn Commitments
	£'000	**£'000**
HarbourVest	560,813	268,779
Partners Group	85,351	19,012
Maven (SLF)	6,308	44
Unigestion	54,929	6,643
AAM Residential Property	30,000	3,923
Hermes Infrastructure	100,000	2,535
Alcentra EDL	84,506	16,838
Hayfin DLF	84,506	11,202
Blackrock Renewable	75,950	63,240
Allianz Home Equity	25,000	20,000
Total	**1,107,363**	**412,216**

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:

2020/21		Income (AVCs Paid by Members)		2021/22
£'000				**£'000**
11		Standard Life		7
1,355		Prudential*		2,632

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 2021				**31 March 2022**
£'000				**£'000**
1,114		Standard Life		1,076
19,713		Prudential*		24,981

* Prudential are experiencing ongoing administrative problems. As a result of these difficulties, the 2020/21 figures were estimates. The actual figures for 2020-21, released in April 2022, are Income £2,576k and Market Value £24,981k.

For 2021-22, estimates are based on:

- Income – monthly AVC contribution amounts per member from employers
- Market Value – last year actual as an estimate

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. A review of the bond requirements for the participating employers within the Fund was undertaken by the scheme actuary in 2021 following the completion of the triennial valuation to ensure that the bond amounts were still appropriate. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made to the bonds held.

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

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 because of the introduction of the CARE scheme will be applied to younger members too. The government has 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. The McCloud project which will deal with the work around application of the underpin for eligible members to identify those effected will begin upon receipt of the amended regulations and will be completed in line with the government deadlines.

Note 24: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2021/22 two admission bodies exited from the Fund and were issued with a termination certificate to discharge the liabilities. Following termination, the assets and liabilities held for both employers were subsumed but the scheme guarantor with a calculated termination fee of zero being due upon exit from the Fund.

Changes to the regulations are to be brought in with effect from 1 June 2022 to provide administering authorities greater flexibility in their approach to employers exiting from the scheme. Funds will be able to enter a deferred debt arrangement that will allow the employers to exit from the Fund over a period of time without accruing more liabilities whilst still being able to service the termination debt. The NESPF are currently in discussions with one admission body in relation to deferring their debt within the Fund.

Note 25: Investment Principles

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

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

Note 26: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2022 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 £503 million. Private Debt £136 million. Pooled Infrastructure (Unquoted) £116 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 Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 24 June 2022. 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 2022, 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:

	2020/21	**2021/22**
	£'000	**£'000**
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,390	2,351
Aberdeenshire Council	1,381	1,363
Moray Council	707	692
Scottish Water	1,291	1,278
Other	289	276
Total	**6,058**	**5,960**

	2020/21	**2021/22**
	£	**£**
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%. 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

The government proposal on the remedy in relation to the ‘McCloud’ judgement was consulted upon in July 2020. However, for the purposes of the valuation the estimated costs of applying the remedy were included for calculation of the funding level and Primary contribution rate.

As a result of the impact of Covid 19, the conflict in Ukraine and the cost of living crisis there has been significant volatility in world markets. This has far reaching consequences for the Fund in relation to both funding and risk. The situation requires careful monitoring at a Fund and actuarial level and therefore the position will be kept under review and carefully considered as part of the valuation process.

Following the merge of the Strathclyde No.3 Fund into the ACCTF the Fund have entered a buy in arrangement with Rothesay Life to ensure the pensions that were in payment for both First Aberdeen and First Glasgow as at the transaction date. The £232m transaction was 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. The 2020 valuation liabilities above are net of these liabilities due to the date of transaction

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 £226m (2021 £238m). Included within the calculation for 2022 is the estimated cost of extending GMP indexation to all members reaching State pension Age after 6th April 2021 in line with Government requirements. 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

	2020/21	2021/22
	£’000	**£’000**
Employees’ Normal Contributions	**133**	**124**
Employers’ Normal Contributions	300	14
Employers’ Deficit Recovery Contributions	1,500	0
Total Employers’ Contributions	**1,800**	**14**
Total	**1,933**	**138**

	2020/21	2021/22
	£’000	**£’000**
Scheduled Bodies	1,933	138
Total	**1,933**	**138**

Note 2b: Other Income

	2020/21	2021/22
	£’000	**£’000**
Divorce Quote Fees	0	1
Pre 1986 Monthly Payments (Ended Jan’21)	291	0
Pre 1986 Final Settlement	8,782	0
Total	**9,073**	**1**

Note 3: Employer Surplus (Exit Payment)

	2020/21	2021/22
	£’000	**£’000**
Employer Surplus (Exit Payment)*	0	12,500
Total	**0**	**12,500**

***On 25 March 2022, First Glasgow terminated their admission agreement with the Fund. An employer surplus (exit payment) was calculated by the Scheme Actuary and an exit payment was then payable to First Group Holdings Limited.

Note 4: Benefits Payable

	2020/21	2021/22
	£'000	**£'000**
Pensions	9,816	9,620
Commutation and Lump Sum Retirement Benefits	969	827
Lump Sum Death Benefits	78	242
Total	**10,863**	**10,689**

	2020/21	2021/22
	£'000	**£'000**
Scheduled Bodies	10,863	10,689
Total	**10,863**	**10,689**

Note 5: Payment to and on Account of Leavers

	2020/21	2021/22
	£'000	**£'000**
Individual Transfers	251	0
Total	**251**	**0**

Note 6a: Management Expenses

	2020/21	2021/22
	£'000	**£'000**
Pension Fund Staffing Costs – Administration	42	42
Information Technology	15	16
Supplies and Services	4	9
Accommodation	10	13
Printing and Publications	1	1
Administration Expenses Total	**72**	**81**
Pension Fund Staffing Costs – Investment	9	6
External Audit Fee	1	1
Actuarial Fees	116	143
General Expenses	5	7
Oversight and Governance Expenses Total	**131**	**157**
Investment Management	427	111
Custody Fees	20	17
Investment Management Expenses Total	**447**	**128**
Management Expenses Grand Total	**650**	**366**

Note 6b: Investment Management Expenses by Asset Class

2021/22	Management Fees	Performance Related Fees	Transaction Costs	Total
	£'000	**£'000**	**£'000**	**£'000**
Bonds	82	0	0	**82**
Pooled Funds	29	0	0	**29**
Subtotal	**111**	**0**	**0**	**111**
			Custody Fees	17
			Grand Total	**128**

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**

Note 7: Investment Income

	2020/21	2021/22
	£'000	**£'000**
Bonds	457	233
Pooled Funds	20	0
Interest on Cash Deposits	1	0
Other (including P/L from Currency & Derivatives)	2	0
Total	**480**	**233**
Tax -		
Withholding Tax – Bonds	0	0
Withholding Tax – Pooled Funds	0	0
Total Tax	**0**	**0**
Net Total	**480**	**233**

Note 8a: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2021	Purchases	Sales	Change in Market Value	Market Value 31 March 2022
	£'000	**£'000**	**£'000**	**£'000**	**£'000**
Bonds	60,164	0	0	2,846	63,010
Pooled Funds	13,248	77,346	(68,360)	4	22,238
	73,412	**77,346**	**(68,360)**	**2,850**	**85,248**
Other					
Cash	24,609				21,702
Investment Income Due	55				58
Investment Purchases Amount Payable	0				(21,594)
Net Investment Assets	**98,076**				**85,414**

	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**

Note 9: Analysis of Investments

	2020/21	2021/22
	£'000	**£'000**
Bonds	**60,164**	**63,010**
Pooled Funds Breakdown:		
Bonds	13,248	22,238
Pooled Funds	**13,248**	**22,238**
Cash Deposits	24,609	21,702
Investment Income Due	55	58
Other Balances	**24,664**	**21,760**
Investment Assets Total	**98,076**	**107,008**
Investment Liabilities		
Investment Purchases Amount Payable	0	(21,594)
Investment Liabilities Total	**0**	**(21,594)**
Net Investment Assets	**98,076**	**85,414**

Note 10: Investments Analysed by Fund Manager

Investment Assets	31 March 2021		31 March 2022	
	£'000	%	£'000	%
Schroders	95,250	97.2	85,356	99.9
Schroders (Transition)	816	0.8	0	0.0
ACC Loans Fund Deposit	2,010	2.0	58	0.1
Net Investment Assets	**98,076**	**100.0**	**85,414**	**100.0**

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

Security	Market Value 31 March 2021	% of Net Investment Assets	Market Value 31 March 2022	% of Net Investment Assets
	£'000		£'000	
Schroder ISF Securitised Credit I ACC	0	0.0	21,594	25.3
UK Treasury 1.25% IL 22/11/2032	5,044	5.1	5,318	6.2
UK Treasury Gilt 0.125% IL 22/03/2026	0	0.0	4,729	5.5
Schroder SSF Sterling Liq Fund	13,248	13.5	643	0.8

Note 11: 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 2022.

Note 12: 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 2021				31 March 2022		
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			
60,164			Fixed Interest	63,010		
13,248			Pooled Funds	22,238		
206,442			Insurance Buy In Contract	202,000		
	24,609		Cash		21,702	
	55		Other Investment Balances		58	
	1,038		Debtors		3,533	
279,854	**25,702**	**0**	**Subtotal**	**287,248**	**25,293**	**0**
			Financial Liabilities			
		0	Other Investment Balances			(21,594)
		(946)	Creditors			(912)
279,854	**25,702**	**(946)**		**287,248**	**25,293**	**(22,506)**
		304,610	**Financial Instruments Total**			**290,035**
0			**Non - Financial Instruments**	**0**		
279,854	**25,702**	**(946)**		**287,248**	**25,293**	**(22,506)**
		304,610	**Net Assets of the Fund**			**290,035**

Note 13: Net Gains and Losses on Financial and Non-Financial Instruments

31 March 2021		31 March 2022
£'000		**£'000**
	Financial Assets	
18,380	Change in Market Value of Investments	2,850
(22,320)	Revaluation of Insurance Buy In Contract	5,758
(3,940)	**Fair Value through Profit and Loss**	**8,608**
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(3,940)	**Net Gains and Losses on Financial Instruments**	**8,608**
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
(3,940)	**Net Gains and Losses of the Fund**	**8,608**

Note 14: 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 14a: 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.

Values at 31 March 2022	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	85,248	0	202,000	**287,248**
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)	**85,248**	**0**	**202,000**	**287,248**

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	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**

Note 14b: Transfers between Levels 1 and 2

There were no transfers between Level 1 and 2.

Note 14c: Reconciliation of Fair Value Measurements within Level 3

Bulk Annuity Insurance Buy In Contract

	Total
	£'000
Opening Balance as at 1 April 2021	**206,442**
Level Pensions Paid by Insurer	(10,200)
Actuarial Revaluation	5,758
Closing Market Value as at 31 March 2022	**202,000**

Note 14d: 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 2022	Valuation Increase	Valuation Decrease
Change in Assumptions	**Adjustment**	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	202	215	191
Life Expectancy Adjustment	(+/-) 1 Year	202	213	192

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 15: 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 2021/22 reporting period.

Asset Type	**Potential Market Movements (+/-)**
UK Bonds	7.5%

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 2022	% Change	Value on Increase	Value on Decrease
	£'000		**£'000**	**£'000**
UK Bonds	85,248	7.5	91,642	78,854
Total	**85,248**		**91,642**	**78,854**

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
Total	**73,412**		**78,551**	**68,273**

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 2021 and 31 March 2022 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 2021	As at 31 March 2022
	£'000	**£'000**
Cash and Cash Equivalents	24,609	21,702
Cash Balances	758	3,230
Bonds	73,412	85,248
Total	**98,779**	**110,180**

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 2022**	**Impact**	
		+1%	**-1%**
	£'000	**£'000**	**£'000**
Cash and Cash Equivalents	21,702	21,919	21,485
Cash Balances	3,230	3,262	3,198
Bonds	85,248	86,100	84,396
Total	**110,180**	**111,281**	**109,079**

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**

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 Fund had no currency exposure as at 31 March 2022 and as at the previous year end.

Currency Risk – Sensitivity Analysis

As there is no currency exposure, no sensitivity analysis is required.

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 2022 was £24,932,000 and at 31 March 2021 £25,367,000. This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2021	Balance as at 31 March 2022
		£'000	£'000
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	2,010	58
HSBC	AA-	22,599	21,644
Subtotal		**24,609**	**21,702**
Bank Current Accounts			
HSBC	AA-	756	3,229
Clydesdale Bank	A-	2	1
Total		**25,367**	**24,932**

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 assets as at 31 March 2022 and 31 March 2021.

Note 16a: Long Term Assets

	31 March 2021	31 March 2022
	£'000	£'000
Insurance Buy In Contract	206,442	202,000
Lifetime Tax Allowance	242	216
Total Long Term Assets	**206,684**	**202,216**

Note 16b: Current Assets

	31 March 2021	31 March 2022
	£'000	£'000
Employees' Contributions due	3	4
Employers' Contributions due	7	0
Sundry Debtors	28	83
Subtotal	**38**	**87**
Bank	758	3,230
Total Current Assets	**796**	**3,317**

Note 16c: Current Liabilities

	31 March 2021	31 March 2022
	£'000	£'000
Sundry Creditors	360	318
Benefits Payable	586	594
Total Current Liabilities	**946**	**912**

Note 17: 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 £53,217 (2020/21 - £57,854).

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 £58,000 (2020/21 - £2,010,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £846 (2020/21 - £426) for the Aberdeen City Council Transport Fund.

Note 18: 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 because 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 19: 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 2021/22, one Board member had an interest in First Group plc.

Note 20: 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 21: 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 2022 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 Note 13d Sensitivity Analysis.

Note 22: Events after the Balance Sheet Date

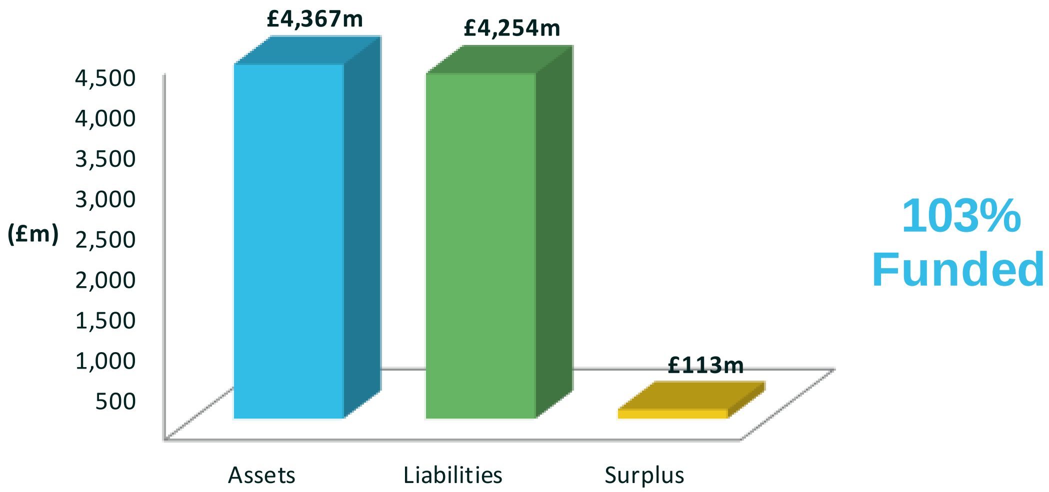
The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 24 June 2022. Events taking place after this date are not reflected in the Annual Accounts or Notes. Where events taking place before this date provided information about conditions existing at 31 March 2022, 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.

Appendix 1 – 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 can be offset 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 the last actuarial valuation the average weighted spread period adopted was 12 years and the total initial surplus offset (the “Secondary rate” for 2021/22) was 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 judgment.

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 separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements will be made to the Fund by the employers.

The funding plan adopted in assessing the contributions for each individual employer is in accordance with the FSS. Any different approaches adopted, e.g. with regard to the implementation of contribution increases and surplus offset periods, are as determined through the FSS consultation process.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the 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 Judgment

The “McCloud judgment” 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 judgment.

Impact of COVID-19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2020. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which 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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of pay increases*	4.2% per annum	4.8% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.8% per annum	3.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.7% per annum	3.3% 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, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was predominately offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £6,003 million, including an estimate of the potential impact of the McCloud Judgment.

Interest over the year increased the liabilities by c£125 million and allowing for net benefits accrued/paid over the period this also increased the liabilities by c£104 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £125 million due to "actuarial gains" (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 2022 pension increase award was more than assumed).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £6,107 million.

GMP Indexation

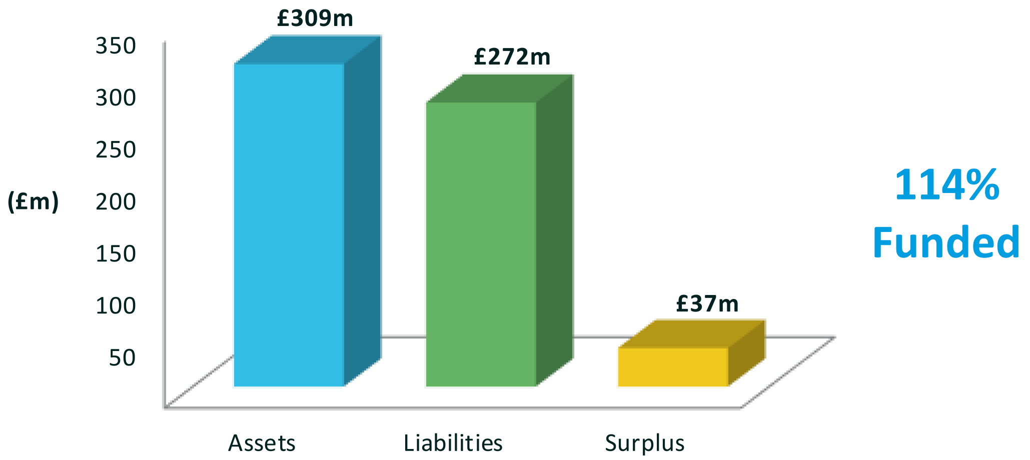
The public service schemes were previously required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government has recently confirmed that it will extend this to include members reaching State Pension Age from 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 above overall liability figure.

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 2021 and 31 March 2022 are net of the related liabilities which were recharged to the NESPF in respect of pre 1986 pension increases. 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 can be offset 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 Judgment

The "McCloud judgment" 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 judgment.

Impact of COVID-19 / Ukraine

The valuation results and employer contributions above were assessed as at 31 March 2020. Since 2020 there has been significant volatility and uncertainty in markets around the world in relation to the COVID-19 pandemic and more recently the situation in Ukraine and cost of living crisis. This potentially has far-reaching consequences in terms of funding and risk, which 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. 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 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 IAS26 liabilities quoted at both the 31 March 2021 and 31 March 2022 are shown gross of the liabilities which were recharged to the NESPF in respect of the pre 1986 pension increases. 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. Please note however, that the 2020 valuation liabilities quoted are net of these liabilities.

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 2022 (the 31 March 2021 assumptions are included for comparison):

	31 March 2021	31 March 2022
Rate of return on investments (discount rate)	2.1% per annum	2.8% per annum
Rate of pay increases (First Aberdeen)	3.2% per annum	3.8% per annum
Rate of increases in pensions in payment (in excess of GMP)/deferment	2.8% per annum	3.4% per annum
Rate of CPI Inflation/CARE benefit revaluation	2.7% per annum	3.3% per annum

The demographic assumptions are the same as those used for funding purposes, but we have used the most recent CMI future improvement tables (CMI2021). Full details of these assumptions are set out in the formal report on the actuarial valuation dated March 2021.

During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (2.8% p.a. vs 2.1%). This on its own would have led to a significantly lower value placed on the liabilities but it was predominately offset by an increase in the expected long-term rate of CPI inflation during the year, from 2.7% p.a. to 3.3%.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2021 was estimated as £238 million.

Interest over the year increased the liabilities by c£5 million and allowing for net benefits accrued/paid over the period this decreased the liabilities by c£10 million (this includes any increase in liabilities arising as a result of early retirements). There was also a decrease in liabilities of £7 million due to "actuarial gains" (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 2022 pension increase award was more than assumed).*

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2022 is therefore £226 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 above overall liability figure.

Paul Middleman
Fellow of the Institute
& Faculty of Actuaries

Mark Wilson
Fellow of the Institute
& Faculty of Actuaries

Mercer Limited
May 2022

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2021	New Admissions	Ceased	Employers as at 31 March 2022
Scheduled Bodies	10	0	0	10
Admission Bodies	38	0	2	36
Total	**48**	**0**	**2**	**46**

Ceased during 2021/22:

1.	Archway	Admitted
2.	Citymoves Dance Agency	Admitted

Participating Employers as at 31 March 2022:

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.	Xerox (UK) Ltd	Admitted
23.	Forth and Oban Ltd (Shire)	Admitted
24.	Aberdeen Endowments Trust	Admitted
25.	North East Sensory Services	Admitted
26.	Aberlour Child Care Trust	Admitted
27.	Fraserburgh Harbour Commissioners	Admitted
28.	Peterhead Port Authority	Admitted

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

Aberdeen City Council Transport Fund

1.	First Aberdeen	Scheduled

Ceased during 2021/22:

1.	First Glasgow	Scheduled