

North East Scotland
PENSION FUND

**AUDITED ANNUAL REPORT
& ACCOUNTS**

FOR THE PERIOD

1 APRIL 2016 TO 31 MARCH 2017

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



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Management Commentary

The Management Commentary as required by The Local Authority Accounts (Scotland) Regulations 2014 includes details of the Funds' business, risk and the uncertainties facing the Funds, performance and financial position including key performance indicators and environmental and social issues within a strategic report.

The following report aims to address the above providing strategic and operational commentary on the performance, the management and roles and responsibilities of all those involved with the Pension Funds.

1. About the North East Scotland Pension Funds

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

The Scheme was established under the Superannuation Fund Act 1972 and is open to all employees of the 11 scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers). Employees of admitted bodies can join the Scheme subject to the admitted bodies' individual admission criteria, which are outwith the control of Aberdeen City Council.

The Funds' investments are externally managed in accordance with the Local Government Pension Scheme (Scotland) (Management and Investment of Funds) Regulations 2010.

All pension benefits are paid in accordance with the Local Government Pension Scheme (Benefits Membership and Contributions) (Scotland) Regulations 2008 as amended.

The Aberdeen City Council Transport Fund was created in October 1986 for employees of the former passenger Transport Undertaking who transferred to the limited company now known as First Aberdeen, which was created at that time.

The Funds are built up from contributions from both employees and employing bodies, together with interest, dividends and rent from investments, out of which pensions and other benefits are paid.

Employee contributions are fixed by statute while employer contributions are assessed every three years by an independent Actuary to determine the level of contributions necessary by employing bodies to ensure that the Funds are able to meet all future benefits.

With effect from 1 April 2009, employee contributions are based on tiered rates. Below are the tiered rates for 2016/17:

Band	Range	Contribution Rate
1	On earnings up to and including £20,500	5.50%
2	On earnings above £20,500 and up to £25,000	7.25%
3	On earnings above £25,000 and up to £34,400	8.50%
4	On earnings above £34,400 and up to £45,800	9.50%
5	On earnings above £45,800	12.00%

2. Administration 2016/17

Administering Authority	Aberdeen City Council
Committees	Pensions Committee, Pensions Board
Head of Finance	Steven Whyte
Actuary	Mercer
Global Custodian	Bank of New York Mellon (Until December 2016) BNP Paribas (appointed December 2016)
Performance Measurement	Bank of New York Mellon (Until December 2016) BNP Paribas (appointed December 2016)
Bank	Clydesdale Bank
AVC Providers	Prudential, Standard Life Assurance Company
External Auditors	Audit Scotland
Internal Auditors	Aberdeenshire Council
Investment Consultant	KPMG
Employers	For full details see Appendix 2

3. Pensions Committee & Pensions Board

Pensions Committee

Aberdeen City Council is the administering authority for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund. The Council delegates this responsibility to the Pensions Committee.

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

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

The Pensions Committee is comprised of 9 elected members of Aberdeen City Council.

Membership during 2016/17

Councillor Barney Crockett (Convener)
Councillor John Reynolds (Vice Convener)
Councillor Jim Noble
Councillor Aileen Malone
Councillor Alan Donnelly
Councillor James Kiddie
Councillor M. Tauqueer Malik
Councillor Willie Young
Councillor Neil MacGregor

Pensions Board

In line with new scheme regulations, the Funds established a Pensions Board in 2015/16. The Pension Board is responsible for assisting the Scheme Manager in relation to compliance with scheme regulations and the requirements of the Pensions Regulator.

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

Membership during 2016/17:

Mr. J Mulholland, Chairperson	Unison	Left January 2017
Ms. M Lawrence	Unison	Joined February 2017
Mr. K Masson	GMB	
Mr. A Walker	Unite	
Vacancy	UCATT	
Councillor L Ironside	Aberdeen City Council	
Councillor W Howatson	Aberdeenshire Council	
Councillor J Cowe	The Moray Council	
Mr. D Briggs	Robert Gordon's University	Left September 2016
Ms. M Hart	Police Scotland	Joined January 2017
Councillor B Stuart	Aberdeenshire Council	Substitute

In line with the training policy, Board members undertook 3 training sessions within 2016/17 with further dates/opportunities identified including Fund Manager Presentations and investment seminars in 2017/18.

The Board sits at the same time as the Pensions Committee and receives the Committee report for each meeting which includes reports on all areas of the Pension Funds; Investment, Accounting, Governance, Employer Relationship, Administration and Technical.

In assisting with compliance the Board can report the Funds to the Pensions Regulator for non-compliance with guidance or regulations. In 2016/17 no issues were reported by the Board to the Pensions Regulator.

The full Pensions Board Annual Report can be viewed on our website at www.nespf.org.uk

4. Achievements

The past 12 months have proved challenging but ultimately rewarding as many of the internal and procedural changes that have been made begin to take effect.

The Funds' long term move to digital information exchange for both employers and members has seen data quality and overall administration improve. As the Funds continue to roll out monthly online returns for employers, information and errors can be identified far in advance of the year end process. As a result the Funds:

- further reduced the time taken to complete year end from 220 days to just 63
- successfully issued 99.6% of benefit statements before the 31st August deadline
- processed 558,844 system updates automatically
- Completed an interim valuation with praise received regarding the high quality of our data

In June 2016, the Funds also went live with the new online Member Self Service (MSS) facility. This service was redesigned with improved functionality.

Full details on the above can be found in the Pension Funds' Administration and Performance Report.

The success of these online technologies has been recognised across the industry with the Funds holding several conference calls, meetings and demonstrations for other fund administrations while being nominated for 7 national awards – winning the LGC Investment Award's Quality of Service Award.

Despite a turbulent market in 2016/17, the Funds continued to grow in value as they maintained their long term investment strategy, which includes the diversification of assets and therefore risk. This has helped the Funds maintain and increase their overall value. Furthermore the Funds moved to a new Global Custodian, which was finalised in December 2016.

Internally the Funds implemented a new staffing structure which introduced 6 distinct teams; investments, accounting, technical, benefit administration, employer relationship and governance. These teams have enabled the Funds to deliver our service in an efficient and accountable manner.

5. Investment & Accounting

The Investment and Accounting Teams are responsible for the financial management of the Pension Funds, including the following:

- Delivery of investment strategies having due regard to risk and return within the objectives and liability requirements;
- To receive monies in respect of contributions, transfer values and investment income;
- To carry out the Funds' investment business;
- To provide funds to pay out monies in respect of scheme benefits, transfers, costs, charges and expenses; and
- To account for the Funds' assets and all monies received and paid from the Funds.

During 2016/17, each fund implemented a revised investment strategy. The changes looked to take each strategy forward over the next 5 to 10 years, with a calculated move from Growth assets to Income/Protection Assets.

In December 2016, the Funds successfully moved Global Custodian from BNY Mellon to BNP Paribas, a move which required a significant investment of time and work by both the Accounting and Investment teams.

The Accounting Team gives support across the Funds to ensure accurate and timely data. In 2016/17, the Team had high level discussions with the Management Team on cost awareness and will continue to progress with training now the Custodian move has been complete and a new Pensions Officer has joined the team.

6. NESPF Investment Strategy

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

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

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

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

The Funds take proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Committee.

Asset Structure 2016/17

Asset Class	Distribution as at 31 March 2016		Distribution as at 31 March 2017	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including Alternative Assets)	78.7	80.0	79.4	70.0
Bonds	12.9	10.0	12.4	15.0
Property	7.3	10.0	7.1	10.0
Cash / Other	1.1	0.0	1.1	5.0
Total	100.0	100.0	100.0	100.0

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

Equities	55% (range +/- 5%)
Alternative Assets (including private equity)	15% (range +/- 5%)
Bonds	15% (range +/- 5%)
Property	10% (range +/- 5%)
Cash / Other	5% (range +/- 5%)

The NESPF continues to rebalance assets in line with its investment strategy, reducing its exposure to equities and increasing alternatives and bonds in line with the last investment strategy review.

7. Investment Performance

Economic and Market Background – 12 Months to 31 March 2017

Major equity and bond markets delivered positive returns over the 12 months to 31 March, buoyed by signs of economic growth in areas including the UK and US. Equities in particular performed well, most notably for sterling investors who benefited from a weaker pound. This was despite periods of uncertainty, as the spotlight fell on political change in the West.

UK:

The main event in the UK was the vote to leave the EU. The result led to increased volatility in the immediate aftermath, but equity markets have subsequently performed well. The most notable impact has been on sterling which fell sharply following the result, reaching a 31-year low against the dollar, and has failed to show any significant recovery since. In August, the Bank of England announced measures to stimulate growth in the UK economy, including a cut in interest rates from 0.5% to a new record low of 0.25%. In March 2017, the government triggered Article 50, initiating the UK's formal withdrawal from the EU. This process is due to be completed in 2019.

US:

Throughout the period, the focus in the US was on the Presidential election campaign, culminating in Donald Trump's inauguration in January. The surprise election result saw equities, bond yields and the dollar all rise. In December, the US Federal Reserve announced that they would be raising rates for only the second time in a decade, from 0.5% to 0.75%. This was quickly followed by a second rise in March, reflecting the continued pick up in the US economy.

Japan:

In Japan, Prime Minister Shinzo Abe's government claimed an election victory in July before announcing a 4.6 trillion yen stimulus package, including funding for welfare and infrastructure. Towards the end of the period, the Bank of Japan surprised markets by announcing its plan to purchase an unlimited amount of two and five year bonds to control yields.

Europe:

Having initiated an increase in the bond purchases made as part of their quantitative easing (QE) programme to 80 billion euros per month in March 2016, the European Central Bank subsequently scaled this back to 60 billion euros as the year ended.

Emerging Markets:

Fortunes were mixed for the Emerging Market economies. Slowing growth, collapsing commodity prices and currency sell-offs had all affected sentiment prior to the period, as did a range of political factors in Brazil and South Africa. A recovery in the price of oil and other commodities, however, helped drive returns as markets rallied to end the period substantially higher.

Equities:

The UK equity market ended the period 22% higher. North America posted an 18% rise in local currency terms, but dollar strength meant that this converted to a 35% gain for sterling investors. Europe ended 18% higher, a 28% gain after conversion to sterling. Meanwhile, Emerging Markets rose 17% and Developed Asia (ex Japan) rose 19% in local currencies, representing rises of 36% and 37% for sterling investors.

Bonds:

Fixed interest markets delivered strong performance, with UK corporate bonds up 9% and UK gilts up 7%, while those issued by governments overseas gained 11% in sterling terms. UK government bond yields fell to record lows during the first half of the period, in response to increased monetary stimulus by the Bank of England following the UK's vote to leave the EU. Subsequently, yields began to rise with higher inflation expectations and increased confidence in the global economy. Stronger growth has been supportive of corporate bonds, leading them to outperform government bonds over the past 12 months.

Property:

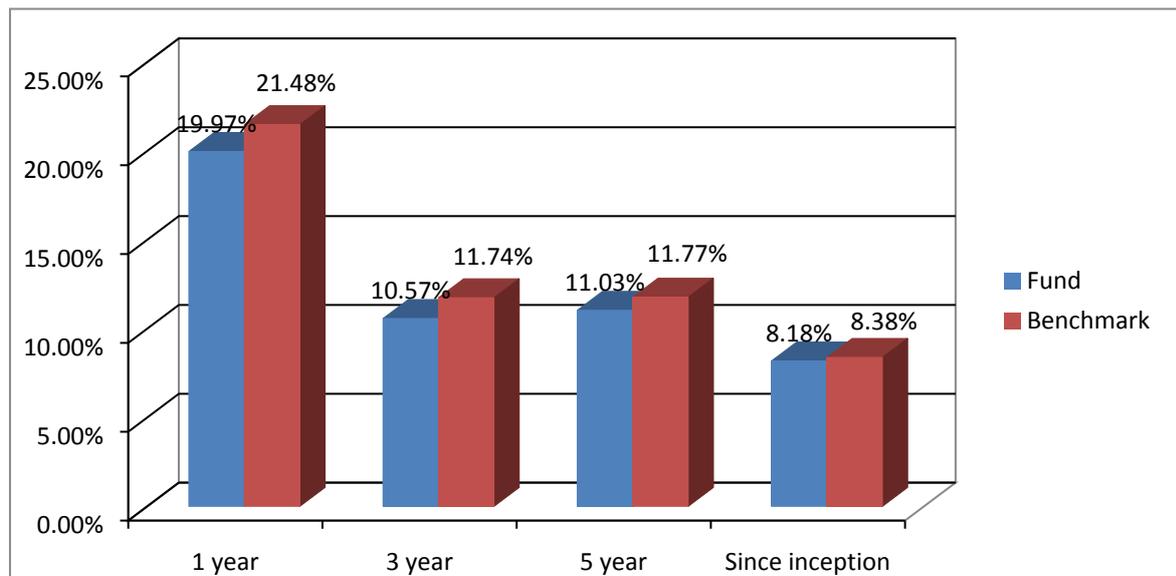
UK property posted positive returns over the reporting period, despite signs of a weaker market and difficult conditions during the summer. Property investors became increasingly cautious in the months leading up to the vote on European membership on 23 June, with many investors holding off committing to deals until after the referendum. It was no surprise then that global markets reacted badly to the result and property was no exception. Property values fell over the summer months as some investors pulled out of deals and others sold assets. The autumn months brought a degree of stability and confidence back to the market, and capital values rose once again. While concerns about Brexit continued to worry investors, a need for income-generating investments and low supplies of quality stock ensured that property returned to favour fairly quickly. Occupiers remain cautious about the outlook for the next few years and demand from tenants has been more subdued. Rental growth has moderated across almost all subsectors of the market as a result.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:-			
FTSE All Share Index	22.0	7.7	9.7
FTSE All World Index	33.1	16.4	14.6
FTSE All World ex UK	33.8	17.1	15.0
FTSE North American Index	35.0	20.5	18.2
FTSE Europe (ex UK) Index	27.9	9.6	12.8
FTSE Japan Index	32.8	17.8	13.0
FTSE Developed Asia (ex Japan) Index	37.4	12.9	10.0
FTSE Emerging Markets Index	35.6	12.9	6.6
Bonds:-			
FTA Government Securities All Stocks	6.6	7.8	5.2
ML UK Corporate Bonds	9.3	7.5	7.2
FTA Index Linked All Stocks	19.9	13.1	8.9
Above are total returns in Sterling Source: Thomson Reuters and relevant underlying index provider			

North East Scotland Pension Fund

In 2005 a long term investment strategy for the NESPF was agreed with a customised benchmark that aimed to deliver a return of 1% above the benchmark over a rolling three year period.

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



2016/17 was a great year for investment returns with equities in particular posting strong positive performance, which is reflected within the Fund's benchmark and performance.

Over the longer term the Fund continues to deliver close to benchmark returns while outperforming the longer term comparators of CPI and Average Earnings. This provides assurance that the Fund's Investment Strategy will continue to deliver the required returns over the longer term.

Investment Management Structure

Manager	31-Mar 2016 £M	31-Mar 2016 %	31-Mar 2017 £M	31-Mar 2017 %
SSGA	1,049	33	1,328	34.8
Baillie Gifford	750	23.6	991	26.0
BlackRock	376	11.8	455	11.9
BlackRock DGF	0	0	103	2.7
Barings	273	8.6	280	7.3
AAM Global*	262	8.2	0	0
AAM Frontier*	36	1.1	0	0
AAM Property	237	7.5	265	7.0
AAM Property Residential	0	0	7	0.2
Harbour Vest	94	3	117	3.1
SL Capital Partners	45	1.4	54	1.4
Partners Group	35	1.1	46	1.2
Maven Capital	4	0.1	3	0.1
Capital Dynamics	1	0	7	0.2
RCP Advisors	0	0	2	0.1
Unigestion	4	0.1	15	0.4
Invesco DGF	0	0	104	2.7
NESPF (Merged)*	0	0	0	0

During 2016-17, the following former Fund Managers were merged into one 'In House' Account for the purpose of collecting any residual income:

AAM Global Excluding UK, Aberdeen Frontier, Capital, In House, RREEF and Rogge

8. ACCTF De-Risking Strategy and Performance

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

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

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

As of the 1st December 2016 the De Risking mandate for the Transport Fund was transitioned to Schroder, providing a low risk De Risking solution. The Flight Path funding level as at the 31st March 2017 was 91%, providing a positive increase from 85.3% as at March 2016.

Long Term Fund Performance

Whilst employee contribution rates and benefits payable are set by statute, the long-term liabilities of the Fund are linked either to wage inflation or to price inflation. It is the Fund’s performance against these benchmarks that affect the long-term employer contribution rate, which is variable. **Over the longer term, performance of the Fund remains ahead of both Average Earnings and CPI.**

Year Ending	2014/15 %	2015/16 %	2016/17 %	Since inception Annualised %
CPI	1.2	0.5	2.3	2.0
Average Earning	1.5	1.9	2.4	2.9
NESPF Return	11.6	0.7	20.0	8.2

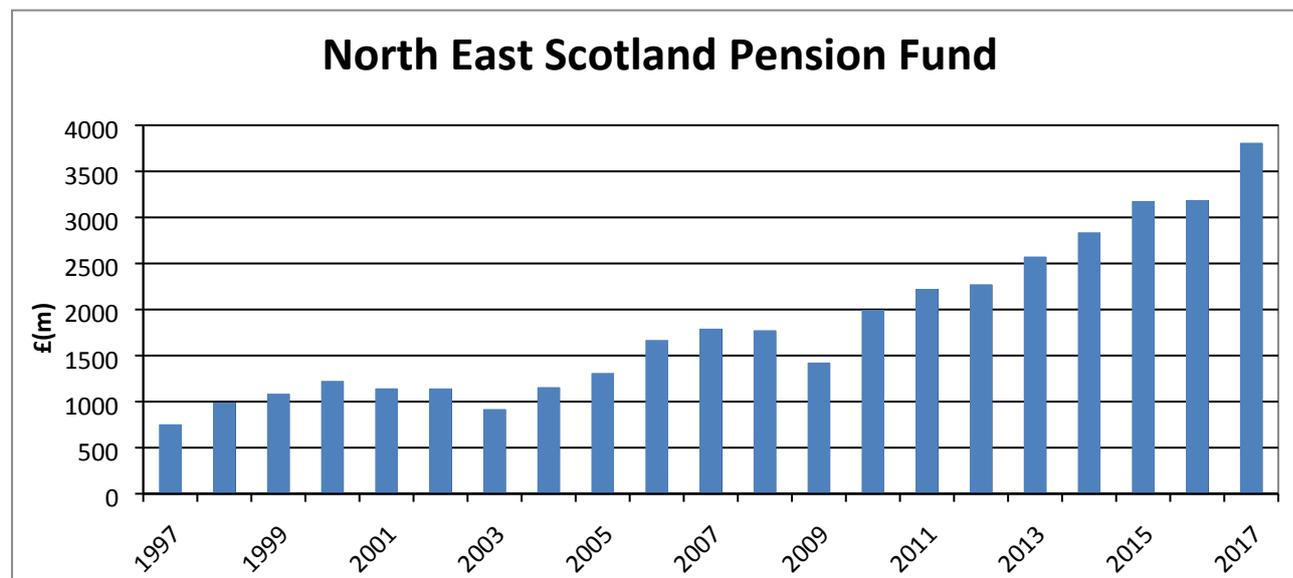
9. Financial Performance

North East Scotland Pension Fund Financial Summary

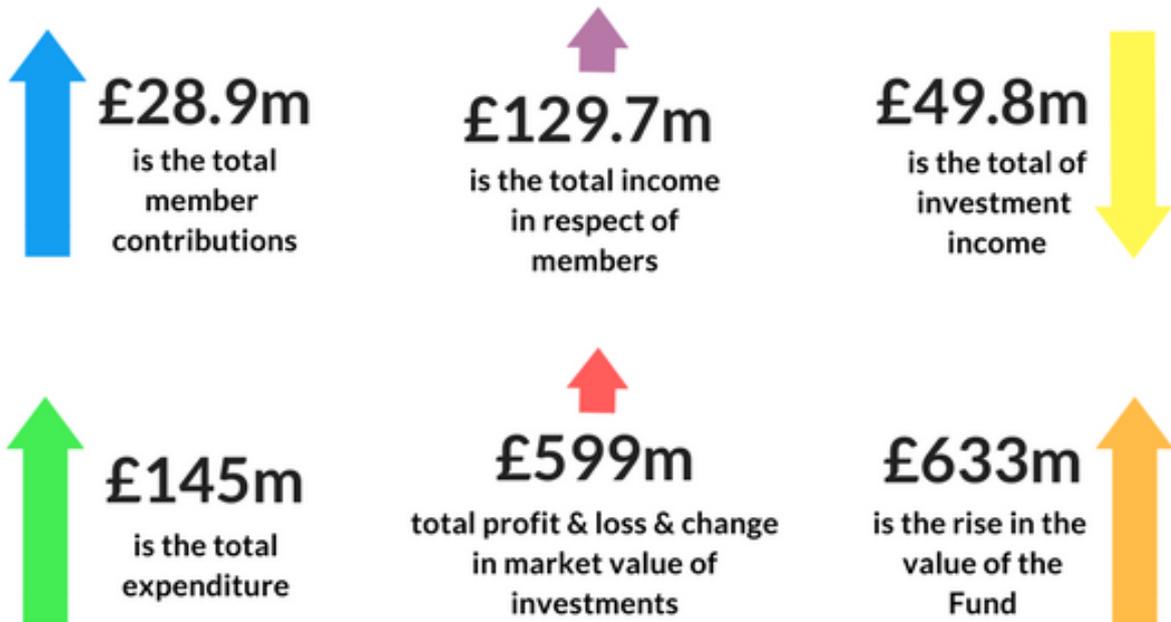
	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)	361	(14,958)	(12,357)	(13,485)	(15,456)
Net investment income Change in Market Value Net return on Investment	300,543	278,513	350,131	23,929	648,411
Net increase in Fund	300,904	263,555	337,774	10,444	632,955
Fund Balance as at 31 March (Market Value)	2,570,020	2,833,575	3,171,349	3,181,793	3,814,748

Net Additions/(deductions)* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position.

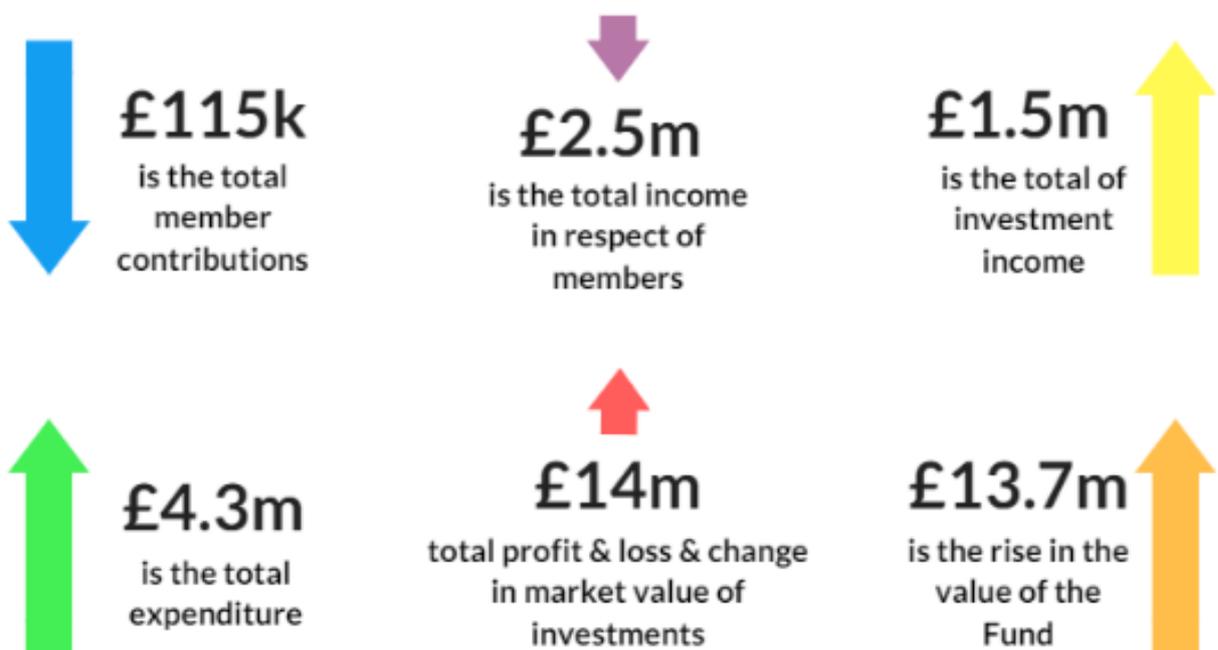
Fund balance as at 31 March 2017 (£m)



North East Scotland Pension Fund's achievements in 2016/17:



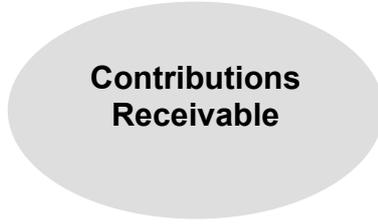
The Aberdeen City Council Transport Fund's achievements in 2016/17:



**North East Scotland
Pension Fund
(2016/17)**

**Aberdeen City Council
Transport Fund
(2016/17)**

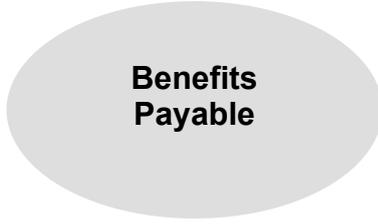
£129.7m



£2.5m



£126.7m



£4m



£18.5m



£245k



£648.4m



£15.5m



£3,814.7m



£100m



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

After meeting the cost of current benefits, all surplus cash is invested and the increasing value of investment is then available to meet future liabilities to employees within the Funds. In addition to a contingent liability to meet future pension benefits payable to existing employees, the Funds must also provide for the future payment of deferred pension benefits which have been preserved by former employees in respect of service prior to their leaving.

The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2017 with the gain/loss on revaluation being attributed to the Funds.

Due to the mature and closed nature of the Aberdeen City Council Transport Fund, a De-Risking strategy, as outlined in the Aberdeen City Council Transport Fund De-Risking section, was implemented as of March 2015. The monitoring of this Fund has moved away from traditional benchmarking with performance now monitored by funding level. This will be evident throughout this annual report.

Membership Statistics

NESPF	2012/13	2013/14	2014/15	2015/16	2016/17
Active	20,869	22,880	24,089	24,546	25,329
Pensioners	16,472	17,106	17,726	18,328	19,111
Deferred	16,876	17,267	17,759	18,455	19,120

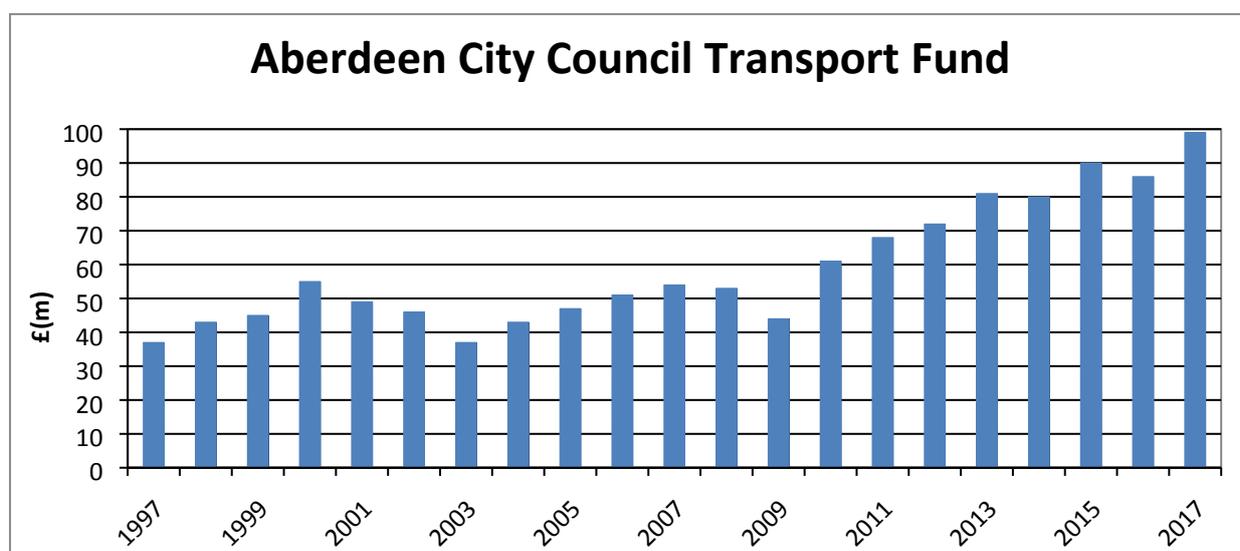
Active membership has continued to rise steadily over a 5 year period, with factors such as auto enrolment and Fund promotion positively impacting membership. Pensioner numbers continue to rise because of several potential factors such as an accelerated trend in longevity seen in recent years.

Aberdeen City Council Transport Fund Financial Summary

	2012/13 £000	2013/14 £000	2014/15 £000	2015/16 £000	2016/17 £000
Contributions Less benefits and expenses paid Net additions/ (deductions)*	(1,190)	(1,033)	(762)	(1,347)	(1,731)
Net investment income Change in Market Value Net return on Investment	9,583	137	10,564	(2,050)	15,454
Net increase in Fund	8,393	(896)	9,802	(3,397)	13,723
Fund Balance as at 31 March (Market Value)	80,734	79,838	89,640	86,243	99,966

Net Additions/(deductions)* - From 2013/14 onwards 'Management Expenses' are included within this figure resulting in a negative position. In addition, the ACC Transport Fund is a closed fund which means a reducing balance of active members contributing toward the Scheme.

Fund balance as at 31 March 2017 (£m)



Membership Statistics

Transport Fund	2012/13	2013/14	2014/15	2015/16	2016/17
Active	92	85	78	71	61
Pensioners	393	405	403	411	423
Deferred	166	155	150	142	130

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

Remuneration Report

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

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

10. Pension Fund Administration and Performance

This year's administration report focuses on collaborative working, statement compliance, interim valuation, guaranteed minimum pension reconciliation and the pension administration strategy.

Collaborative working

Throughout 2016/17 staff from the North East Scotland Pension Fund (NESPF) attended national groups for pension administration as well as working together with other administering authorities.

- Participated at the Scottish Pension Liaison Group with other Scottish authorities, the Scottish Public Pensions Agency and the Local Government Association
- Participated at meetings and webinars as a member of the Computerised Local Authority Superannuation System (CLASS) Group which consists of all 11 Scottish administering authorities and 80 English and Welsh authorities
- Participated in Testing Working Party organised by CLASS with Peninsula Pensions, Strathclyde, NILGOSC (LGPS for Northern Ireland), Greater Manchester and Oxfordshire for the 2017 pension software release which included development to record final salary and CARE transactional data separately for reporting to the Government Actuary's Department
- Participated in a webinar with Shropshire County Pension Fund for member self-service
- Visit from NILGOSC for member self-service and data provision from employers
- Attended surgery for reconciling Guaranteed Minimum Pensions (GMP) with HMRC and other Scottish authorities.

Statement compliance

In total 14,514 benefit statements were issued to deferred members in July and for those who left during the scheme year a revised statement was made available online as a result of receiving late notification of requirement to apply proportional rather than full revaluation to member benefits.

The biggest administrative challenge for NESPF in 2016/17 was the requirement to issue benefit statements to active members by the 31 August. In total, 23,398 statements were issued to active members prior to the deadline which represented 99.62% compliance. We were able to identify the outstanding members and provide them with a statement in November as well as rectifying their records on the system to prevent future reoccurrence.

As we did not achieve 100% compliance this was recorded in line with the NESPF Breaches of Law Policy but not reported to The Pensions Regulator.

A significant contribution to achieving such a high percentage is the effort made by employers to provide monthly data which has dramatically reduced the amount of time taken to prepare member records for benefit statement processing.

Monthly data and benefit statements	2014/15	2015/16	2016/17
Monthly data provision shown as a percentage of active membership as at 31 March	33.1%	96.7%	98.7%
Days taken from 31 March to prepare member records for benefit statement processing	220	63	62 (estimated)

Pension saving statements were issued prior to 6 October to 55 members who were close to, or exceeded, the £40,000 annual allowance.

Interim Valuation

Due to market volatility over the period from the 2014 valuation, the introduction of the new scheme and increasing cost of providing LGPS benefits, the NESPF commissioned the scheme actuary, Mercer, to carry out an interim valuation as at 31 March 2016 prior to the required triennial valuation which will take place in 2017.

The interim valuation was calculated on full member data provided by the Fund following the year end procedure and the whole fund and individual employer results were delivered by Mercer at the end of 2016. Due to the drop in the value of gilt yields over the last few years the decision was taken between Mercer and the NESPF to change the methodology for the calculation of the liabilities to link the discount rate to real asset returns instead of the yields value. This change in methodology has had a positive effect on the funding level for the calculation date and brings us in line with all other LGPS Funds whilst still maintaining a consistent level of prudence.

The indicative Funding level for the Whole Fund for the interim valuation was determined as 97%, meaning that there was a deficit of £102 Million. The indicative contribution rates for all participating employers were calculated on each employers own membership profile, liabilities and experience over the intervalation period.

Although the Fund is not required to publish the funding level and no contribution rates will be amended at this time, the exercise has been very useful to the Fund to ensure that preparation for setting assumptions for the triennial valuation can take place, pre-emptive discussions can be held with individual employers and the NESPF covenant policy can be implemented in full.

The scheme actuary has a program that analyses data quality and this was used to assess the data provided in respect of the interim valuation. The program analyses all of the Common Data items prescribed by TPR and summarises the quality of data provided for the whole Fund and each individual employer.

The results were positive with the actuary commenting “As anticipated, the quality of the data was very good and this was reflected in the relatively small number of queries we raised upon receipt of the data.”

Guaranteed Minimum Pension (GMP) reconciliation

With contracting out ending on 6 April 2016 HMRC provided a Scheme Reconciliation Service to assist pension funds with reconciling non active members GMP values held on their systems with the values they hold. Although not compulsory this exercise has to be completed prior to December 2018 when HMRC will send individuals information about their contracting out history.

NESPF requested and received a file from HMRC that contained 11,888 exact matches. As at March 2017 NESPF have raised 2,477 queries with 2,020 confirmed by HMRC as being resolved.

A closure scan request for active member reconciliation was made in December with a file recently received from HMRC containing 21,405 members.

Pension administration strategy

In January 2017 our Pensions Administration Strategy (PAS) was revised to incorporate the new LGPS regulations introduced from 1 April 2015. A four week consultation with employers commenced on 3 February and the revised PAS was approved by the Pensions Committee on 10 March with a copy forwarded to Scottish ministers.

The revised PAS takes effect from 1 April 2017 and NESPF benefit processing and employer data provision remain key areas of the strategy.

NESPF processing performance

Key performance measurements	Target	2015/16	Amount	Achieved	2016/17
Letter notifying death in service to dependent	5 days	78%	45	38	84%
Letter notifying retirement estimate	10 days	93%	926	911	98%
Letter notifying actual retirement benefits	10 days	95%	1,372	1,337	97%
Letter notifying deferred benefits	10 days	95%	1,627	1,291	79%
Letter notifying amount of refund	10 days	98%	1,459	1,157	79%
Letter detailing transfer in quotes	10 days	88%	96	87	91%
Letter detailing transfer out quotes	10 days	91%	293	284	97%

Performance in five of the seven measurements increased on the previous year with our best ever percentages recorded for death in service, retirements and transfers out.

There was a significant decrease with deferred and refund processing and this was down to procedures being used not being able to cope with an increased volume of almost 700 cases. Following a review on how to improve the situation it was decided the Employer Relationship Team would assume responsibility for leaver processing from March 2017.

Employer data provision

During 2016/17 employers provided 559,235 system updates using Employer Services and I-Connect portals.

Employer Services is a secure web portal, accessed through the NESPF website, for small employers to provide electronic data by completing online forms that generate interface files for automated processing of starters, amendments and leavers on the pension administration system.

Interface processing from Employer Services	2014/15	2015/16	2016/17
Starters	450	174	207
Amendments	152	49	80
Leavers	297	121	104
	899	344	391

I-Connect is a cloud based data exchange portal for employers to securely provide monthly data that generates events for automated processing on the pension administration system.

Event processing from I-Connect	2014/15	2015/16	2016/17
Starters	1,818	4,355	4,029
Amendments	2,245	33,464	12,430
Leavers	816	3,416	3,256
Contributions (employee, employer and additional)	85,389	260,665	184,205
Salary	82,362	148,677	178,650
CARE pay	N/A	231,866	176,274
	172,630	682,443	558,844

Event processing in 2016/17 was less than the previous year as a result of a large employer having issues providing data submissions however this was resolved prior to March 2017.

By March 2018 all employers will be providing monthly data through I-Connect by way of uploading an extract file from their payroll system or completing online returns from within the portal. The online returns facility will provide more data than Employer Services and will include CARE pay provision.

NESPF monitors the quality as well as the quantity of electronic data received throughout the year from employers:

Employer	Portal	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar
Aberdeen City Council	IC	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeenshire Council	IC										M	M	M
Bon Accord Care	IC	H	H	H	H	H	H	H	H	H	H	H	H
Bon Accord Support	IC	H	H	H	H	H	H	H	H	H	H	H	H
Grampian Valuation Joint Board	IC	H	H	H	H	H	H	H	H	H	H	H	H
Northern Community Justice Association	IC										H	H	M
NESTRANS	IC										M	M	H
Police Scotland	IC	H	H	H	H	H	H	H	H	H	H	H	H
Moray Council	IC	H	H	H	H	H	H	H	H	H	H	H	H
The Robert Gordon University	IC	H	H	H	H	H	H	H	H	H	H	H	H
Aberdeen Cyrenians	ES	H											
Aberdeen Foyer	ES		H										
Aberlour Child Care Trust	ES		H	H					H			H	
First Bus	ES						H	H	H			H	H
Moray College	ES	H	H	H	H	H	H	H	H	H	H	H	H
North East Scotland College	ES	H	H	H	H	H	H		H	H	H	H	
North East Sensory Services	ES								H			H	H
Outdoor Access Trust For Scotland	ES			H	H								
Osprey Housing	ES		H					H	H	H			H
Peterhead Port Authority	ES	H											
Robert Gordon College	ES		H										
SCARF	ES						H						
Scottish Fire and Rescue Service	ES				H								
Scottish Water	ES	H	H	H	H	H	H	H	H	H	H	H	H

Data is classed as being of high, medium or low quality depending on amount of events or interface updates successfully processed and validated by the Employer Relationship Team. No low quality data submissions were received in 2016/17.

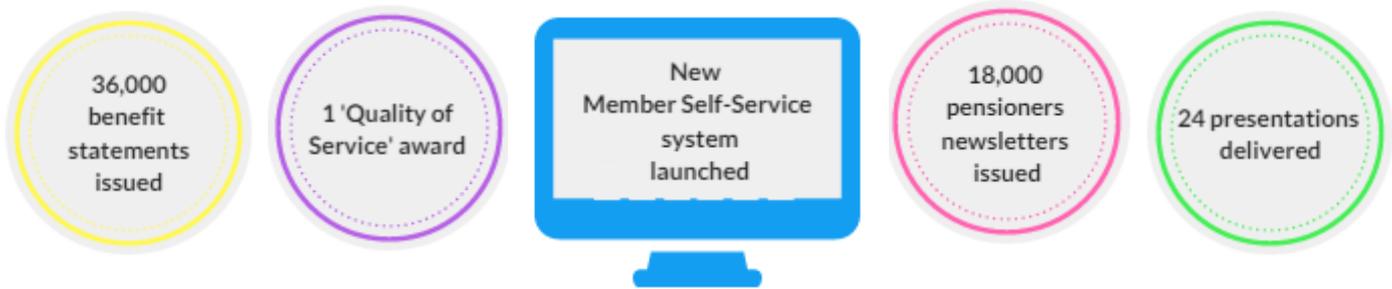
Employer policy on discretions

Under Regulation 58 of the LGPS (Administration) (Scotland) Regulations 2014 employers must have a policy on discretions.

As at 31 March 2017 a total of 82% of employers have provided NESPF with a policy.

Aberdeen City Council	Aberdeen Cyrenians	Aberdeen Endowments Trust
Aberdeen Foyer	Aberdeen Heat and Power	Aberdeen Performing Arts
Aberdeen Sports Village	Aberdeen Youth International Festival	Aberdeenshire Council
Aberlour Child Care Trust	Alcohol Support Ltd	Archway
Bon Accord Care	Bon Accord Support	Fersands and Fountain
First Aberdeen	Forth and Oban Ltd	Fraserburgh Harbour Commissioners
Gordon Rural Action	Grampian Valuation Joint Board	Home Start Aberdeen
Inspire	Mental Health Aberdeen	Middlefield Community Project
Moray College	NESTRANS	North East Scotland College
North East Sensory Services	Osprey Housing	Outdoor Access Trust For Scotland
Pathways	Peterhead Port Authority	Printfield Community Project
Robert Gordons College	Sanctuary Housing	Scotland's Lighthouse and Museum Trust
Scottish Fire and Rescue Service	Scottish Police Authority	Scottish Water
Sport Aberdeen	St Machar Parent Support	Sanctuary Scotland
The Manor Project	Moray Council	The Robert Gordon University
Visit Scotland		

Communications



In 2016/17 the Funds focused on innovating and enhancing their approach to communicating with members to ultimately improve the customer experience.

The main accomplishment for the Funds was the development of the new-look Member Self-Service (MSS) website with improved functionality and a user-friendly design. MSS is an online system which provides access to pension information enabling members to update personal details, change death grant nominations, view pension values, documents and perform pension projections allowing members to actively plan for their retirement. The facility is tailored depending on member status so that members can only see information relevant to their circumstances. The system is available to 99% of members including active, deferred, pensioner and councillor members.

To introduce members to MSS and allow them to easily access the new site, Activation Keys were mailed to deferred and active members. The number of active members registered increased by 112% in the month following this mailing.

MSS garnered positive feedback from members such as “Brilliant site - easy to navigate, quick to respond, very useful information”. Future developments of the website are currently underway with the Funds looking at the potential to expand the system to provide electronic benefit statements and member forms.

Another triumph for the Funds was the successful issuing of 99.62% of statements before 31st August deadline for the first year of the new scheme. Benefit statements were mailed to more than 23,000 active members, 13,000 deferred members and 18,000 pensioners.

The Funds were also involved in several events during 2016/17 which included 14 pension presentations with an additional 10 co-delivered with our AVC provider, 2 Financial Forums for the finance representatives of employers and an Administration Forum to assist employers with systems and procedures for data collection.

The Funds continued to maintain an active online presence through the NESPF website and Twitter, updating members on both Fund specific news and topics relevant to the wider pensions industry.

A particularly notable achievement for the Funds during 2016 was being presented with the Quality of Service Award at the LGC Investment Awards. The Funds were also shortlisted for Defined Benefit (DB) Pension Scheme of the Year and Pension Administration Award at the Pensions Age awards.

11. Risk

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

Investment risk is recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). 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 Pensions Board.

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

Benefits risk is recognised as falling into 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, which are mitigated with the use of a dedicated pension fund administration system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. IT risk is mitigated through the use of an externally hosted benefit administration system subject to regular update and review.

It is recognised that all Fund 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 Review

A Risk Management Review was completed during 2015/16, establishing and maintaining a detailed Risk Register and Action List. The review formalised the risk management process and identifies areas for development.

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

Identified below are key risks impacting the Pension Funds and the control measures in place to mitigate those risks.

Risk	Scope	Control Measure	Are controls operating Effectively
Operational			
Fraud and Negligence	Overpayments, unauthorised payments, system corruptions, audit criticism, reputational damage	All Pension payments signed off by a Senior Pensions Officer – segregation of duties for staff processing lump sums	Yes
Funding			
Fall in bond yields leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates prepared by Funded Status Monitor (FSM) reported to the Pensions Committee	Yes
Financial			
Failure in world stock markets	Increase in employer contributions	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Yes
Regulatory & Compliance			
Failure to comply with LGPS regulations	Audit criticism, legal challenge, reputation risk	Six monthly review of compliance with regulations and annual report to Pensions Committee	Yes
Governance			
Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputation risk	Annual review of AVC arrangements carried out by the Scheme Actuary	Yes

12. Funding Strategy Statement

The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 and its subsequent amendments require administering authorities to prepare, maintain and publish a written Funding Strategy Statement (FSS).

The FSS sets out how the administering authority balances the potentially conflicting aims of affordability of contributions, transparency of process, stability of employers' contributions, and prudence in the funding basis.

As part of the 2014 actuarial valuation exercise, the Funding Strategy Statement was reviewed, providing a statement that was prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the Funds), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

The detail of the main body of this Statement relates primarily to the North East Scotland Pension Fund ("the Main Fund"). Where there are differences in the application of this Statement to the Aberdeen City Council Transport Fund ("the Transport Fund"), these are set out separately.

A copy of the full statement is available on the website www.nespf.org.uk.

13. 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 and is effective from 4 June 2012. In its preparation, the Council has obtained appropriate professional advice.

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 the benefit liabilities as they fall due at a reasonable cost to the 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 targets 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, was examined by the Pensions Committee and led to the strategic benchmark.

The full statement is available on the website www.nespf.org.uk.

14. Corporate, Environmental and Social Governance

The North East Scotland Pension Funds take their role as responsible investors very seriously. As long term investors the Funds have a duty to engage with the companies they invest in on governance, social and environmental issues.

To enable this, the Funds are members of the Local Authority Pension Fund Forum (LAPFF), signatories of the Principles of Responsible Investment (PRI) and the UK Stewardship Code.

What makes corporate governance and engagement necessary?

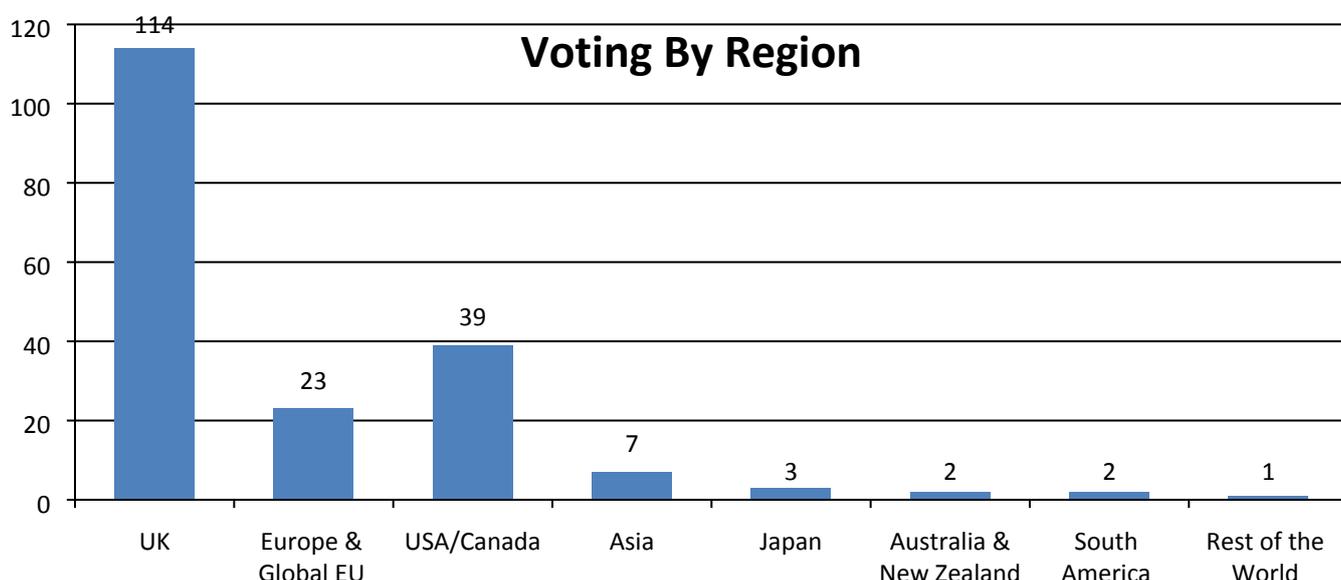
Put simply the interests of those who have control over a firm can differ from the interest of those who supply the firm with external finance i.e. the shareholders, and helps to protect against opportunistic/reckless behaviour by companies.

The below gives a snap shot of the activities that the NESPF has undertaken on Governance and Engagement over the past year.

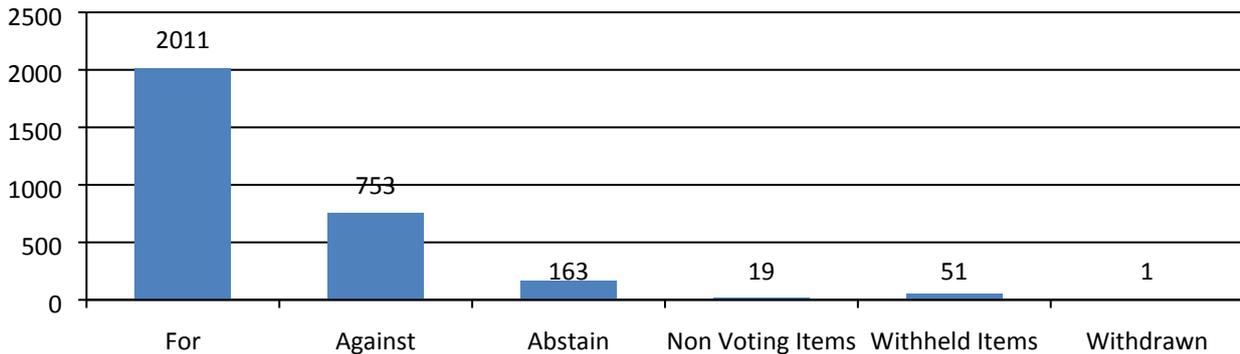
Voting

Voting is an integral part of good governance; it gives the Funds a direct route to influence the company's management. The Funds vote In-House for all their Active Managers and over the last year have voted at 191 Annual General Meetings/Special meetings on 2998 resolutions. The Funds' voting advice is provided by P.I.R.C (Pensions & Investments Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum

Further information on the Funds' Voting record can be found on our website <http://www.nespf.org.uk/Investment/Voting.asp>



Voting By Resolutions



During the last financial year the most contentious areas were

Directors

- Insufficient Independence at board level
- Independent Directors who have spent over 9 years on the board.

Share Issues/Re-purchase

- No clear justification for the re-purchase put forward by the Board
- Authority sought exceeding the recommended maximum

Auditors Appointment

- Not rotating audit firms on a regular basis
- Concerns about high levels of non-audit fees creating the potential for conflicts of interest.

Annual Reports

- Vote on dividend or dividend policy not put to shareholders which is contrary to best practice.

Engagement

Local Authority Pension Fund Forum (LAPFF)

Engagement is a fundamental part of good corporate and social governance. To be effective in this area it's vital that Local Authority Pension Funds work together to achieve the best results which is why the NESPF is a member of the LAPFF. These engagements enable the NESPF to be a responsible long term investor.

LAPFF is the UK's leading collaborative shareholder engagement group with combined assets of over £200 billion. Formed in 1990, LAPFF brings together over 70 local authority pension funds from Scotland, England, Wales & Northern Ireland. The Forum provides a unique opportunity for Britain's local authority pension funds to

discuss shareholder engagement and investment issues. Our convener Councillor Crockett was re-elected to the LAPFF executive committee in January 2017.

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

- **Environmental and Carbon Risk**

During the course of the year 2016, LAPFF undertook 58 engagements around environmental and carbon risk.

More so than other areas of engagement, this area saw multiple, intensive engagements with companies. Part of this in-depth engagement related to the strategic resilience resolutions, both with companies receiving the resolutions. At their AGMs and those approached about the resolution asks without a resolution being filed at their AGMs.

LAPFF has found that an exercise of trust-building has had to take place in order to work with companies on climate change and carbon management, and the extended engagements assist with this relationship building.

- **Carbon Management**

In 2016, the focus for shareholder resolutions on climate risk moved to the UK listed integrated mining companies, Rio Tinto, Glencore and Anglo-American. With total assets under management backing the resolutions amounting to £8 trillion, a large number of LAPFF member funds joined investors from the US, Australia and Europe, to co-file resolutions to the companies' 2016 AGMs supported by LAPFF's continuing participation in the strategic resilience resolution initiative.

- **Human Rights**

This engagement included labour rights in the supply chain. As part of this work, LAPFF engaged on the Modern Slavery Act (MSA) with Nestlé and Carillion. Work on the MSA will ramp up as companies become required to report under the Act.

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

Stewardship Code

In 2016 the Financial Reporting Council (FRC) assessed signatories to the Stewardship Code based on the quality of their Code statements. This work was undertaken to improve the quality of reporting against the Code, encourage greater transparency in the market and maintain the credibility of the Code. Tiering distinguishes between signatories who report well and display their commitment to stewardship, Tier 1, and those where reporting improvements are necessary, Tier 2. The tiering exercise has improved the quality of reporting against the Code, promoted best practice and resulted in greater transparency in the UK market.

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

The definition for Tier 1 members are:- Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.

Principles for Responsible Investment (PRI)

The PRI is an organization that is a world leading proponent of responsible investment. It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interest of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI is truly independent. It encourages investors to use responsible investment to enhance returns and better manage risks, but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it's supported by but not part of the United Nations.

Our main focus remains the issue of:-

Sustainable Stock Exchanges (SSE) – we are members of a group of 50 PRI signatories representing US\$ 7.6 trillion in assets under management which is engaging with stock exchanges globally to ask that they enhance the sustainability performance of their listed companies, with particular emphasis on ESG disclosure.

This engagement led to 23 exchanges committing to put ESG guidance in place by the end of 2016. Now, 50% of (listed-equity) exchanges have or are committed to producing ESG reporting guidance.

Since early 2017 the SSE is targeting the 40 markets with no commitments, particularly NASDAQ US, NYSE, Euronext and JPX. The NESPF is engaging directly with Euronext and the Irish Stock Exchange.

15. Future

Following on from 2016/17 which was again a very busy and challenging year within the Local Government Pension Scheme, the Funds now look to the new financial year and the actuarial valuation of both the North East Scotland Pension Fund and Aberdeen City Council Transport Fund.

In 2016, the Funds' interim valuation delivered positive results and the Funds' look to replicate both the successful process and outcome. Following the Actuarial Valuation results the Funds will begin a lengthy engagement and consultation process with all employers and stakeholders.

The revised investment strategy will continue to be implemented over the coming 12 months with the Funds looking to address its asset allocations in line with its strategic benchmark allocations.

The Funds will continue to expand their online data exchange services, with all employers moving to online monthly submissions from 1 April 2017. This will result in several benefits including improved data quality and a reduced year end process for both individual employers and the Funds. In line with the Funds' move to digital data, 2017 will be the final year of paper benefit statements for deferred members. Statements will be provided online via My Pension, with active benefit statements following in subsequent years. This will result in significant time and cost savings for the Funds as well as helping the Funds meet regulatory deadlines for issuing statements.

With constant change through the regulatory environment, financial markets and the global political landscape, the Funds are in constant review of their positions, seeking innovative solutions across the service to increase their capabilities and to build on their award winning service delivery.

16. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied from our advisors. We would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2016/17 Annual Report and Accounts.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance

Councillor Jennifer Stewart
Pensions Committee Convener

On behalf of Aberdeen City Council

15 September 2017

Statement of Responsibilities

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

- Make arrangements for the proper administration of their financial affairs and to secure that the proper officer of the authority has responsibility for the administration of those affairs (section 95 of the Local Government (Scotland) Act 1973). For the North East Scotland Pension Funds, that officer is the Head of Finance of 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 Annual Accounts were approved for signature by the Pensions Committee at its meeting on 15 September 2017.

Signed on behalf of Aberdeen City Council

Councillor Jennifer Stewart
Pensions Committee Convener

The Head of Finance's responsibilities:

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

In preparing the Annual Accounts, the Head of 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 Head of Finance has also:

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

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Funds at the reporting date and the transactions of the Funds for the year ended 31 March 2017.

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 15 September 2017

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, both on its own behalf and in respect of the other 2 local authorities in the area and some 50 other employers.

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

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

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

Purpose of the Governance Framework for North East Scotland Pension Funds

The governance framework comprises the systems and processes and culture and values by which Aberdeen City Council as the administering authority, and therefore the Pension Funds, is directed and controlled, and its activities through which it accounts to and engages with its stakeholders. It enables the Pension Funds to monitor the achievement of their strategic objectives and to consider whether those objectives have led to the delivery of effective services.

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Funds for the year ended 31 March 2017 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

The Funds' place reliance upon the internal financial controls within the Council's financial systems and the monitoring 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 monitoring and financial and administrative procedures (including segregation of duties, management supervision, and a system of delegation and accountability). In addition, the terms of reference for the Pensions Committee sets out its role and delegated functions.

The systems include:

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

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required standard of knowledge and understanding of the LGPS;
- Identifying the objectives of the Funds in the Funding Strategy Statement, Statement of Investment Principles and Service Plan. A written report covering the Pension Fund's Investment Strategy was presented to the Pensions Committee in June 2016, with quarterly updates;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by Pensions Committee, senior officers and stakeholders including benchmarking of services in terms of quality and cost against other Local Government Pension Scheme funds;
- A clear statement of risk, combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;
- The Monitoring Officer reports on any non-compliance with laws and regulations of which they are made aware to the Pensions Committee in respect of the Funds;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Funds' Statement of Investment Principles;

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

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

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

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

Review of Effectiveness

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

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

Management Assurance:

As the administration of the Pension Funds is directly within the remit of the Head of Finance, assurance has been 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 2016/17, 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 Head of Finance (CFO) and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and

Scrutiny Committee, Finance, Policy 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 also considering reports prepared by the external auditor. Further to this, the Pensions Committee is responsible for the internal and external audit functions in respect of the Pension Funds.

Assurance from Internal Audit:

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

Different areas of the Pension Funds are selected annually to form part of the internal audit work programme. During 2016, internal audit focused on the Investment Strategies of the Funds together with controls over the performance of the fund managers. This work and its outcomes were reported to the Pensions Committee in June 2016.

During 2016/17, internal audit focused on the Pension Funds' Payroll with the outcome being reported to the Pension Committee towards the end of 2017. At the Pension Committee meeting on the 23rd June 2017, the 2017/18 internal audit plan was approved to review Pension Systems.

The objective being to consider; whether appropriate control is being exercised over the system; contingency planning; disaster recovery; data input and that interfaces to and from other systems are accurate and properly controlled. Control work is also undertaken across the Council's financial systems and are largely found to be satisfactory.

External Audit and Other External Scrutiny:

The external auditor, Audit Scotland, reports regularly to the Audit, Risk and Scrutiny Committee and the Pensions Committee and their reports cover the range of year-end financial audits that are required at a local level and with a national perspective.

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. There are no significant issues to highlight on the Governance Compliance Statement.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Funds and that the annual review demonstrates sufficient evidence that the governance and internal control environment operated effectively during the 2016/17 financial year. On a quarterly basis, written updates

regarding the Pension Funds' adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott
Chief Executive

Steven Whyte, CPFA
Head of Finance

Councillor Jennifer Stewart
Pensions Committee Convener

On behalf of Aberdeen City Council

15 September 2017

Governance Compliance Statement

Principle	Compliance
1. Structure	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing Council.	Partially compliant as per the Scheme Governance Statement
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
2. Committee Membership and Representation	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:- i) employing authorities (including non-scheme employers, e.g. admitted bodies); ii) scheme members (including deferred and pensioner scheme members), iii) where appropriate, independent professional observers, and iv) expert advisors (on an ad-hoc basis).	Partially compliant as per the Scheme Governance 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.	
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 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 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 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 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 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 Statement

Accounting Policies

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

The Annual Accounts summarise the Funds' transactions for the 2016/2017 financial year and its position at year end as at 31 March 2017.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

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

Management Expenses

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

a.) Administrative Expenses and Oversight and Governance Costs

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

b.) Investment Management Expenses

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

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

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £4,654,645 in 2016/17 (2015/16 £3,842,823).

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 2017 and are determined as follows:

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

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

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

Private equity 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 (Colliers International), 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 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 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 Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVC's are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in Note 22.

Critical Judgments in applying Accounting Policies

Unquoted Private Equity Investments

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

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS. 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 value of unquoted private equities at 31 March 2017 was £220,649,167 (31 March 2016 £162,199,749).

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. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Have Not Yet Been Adopted

The Code requires the disclosure of information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. There are no new or amended standards within the 2016/17 Code.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2017

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	2015/16 £'000	2016/17 £'000
Contributions Receivable			
Employees' Contributions	2	27,477	28,856
Employers' Contributions	2	92,708	98,538
Transfer Values	3	1,837	2,343
Other Income		3	2
		<u>122,025</u>	<u>129,739</u>
Benefits Payable			
Retirement Pensions	4	91,490	94,624
Retirement Allowances	4	18,225	22,552
Death Gratuities	4	4,452	4,230
Contributions Refunded	5	848	678
Transfer Values	5	3,978	4,625
		<u>118,993</u>	<u>126,709</u>
Management Expenses	6	<u>16,517</u>	<u>18,486</u>
Return on Investment			
Investment Income	7	52,357	49,813
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	8	(28,428)	598,598
		<u>23,929</u>	<u>648,411</u>
Net Return on Investments		<u>23,929</u>	<u>648,411</u>
Net Increase/(Decrease) in the Net Assets available for Benefits during the year		10,444	632,955
Opening Net Assets of the Fund		3,171,349	3,181,793
Net Assets of the Fund at the end of the year		<u>3,181,793</u>	<u>3,814,748</u>

Notes to Accounts – Please refer to the Contents Page for the page numbers relevant to the North East Scotland Pension Fund.

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Net Assets Statement as at 31 March 2017

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

	Notes	2015/16 £'000	2016/17 £'000
Investment Assets			
Fixed Interest, Public Sector		76,680	108,069
Fixed Interest, Corporate		14,159	11,652
Fixed Interest, Overseas		187,481	163,871
Index Linked		2,901	7,382
UK Equities		607,732	740,007
Overseas Equities		749,792	674,024
Pooled Vehicle		1,094,234	1,554,264
Unit Trust - Property		0	0
Direct Property	13	232,555	259,146
Unit Trust - Other		3,440	3,457
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	0
Private Equity - Other		179,867	240,975
Funds held by Investment Managers		31,489	18,594
ACC Loans Fund Deposit	19	14,640	39,740
Total Investment Assets		<u>3,194,970</u>	<u>3,821,181</u>
Investment Liabilities			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(8,227)	(493)
Net Investment Assets		<u>3,186,743</u>	<u>3,820,688</u>
Long Term Asset	18	156	78
Current Assets	18	18,422	17,028
Current Liabilities	18	(23,528)	(23,046)
Net Current Assets/(Liabilities)		<u>(5,106)</u>	<u>(6,018)</u>
Net Assets of the Fund at the end of the year		<u>3,181,793</u>	<u>3,814,748</u>

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 15 September 2017

The Unaudited Accounts were issued on 23 June 2017 and the Audited Accounts were authorised for issue by Steven Whyte on 15 September 2017.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Fund Account for the year ended 31 March 2017

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

	Notes	2015/16 £'000	2016/17 £'000
Contributions Receivable			
Employees' Contributions	2	127	115
Employer's Contributions	2	2,176	2,109
Other Income		322	320
		2,625	2,544
Benefits Payable			
Retirement Pensions	3	2,998	3,083
Retirement Allowances	3	743	802
Death Gratuities	3	3	80
Contributions Refunded	4	0	0
Transfer Values	4	0	65
		3,744	4,030
Management Expenses	5	228	245
Return on Investment			
Investment Income	6	510	1,505
Profits and (Losses) on Disposal of Investments and Changes in Market Value of Investments	7	(2,560)	13,949
		(2,050)	15,454
Net Increase/ (Decrease) in the Net Assets available for Benefits during the year		(3,397)	13,723
Opening Net Assets of the Fund		89,640	86,243
Net Assets of the Fund at the end of the year		86,243	99,966

Notes to Accounts - Please refer to the Contents Page for the page numbers relevant to the Aberdeen City Council Transport Fund.

ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Net Assets Statement as at 31 March 2017

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

	Notes	2015/16 £'000	2016/17 £'000
Investment Assets			
Fixed Interest, Public Sector		2,686	0
Fixed Interest, Overseas		0	0
UK Equities		0	0
Overseas Equities		0	0
Pooled Vehicle		48,304	88,705
Unit Trust - Property		0	0
Index Linked Securities		34,449	7,527
Funds held by Investment Managers		46	3,318
ACC Loans Fund Deposit	16	339	320
Net Investment Assets		<u>85,824</u>	<u>99,870</u>
Long Term Asset	15	378	350
Current Assets	15	286	180
Current Liabilities	15	(245)	(434)
Net Current Assets/ (Liabilities)		41	(254)
Net Assets of the Fund at the end of the year		<u>86,243</u>	<u>99,966</u>

Steven Whyte, CPFA
Aberdeen City Council, Head of Finance
Date: 15 September 2017

The Unaudited Accounts were issued on 23 June 2017 and the Audited Accounts were authorised for issue by Steven Whyte on 15 September 2017.

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 2014.

Information from the 2014 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£2,834,000,000
Liabilities	£3,025,000,000
Deficit	£ 191,000,000

Funding Level

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

Correcting the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as **19 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £191million could be eliminated over a period of 19 years. Maintaining the previous average contribution rate of 19.3% of Pensionable Pay, this would imply a deficit recovery contribution of 4.4% of projected Pensionable Pay.

Post 31 March 2014 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the Actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. The deterioration in the funding position has increased the deficit and therefore the implied recovery period will also have increased.

In practice, each employer's position is assessed separately, details of which can be found in the 2014 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2018.

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 three year period to 31 March 2018. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Pre-retirement	4.90% p.a.
Post-retirement	4.90% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long term	4.10% p.a.
Salary Increases – Short term	1.00% p.a.
Pension Increases in Payment	2.60% p.a.

The Projected Unit method was used for the valuation of the NESPF.

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, Corporate Governance, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £4,718m (2016 £3,803m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes IAS 26 and has no validity in other circumstances payable to the Fund. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in Appendix 1.

Note 2: Contributions Receivable

	2015/16	2016/17
	£'000	£'000
Employees' Normal Contributions	27,477	28,856
Employers' Normal Contributions	89,119	94,772
Employers' Deficit Recovery Contributions	3,589	3,766
Employers' Augmentation Contributions	0	0
Total Employers' Contributions	92,708	98,538
Total	120,185	127,394

	2015/16	2016/17
	£'000	£'000
Administering Authority	34,835	36,869
Scheduled Bodies	72,338	75,366
Admitted Bodies	8,916	10,928
Transferee Admission Bodies	4,096	4,231
Total	120,185	127,394

Note 3: Transfers in from other Pension Funds

	2015/16	2016/17
	£'000	£'000
Individual Transfers	1,837	2,343
Total	1,837	2,343

Note 4: Benefits Payable

	2015/16	2016/17
	£'000	£'000
Pensions	91,490	94,624
Commutation and Lump Sum Retirement Benefits	18,225	22,552
Lump Sum Death Benefits	4,452	4,230
Total	114,167	121,406

	2015/16	2016/17
	£'000	£'000
Administering Authority	29,822	31,452
Scheduled Bodies	74,813	79,549
Admitted Bodies	8,523	9,162
Transferee Admission Bodies	1,009	1,243
Total	114,167	121,406

Note 5: Payment to and on Account of Leavers

	2015/16	2016/17
	£'000	£'000
Refunds to Members Leaving Service	678	527
Payments for Members Joining State Scheme	170	151
Group Transfers	40	0
Individual Transfers	3,938	4,625
Total	4,826	5,303

Note 6: Management Expenses

	2015/16	2016/17
	£'000	£'000
Pension Fund Staffing Costs – Administration	965	971
Support Services including IT	545	563
Printing and Publications	32	29
Administration Expenses Total	1,542	1,563
Pension Fund Staffing Costs – Investment	101	131
Pension Fund Committee	4	12
Pension Board	1	2
External Audit Fee	45	32
Internal Audit Fee	8	6
Actuarial Fees	103	112
General Expenses	86	173
Oversight and Governance Expenses Total	348	468
Investment Management	9,442	10,214
Performance Fees	3,843	4,655
Direct Operating Property Expenses	127	347
Transaction Costs	1,066	1,117
Custody Fees	149	122
Investment Management Expenses Total	14,627	16,455
Management Expenses Grand Total	16,517	18,486

Note 7: Investment Income

	2015/16	2016/17
	£'000	£'000
Fixed Interest Securities	7,412	6,225
Equity Dividends	30,411	20,270
Pooled Property Investments	6	7
Property Rental Income	11,905	14,255
Interest on Cash Deposit	271	346
Other (including P/L from Currency and Derivatives)	4,810	8,780
Total	54,815	49,883
Tax		
Withholding Tax - Fixed Interest Securities	0	0
Withholding Tax - Equities	(2,452)	(63)
Withholding Tax - Pooled	(6)	(7)
Total Tax	(2,458)	(70)
Net Total	52,357	49,813

Note 8: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2016	Purchases	Sales	Change in Market Value	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	281,221	355,089	(366,906)	21,570	290,974
UK Equities	607,732	174,716	(173,997)	131,556	740,007
Overseas Equities	749,792	65,885	(319,577)	177,924	674,024
Pooled Investments	1,097,674	342,908	(132,192)	249,331	1,557,721
Property	232,555	37,161	(6,063)	(4,507)	259,146
Private Equity	179,867	50,920	(37,111)	47,299	240,975
	3,148,841	1,026,679	(1,035,846)	623,173	3,762,847
Derivative Contracts					
FX Contracts	(8,227)	909,161	(876,852)	(24,575)	(493)
	3,140,614	1,935,840	(1,912,698)	598,598	3,762,354
Other					
Cash	46,129				58,334
Net Investment Assets	3,186,743				3,820,688

	Market Value 31 March 2015	Purchases	Sales	Change in Market Value	Market Value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	257,523	163,704	(147,846)	7,840	281,221
UK Equities	640,326	177,827	(179,761)	(30,660)	607,732
Overseas Equities	723,697	161,306	(138,758)	3,547	749,792
Pooled Investments	1,097,003	244,431	(222,184)	(21,576)	1,097,674
Property	211,960	26,058	(8,814)	3,351	232,555
Private Equity	155,003	46,650	(40,752)	18,966	179,867
	3,085,512	819,976	(738,115)	(18,532)	3,148,841
Derivative Contracts					
FX Contracts	(1,032)	18,130	(15,429)	(9,896)	(8,227)
	3,084,480	838,106	(753,544)	(28,428)	3,140,614
Other					
Cash	88,017				46,129
Net Investment Assets	3,172,497				3,186,743

Note 9: Analysis of Investments

	2015/16	2016/17
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	76,680	108,069
Corporate Quoted	14,159	11,652
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	135,283	115,574
Corporate Quoted	52,198	48,297
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	278,320	283,592
Subtotal Index Linked Securities	2,901	7,382
Equities		
UK		
Quoted	607,732	740,007
Unquoted	0	0
Overseas		
Quoted	749,792	674,024
Unquoted	0	0
Subtotal Equities	1,357,524	1,414,031
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	0
Unit Trusts	465,686	783,054
Pooled Property Investment	0	0
Overseas		
Fixed Income	6,896	0
Unit Trusts	501,344	583,947
Pooled Indexed Linked	123,748	190,720
Subtotal Pooled Funds	1,097,674	1,557,721
Private Equity	179,867	240,975
Property, Direct	232,555	259,146
Funds held by Investment Managers	31,489	18,594
ACC Loans Fund Deposit	14,640	39,740
Investment Assets Total	3,194,970	3,821,181
Investment Liabilities		
Forward Ex	(8,156)	(493)
Derivatives	(71)	0
Investment Liabilities Total	(8,227)	(493)
Net Investment Assets	3,186,743	3,820,688

Note 10: Analysis of Derivatives

Futures

Outstanding exchange traded future contracts are as follows:

Type	Expires	Economic Exposure	Market Value 31 March 2016	Economic Exposure	Market Value 31 March 2017
		£'000	£'000	£'000	£'000
Assets					
Overseas Fixed Interest	Less than one year	0	0	0	0
Liabilities					
UK Fixed Interest	Less than one year	0		0	0
Euro - Other	Less than one year	0	(43)	0	0
Overseas - Other	Less than one year	0	(28)	0	0
Net Futures			(71)		0

Forward Foreign Currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted portfolio is in passive overseas stock markets. To reduce the volatility associated with fluctuating currency rates, the Fund has applied, through the passive manager, a dynamic currency hedge on a pooled basis.

As part of the Fund Investment Strategy the bond manager incorporates Foreign Exchange Contracts.

Settlement	Currency Bought	Local Value	Currency Sold	Local Value	Asset Value	Liability Value
		£'000		£'000		£'000
Up to 3 Months	EUR	5,738	GBP	5,824		86
Up to 3 Months	EUR	1,910	USD	1,901	9	
Up to 3 Months	GBP	72,842	EUR	73,050		208
Up to 3 Months	GBP	31,216	JPY	31,243		27
Up to 3 Months	GBP	2,625	MXN	2,776		151
Up to 3 Months	GBP	82,225	USD	81,870	355	
Up to 3 Months	GBP	592	ZAR	575	17	
Up to 3 Months	MXN	2,776	USD	2,753	23	
Up to 3 Months	NOK	5,490	GBP	5,666		176
Up to 3 Months	SEK	8,610	GBP	8,576	34	
Up to 3 Months	USD	8,626	GBP	8,873		247
Up to 3 Months	USD	1,175	JPY	1,208		33
Up to 3 Months	ZAR	575	USD	587		12
Over 6 Months	CZK	2,764	EUR	2,755	9	
Open forward Currency Contracts as at 31 March 2017					447	(940)
Net Forward Currency Contracts at 31 March 2017						(493)
Prior Year Comparative						
Open Forward Currency Contracts at 31 March 2016					1,536	(9,692)
Net Forward Currency Contacts at 31 March 2016						(8,156)

Note 11: Investments Analysed by Fund Manager

	31 March 2016	%	31 March 2017	%
	£'000		£'000	
Investment Assets				
State Street Global Advisors	1,049,141	33.0	1,327,587	34.8
Baillie Gifford	750,177	23.6	991,344	26.0
BlackRock Asset Management	375,860	11.8	454,539	11.9
BlackRock DGF	0	0.0	103,389	2.7
Baring Asset Managers	273,442	8.6	279,992	7.3
AAM Global Ex UK*	261,873	8.2	0	0.0
Aberdeen Frontier*	35,510	1.1	0	0.0
AAM Property (API)	237,035	7.5	265,311	7.0
AAM Property Residential	0	0.0	6,890	0.2
HarbourVest	94,356	3.0	117,261	3.1
Standard Life	45,102	1.4	53,791	1.4
ACC Loans Fund Deposit	14,640	0.5	39,740	1.0
Global Custodian	5,980	0.2	3,392	0.1
Partners Group	34,730	1.1	45,962	1.2
NESPF*	199	0.0	49	0.0
RREEF*	0	0.0	0	0.0
Maven Capital	3,512	0.1	2,894	0.1
Capital Dynamics	1,100	0.0	7,325	0.2
RCP Advisors	209	0.0	1,528	0.1
Unigestion	3,877	0.1	15,269	0.4
Invesco DGF	0.00	0.0	104,425	2.7
	3,186,743	100.2	3,820,688	100.2
Net Long and Current Assets				
Bank Account	(36)	0.0	78	0.0
Long Term and Current Debtors Less Creditors	(4,914)	(0.2)	(6,018)	(0.2)
Net Assets	3,181,793	100.0	3,814,748	100.0

*Note: During 2016-17, the following former Fund Managers were merged into one 'In House' Account for the purpose of collecting any residual income:

AAM Global Excluding UK, Aberdeen Frontier, Capital, In House, RREEF and Rogge

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

Security	Market Value 31 March 2016	% of Net Investment Assets	Market Value 31 March 2017	% of Net Investment Assets
	£'000	%	£'000	%
MPF International Equity Index Pooled Fund	472,794	14.8	583,947	15.3
MPF UK Equity Pooled Fund	452,600	14.2	552,920	14.5

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

	2015/16	Collateral Percentage	2016/17	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	184,676		0	
Fixed Interest	42,736		0	
Total Exposure	227,412		0	
Total Collateral	253,776	111.59	0	0.00

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 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

Due to a change of Custodian, there was no stock lending in operation as at 31 March 2017. It is anticipated that stock lending will resume in the year 2017/18.

Note 13: Property Holdings

	2015/16	2016/17
	£'000	£'000
Opening Balance	211,960	232,555
Additions	76	0
Purchases	25,824	34,932
Construction	158	2,215
Subsequent Expenditure	0	14
Disposals	(8,814)	(6,063)
Net Increase in Market Value	3,351	(4,507)
Other Changes in Fair Value	0	0
Closing Balance	232,555	259,146

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

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

	2015/16	2016/17
	£'000	£'000
Within One Year	12,492	13,984
Between One Year and Five Years	45,840	52,638
Later than Five Years	84,679	96,061
Total	143,011	162,683

Note 14: Financial and Non-Financial Instruments

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

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

31 March 2016				31 March 2017		
Designated as Fair Value through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Loans And Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
281,221			Fixed Interest	290,974		
1,357,524			Equities	1,414,031		
1,097,674			Pooled	1,557,721		
0			Pooled Property	0		
179,867			Private Equity	240,975		
0			Derivative Contracts	0		
	46,129		Cash		58,334	
	0		Other		0	
	18,578		Debtors		17,106	
2,916,286	64,707		Subtotal	3,503,701	75,440	
			Financial Liabilities			
(8,227)			Derivative Contracts	(493)		
			Other			
		(23,528)	Creditors			(23,046)
			Borrowings			
(8,227)		(23,528)		(493)		(23,046)
2,908,059	64,707	(23,528)	Financial Instruments Total	3,503,208	75,440	(23,046)
			Non-Financial Instruments			
232,555			Property	259,146		
3,140,614	64,707	(23,528)		3,762,354	75,440	(23,046)
		3,181,793	Net Assets of the Fund			3,814,748

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

31 March 2016		31 March 2017
£'000	Financial Assets	£'000
(21,900)	Fair Value through Profit and Loss	627,594
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
(9,879)	Fair Value through Profit and Loss	(24,489)
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
(31,779)	Net Gains and Losses on Financial Instruments	603,105
	Non-Financial Instruments	
3,351	Fair Value through Profit and Loss	(4,507)
(28,428)	Net Gains and Losses of the Fund	598,598

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 instruments valuation is not based on observable market data.

Such instruments would include unquoted equity 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 investment in private equity are based on valuations provided by the general partners to the private equity 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 values is observable.

Non-Financial instruments have been added to the table for reconciliation to 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
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit 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 Paul	Existing lease terms and rentals Independent market research	

		Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Pooled Investments – Hedge Funds	Level 3	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	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the Pension Fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	3,283,052	0	220,649	3,503,701
Loans and Receivables	75,440			75,440
Total Financial Assets	3,358,492	0	220,649	3,579,141
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(493)	0	(493)
Financial Liabilities at Amortised Cost	(23,046)	0	0	(23,046)
Total Financial Liabilities	(23,046)	(493)	0	(23,539)
Total Financial Instruments	3,335,446	(493)	220,649	3,555,602
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	259,146	0	259,146
Net Assets of the Fund	3,335,446	258,653	220,649	3,814,748

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	2,754,086	0	162,200	2,916,286
Loans and Receivables	64,707			64,707
Total Financial Assets	2,818,793	0	162,200	2,980,993
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss	0	(8,227)	0	(8,227)
Financial Liabilities at Amortised Cost	(23,528)	0	0	(23,528)
Total Financial Liabilities	(23,528)	(8,227)	0	(31,755)
Total Financial Instruments	2,795,265	(8,227)	162,200	2,949,238
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss		232,555		232,555
Net Assets of the Fund	2,795,265	224,328	162,200	3,181,793

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

2016/17	Market Value 1 April 2016	Transfers Into Level 3	Transfers Out of Level 3	Purchases during the year & Derivative Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Private Equity	162,200	0	0	50,903	(36,957)	20,459	24,044	220,649
Total	162,200	0	0	50,903	(36,957)	20,459	24,044	220,649

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

Note 16D: Sensitivity of Assets Valued at Level 3

Having analysed historical data and 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 2017.

	Assessed Valuation Range (+/-)	Value at 31 March 2017	Value on Increase	Value on Decrease
		£000	£000	£000
Private Equity	30%	220,649	286,843	154,455
Total		220,649	286,843	154,455

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 sufficient 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 and 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 2016/17 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	5.5%
Overseas Bonds	5.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled - DGF	12.0%
Private Equity	30.0%
Property	13.0%
Cash	1.1%

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

Had the market price of the Fund 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).

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

Asset Type	Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	57,841	1.1	58,477	57,205
Investment Portfolio Assets				
UK Bonds	317,823	5.5	335,303	300,343
Overseas Bonds	163,871	5.5	172,884	154,858
UK Equities	1,315,246	16.0	1,525,685	1,104,807
Overseas Equities	1,257,971	20.5	1,515,855	1,000,087
Pooled – Diversified Growth Funds	207,815	12.0	232,753	182,877
Private Equity	240,975	30.0	313,268	168,682
Total Financial Instruments	3,561,542		4,154,225	2,968,859
Non-Financial Instruments				
Property	259,146	13.0	292,835	225,457
Total Assets Available to Pay Benefits	3,820,688		4,447,060	3,194,316

Asset Type	Value as at 31 March 2016	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	37,902	1.0	38,281	37,523
Investment Portfolio Assets				
UK Bonds	217,487	6.0	230,536	204,438
Overseas Bonds	194,378	6.0	206,041	182,715
UK Equities	1,073,418	16.0	1,245,165	901,671
Overseas Equities	1,251,136	20.5	1,507,619	994,653
Pooled – Diversified Growth Funds	0	12.0	0	0
Private Equity	179,867	30.0	233,827	125,907
Total Financial Instruments	2,954,188		3,461,469	2,446,907
Non-Financial Instruments				
Property	232,555	13.0	262,787	202,323
Total Assets Available to Pay Benefits	3,186,743		3,724,256	2,649,230

Note:

The above table for 2015-16 was revised in accordance with new CIPFA asset categories.

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 2016 and 31 March 2017 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 2016	As at 31 March 2017
	£'000	£'000
Cash and Cash Equivalents	46,129	58,334
Cash Balances	(36)	78
Fixed Interest Securities	411,865	481,694
Total	457,958	540,106

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, in particular 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:

Asset Type	Carrying Amount as at 31 March 2017	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and Cash Equivalents	58,334	58,917	57,751
Cash Balances	78	79	77
Fixed Interest Securities	481,694	486,511	476,877
Total Change in Assets Available	540,106	545,507	534,705

Asset Type	Carrying Amount as at 31 March 2016	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
	£'000	£'000	£'000
Cash and Cash Equivalents	46,129	46,590	45,668
Cash Balances	(36)	(36)	(36)
Fixed Interest Securities	411,865	415,984	407,746
Total Change in Assets Available	457,958	462,538	453,378

Currency Risk

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

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Asset Value as at 31 March 2017
	£'000	£'000
Overseas Quoted Securities	767,261	694,350
Overseas Unquoted Securities	157,588	203,627
Overseas Unit Trusts	508,240	583,947
Overseas Public Sector Bonds (Quoted)	135,283	115,574
Overseas Corporate Bonds (Quoted)	52,198	48,297
Total Overseas Assets	1,620,570	1,645,795

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.7%.

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

An 11.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as shown below:

Currency Exposure – Asset Type	Asset Value as at 31 March 2017	Change to Net Assets	Change to Net Assets
		+11.7%	-11.7%
	£'000	£'000	£'000
Overseas Quoted Securities	694,350	775,589	613,111
Overseas Unquoted Securities	203,627	227,451	179,803
Overseas Unit Trust	583,947	652,269	515,625
Overseas Public Sector Bonds (Quoted)	115,574	129,096	102,052
Overseas Corporate Bonds (Quoted)	48,297	53,948	42,646
Total Change in Assets Available	1,645,795	1,838,353	1,453,237

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	767,261	843,987	690,535
Overseas Unquoted Securities	157,588	173,347	141,829
Overseas Unit Trust	508,240	559,064	457,416
Overseas Public Sector Bonds (Quoted)	135,283	148,811	121,755
Overseas Corporate Bonds (Quoted)	52,198	57,418	46,978
Total Change in Assets Available	1,620,570	1,782,627	1,458,513

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 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 2017 was £58,412,000 (31 March 2016 £46,093,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2016	Balance as at 31 March 2017
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	22,746	0
Deutsche Euro	AAAm	200	0
BNY Mellon LIQ USD	AAAm	3,888	0
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	14,640	39,740
BNY Mellon	AAAm	713	0
BNP Paribas	AAAm	0	18,594
Natwest, (API)	BBB+	3,942	0
Subtotal		46,129	58,334
Bank Current Accounts			
Clydesdale Bank	BBB+	(36)	78
Total		46,093	58,412

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 at all times.

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 2017 the value of illiquid assets was £479,795,433 which represented 12.6% of the total fund assets (31 March 2016 £394,754,749 which represented 12.4% of the total fund assets).

Note 18: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2016	31 March 2017
	£'000	£'000
Long Term Assets	156	78
Current Assets		
Employees' Contributions due	2,288	2,395
Employers' Contributions due	6,823	7,115
Sundry Debtors	9,347	7,440
	18,458	16,950
Bank	(36)	78
Total Current Assets	18,422	17,028
Total Long Term and Current Assets	18,578	17,106

Analysis of Assets (Debtors only)*	31 March 2016	31 March 2017
	£'000	£'000
Long Term Assets		
Other Entities and Individuals	156	78
Central Government Bodies	0	1,202
Other Local Authorities	8,059	8,686
Other Entities and Individuals	10,399	7,062
Total Current Assets*	18,458	16,950
Total Long Term and Current Assets	18,614	17,028

*The above is an analysis of debtors only and does not include the Bank.

	31 March 2016	31 March 2017
Current Liabilities	£'000	£'000
Sundry Creditors	21,941	16,000
Benefits Payable	1,587	7,046
Total Current Liabilities	23,528	23,046

Analysis of Liabilities	31 March 2016	31 March 2017
	£'000	£'000
Central Government Bodies	1,909	1,040
Other Local Authorities	417	263
Other Entities and Individuals	21,202	21,743
Total Current Liabilities	23,528	23,046

Note 19: Related Party Transactions

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

The costs of these services for the North East Scotland Pension Fund amounted to £1,214,654 (2015 - £1,146,402).

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 £39,740,000 (2016 - £14,640,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £86,124 (2016 - £82,828) 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. One employee was identified and his financial relationship with the Fund (expressed as an accrued pension) is set out below:

		Accrued Pension 2015/2016	Accrued Pension 2016/2017
		£'000	£'000
Steven Whyte	Head of Finance	24	26

Governance

As at 31 March 2017, 8 members of the Pensions Committee and 6 members (this includes 2 substitutes) of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

Each member of the Pension Committee/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 2016/17, there were no Elected Members that had interests in scheduled and admitted bodies.

Note 21: Contractual Commitments as at 31 March 2017

As at 31 March 2017 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	171,938	58,119
Standard Life	124,364	30,899
Partners Group	86,391	39,937
NESPF	0	0
Maven (SLF)	6,444	442
Capital Dynamics	40,000	33,500
RCP Advisors	35,987	33,228
Unigestion	55,599	42,321
AAM Residential Property	30,000	23,087
Total	550,723	261,533

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:

2015/2016	Income (AVCs Paid by Members)	2016/2017
£'000		£'000
75	Standard Life	51
2,006	Prudential	2,203

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 2016		31 March 2017
£'000		£'000
1,994	Standard Life	1,720
23,348	Prudential	24,666

Note 23: Contingent Assets/Liabilities

The North East Scotland Pension Fund holds four insurance bonds and one cash bond. These bonds guard against the possibility of being unable to recover pension liabilities from these admission bodies should they terminate their participation in the scheme. These bonds are drawn in the favour of the Pension Fund and payment will only be triggered in the event of employer default.

The pension liabilities for all transferee admission bodies are guaranteed by the originating employer as per Regulation 62 of the Local Government Pension Scheme (Scotland) 2014. In addition the NESPF have secured guarantees for 14 Admitted Bodies within the Fund.

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. In 2016/2017 the Fund recognises that there are two employers who have exited from the Fund where payment of the termination fee may not be recovered in full. One termination fee is yet to be quantified and the other amount of £211,900 has been registered with the company liquidator.

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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 light of 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 asset statement at 31 March 2017 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 a number of 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 equity 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.	The total private equity investments in the Annual Accounts are £241 million. There is a risk that this investment may be under or overstated in the accounts.

Note 27: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Head of Finance on 23 June 2017. 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 2017, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet events to report, the Fund continues to implement the approved Investment Strategy and has initiated some of the agreed changes post year end.

The Pension Fund has terminated its Bond mandate to facilitate a move to more multi credit opportunities and has also initiated a rebalancing overlay program to bring the Fund's asset allocation back in line with the Fund's Strategic asset allocation.

Note 28: Agency Arrangements 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:

	2015/16	2016/17
	£'000	£'000
Cost incurred/recovered on behalf of:		
Aberdeen City Council	2,354	2,331
Aberdeenshire Council	1,379	1,357
Moray Council	717	710
Scottish Water	1,270	1,262
Other	299	298
Total	6,019	5,958
Associated Payroll Cost	5	4

NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

Note 1: Actuarial Valuation Report

An Actuarial report for the Transport Fund was provided as at 31 March 2014. Information from the 2014 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£79,800,000
Liabilities	£86,200,000
Deficit	£ 6,400,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	93%
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Addressing the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The deficit recovery period for the Fund has been set as **7 years**.

Adopting the same method and assumptions as used for calculating the funding target, by maintaining the contributions at the 2014/15 levels the deficit of £6.4 million could be eliminated in approximately 6-7 years.

Since 31 March 2014 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. However, the Administering Authority and employer (following consultation with the Actuary) have agreed that contributions will remain at the current level (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate	2015/16	2016/17	2017/18
(as percentage of payroll)	33% plus	33% plus	33% plus
	£1,500,000	£1,500,000	£1,500,000

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 three year period to 31 March 2018.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2018 onwards will be revised as part of the next actuarial valuation

as at 31 March 2017 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions Used to Calculate Funding Target

Pre-retirement	3.65% p.a
Post-retirement	3.65% p.a
Assumed Long Term Price Inflation (CPI)	3.1% p.a
Salary Increases – Long term	5.1% p.a
Salary Increases – Short term	3.1% p.a
Pension Increases in Payment	3.1% p.a

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

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

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS 19) assumptions, is estimated to be £85.6m (2016 £75.3m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS 26.

The figure is only prepared for the purposes of IAS 26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in Appendix 1.

Note 2: Contributions Receivable

	2015/16	2016/17
	£'000	£'000
Employees' Normal Contributions	127	115
Employer's Normal Contributions	668	609
Employer's Deficit Recovery Contributions	1,508	1,500
Employer's Augmentation Contributions	0	0
Total Employer's Contributions	2,176	2,109
Total	2,303	2,224

	2015/16	2016/17
	£'000	£'000
Scheduled Body	2,303	2,224
Total	2,303	2,224

Note 3: Benefits Payable

	2015/16	2016/17
	£'000	£'000
Pensions	2,998	3,083
Commutation and Lump Sum Retirement Benefits	743	802
Lump Sum Death Benefits	3	80
Total	3,744	3,965

	2015/16	2016/17
	£'000	£'000
Scheduled Body	3,744	3,965
Total	3,744	3,965

Note 4: Payment to and on Account of Leavers

	2015/16	2016/17
	£'000	£'000
Contributions Refunded	0	0
Individual Transfers	0	65
Total	0	65

Note 5: Management Expenses

	2015/16	2016/17
	£'000	£'000
Pension Fund Staffing Costs – Administration	29	29
Support Services including IT	16	20
Printing and Publications	1	1
Administration Expenses Total	46	50
Pension Fund Staffing Costs – Investment	3	4
Pension Fund Committee	1	4
External Audit Fee	1	1
Internal Audit Fee	0	0
Actuarial Fees	9	26
General Expenses	2	3
Oversight and Governance Expenses Total	16	38
Investment Management	157	154
Custody Fees	9	3
Transaction Costs	0	0
Investment Management Expenses Total	166	157
Management Expenses Grand Total	228	245

Note 6: Investment Income

	2015/16	2016/17
	£'000	£'000
Fixed Interest Securities	192	147
Equity Dividends	(66)	0
Pooled Investments	(1)	0
Interest on Cash Deposit	6	2
Other (including P/L from Currency and Derivatives)	373	1,356
Total	504	1,505
Tax -		
Withholding Tax – Fixed Interest Securities	0	0
Withholding Tax – Equities	5	0
Withholding Tax – Pooled	1	0
Total Tax	6	0
Net Total	510	1,505

Note 7: Investment Assets

Reconciliation of Movements in Investments and Derivatives

	Market Value 31 March 2016	Purchases	Sales	Change in Market Value	Market Value 31 March 2017
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	37,135	41,400	(75,237)	4,229	7,527
UK Equities	0	0	(87)	87	0
Overseas Equities	0	0	0	0	0
Pooled Investments	48,304	101,119	(70,351)	9,633	88,705
	85,439	142,519	(145,675)	13,949	96,232
Cash	385				3,638
Net Investment Assets	85,824				99,870

	Market Value 31 March 2015	Purchases	Sales	Change in Market Value	Market Value 31 March 2016
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	37,107	3,093	(3,211)	146	37,135
UK Equities	24	49	(78)	5	0
Overseas Equities	0	0	0	0	0
Pooled Investments	52,129	12,343	(13,457)	(2,711)	48,304
	89,260	15,485	(16,746)	(2,560)	85,439
Cash	(189)				385
Net Investment Assets	89,071				85,824

Note 8: Analysis of Investments

	2015/16	2016/17
	£'000	£'000
Fixed Interest Securities		
UK		
Public Sector Quoted	37,135	7,527
Corporate Quoted	0	0
Corporate Unquoted	0	0
Overseas		
Public Sector Quoted	0	0
Corporate Quoted	0	0
Corporate Unquoted	0	0
Subtotal Fixed Interest Securities	37,135	7,527
Equities		
UK		
Quoted	0	0
Unquoted	0	0
Overseas		
Quoted	0	0
Unquoted	0	0
Subtotal Equities	0	0
Pooled Funds – Additional Analysis		
UK		
Fixed Income	0	33,761
Unit Trusts	8,229	23,364
Pooled Property Investments	0	0
Overseas		
Fixed Income	0	0
Unit Trusts	40,075	31,580
Subtotal Pooled Funds	48,304	88,705
Private Equity	0	0
Property	0	0
Cash Deposits	385	3,638
Investment Assets Total	85,824	99,870
Investment Liabilities		
Forward Ex	0	0
Derivatives	0	0
Investment Liabilities Total	0	0
Net Investment Assets	85,824	99,870

Note 9: Investments Analysed by Fund Manager

Investment Assets	31 March 2016	%	31 March 2017	%
	£'000		£'000	
Aberdeen Asset Managers	85,485	99.6	0	0
Schroders	0	0	99,550	99.7
ACC Loans Fund Deposit	339	0.4	320	0.3
Net Investment Assets	85,824	100.0	99,870	100.0

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

Security	Market Value 31 March 2016	% of Net Investment Assets	Market Value 31 March 2017	% of Net Investment Assets
	£'000		£'000	
UK Gilt Inflation Regs 0.125% 22/03/2024	4,953	5.8	0	0
UK Gilt Inflation Regs 0.125% 22/11/2019	6,317	7.4	0	0
UK Gilt Inflation Regs 0.250% 22/03/2052	4,406	5.1	0	0
UK Gilt Inflation Regs 1.125% 22/11/2037	7,303	8.5	0	0
Aberdeen Life UK Growth FD-A	7,289	8.5	0	0
Aberdeen GL-Euro Eq Ex UK-D2	5,203	6.1	0	0
Aberdeen Life Diversify GW-AA	23,170	27.0	0	0
Aberdeen Life World EQ-1G	9,245	10.8	0	0
Blackrock Asset Management UK Aquila Life Currency World Ex UK Equity	0	0	14,350	14.4
SIF Diversified Completion P Accumulation	0	0	10,697	10.7
Schroder Matching Plus Synthetic Index Linked Gilt Fund	0	0	6,383	6.4
SSGA Lux MG GL Treasury Bond Index GBP	0	0	11,518	11.5
Vanguard Investment Series Global Stock Index FD-INST USD SHS	0	0	13,762	13.8
Vanguard Investment Series US Investment Grade Cred Index ACC NAV	0	0	12,667	12.7

Note 10: Stock Lending

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

Collateral is held at a minimum of 102% in respect of each borrower, consisting of UK and Overseas Gilts, UK Equities, Certificates of Deposit and Letters of Credit.

There was no stock lending in operation as at 31 March 2017.

Note 11: Financial and Non-Financial Instruments

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

31 March 2016				31 March 2017		
Designated as Fair Value Through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost		Designated as Fair Value Through Profit & Loss	Loans and Receivables	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
37,135			Fixed Interest	7,527		
0			Equities	0		
48,304			Pooled	88,705		
0			Pooled Property	0		
	385		Cash		3,638	
	664		Debtors		530	
85,439	1,049	0	Subtotal	96,232	4,168	0
			Financial Liabilities			
			Cash			
		(245)	Creditors			(434)
85,439	1,049	(245)		96,232	4,168	(434)
		86,243	Financial Instruments Total			99,966
			Non-Financial Instruments			
0			Property	0		
85,439	1,049	(245)		96,232	4,168	(434)
		86,243	Net Assets of the Fund			99,966

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

31 March 2016		31 March 2017
£'000	Financial Assets	£'000
(2,560)	Fair Value through Profit and Loss	13,949
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
(2,560)	Net Gains and Losses on Financial Instruments	13,949
	Non-Financial Instruments	
0	Fair Value through Profit and Loss	0
(2,560)	Net Gains and Losses of the Fund	13,949

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

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

Level 1

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

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

Level 2

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

Level 3

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

Such instruments would include unquoted equity 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 investment in private equity are based on valuations provided by the general partners to the private equity funds in which the 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 values is observable.

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

Note 13A: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities affecting the Valuations provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Futures and Options in UK Bonds	Level 1	Published exchange prices at the year-end	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Unquoted Bonds	Level 2	Average of broker prices	Evaluated price feeds	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not required
Overseas Bond Options	Level 2	Option pricing model	Annualised volatility of counterpart credit 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
Pooled Investments – Hedge Funds	Level 3	Closing bid price where bid and offer prices are published. Closing single	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial

		price where single price published		statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year –end using the investment method of valuation by Paul Willis Bsc (Hons) MRICS of Colliers International in accordance with the <i>RICS Valuation Professional Standard</i>	Existing lease terms and rentals Independent market research Nature of tenancies Covenant strength for existing tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2012)</i>	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2017	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	96,232	0	0	96,232
Loans and Receivables	4,168	0	0	4,168
Total Financial Assets	100,400	0	0	100,400
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	0	0	0	0
Financial Liabilities at Amortised Cost	(434)	0	0	(434)
Total Financial Liabilities	(434)	0	0	(434)
Total Financial Instruments	99,966	0	0	99,966
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
Net Assets of the Fund	99,966	0	0	99,966

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2016	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets				
Financial Assets at Fair Value through Profit and Loss	85,439	0	0	85,439
Loans and Receivables	1,049	0	0	1,049
Total Financial Assets	86,488	0	0	86,488
Financial Liabilities				
Financial Liabilities at Fair Value through Profit and Loss				
Loans and Receivables	0	0	0	0
Financial Liabilities at Amortised Cost	(245)	0	0	(245)
Total Financial Liabilities	(245)	0	0	(245)
Total Financial Instruments	86,243	0	0	86,243
Non-Financial Instruments				
Non-Financial Instruments at Fair Value through Profit and Loss	0	0	0	0
Net Assets of the Fund	86,243	0	0	86,243

Note 13B: Transfers between Levels 1 and 2

There were no transfers between level 1 and 2.

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

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

Note 13D: Sensitivity of Assets Valued at Level 3

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

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

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

The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk, ensuring there is sufficient 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 and 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 2016/17 reporting period.

Asset Type	Potential Market Movements (+/-)
Cash	1.1%
UK Bonds	5.5%
Overseas Bonds	5.5%
UK Equities	16.0%
Overseas Equities	20.5%

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, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund 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).

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

Asset Type	Value as at 31 March 2017	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	3,638	1.1	3,678	3,598
Investment Portfolio Assets				
UK Bonds	41,288	5.5	43,559	39,017
UK Equities	12,667	16.0	14,694	10,640
Overseas Equities	31,580	20.5	38,054	25,106
Pooled – DGF	10,697	12.0	11,981	9,413
Total Financial Instruments	99,870		111,966	87,774
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	99,870		111,966	87,774

Asset Type	Value as at 31 March 2016	Percentage Change	Value on Increase	Value on Decrease
	£'000	%	£'000	£'000
Cash and Cash Equivalents	385	1.0%	389	381
Investment Portfolio Assets				
UK Bonds	37,135	6.0%	39,363	34,907
UK Equities	8,229	16.0%	9,546	6,912
Overseas Equities	40,075	20.5%	48,290	31,860
Pooled – DGF	0	12.0%	0	0
Total Financial Instruments	85,824		97,588	74,060
Non-Financial Instruments				
Property	0	N/A	0	0
Total Assets Available to Pay Benefits	85,824		97,588	74,060

Note:

The above table for 2015-16 was revised in accordance with new CIPFA asset categories.

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 2016 and 31 March 2017 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 2016	As at 31 March 2017
	£'000	£'000
Cash and Cash Equivalents	385	3,638
Cash Balances	1	2
Fixed Interest Securities	37,135	41,288
Total	37,521	44,928

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 has 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, in particular 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:

Asset Type	Carrying Amount as at 31 March 2017	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	3,638	3,674	3,602
Cash Balances	2	2	2
Fixed Interest Securities	41,288	41,701	40,875
Total Change in Assets Available	44,928	45,377	44,479

Asset Type	Carrying Amount as at 31 March 2016	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	385	389	381
Cash Balances	1	1	1
Fixed Interest Securities	37,135	37,506	36,764
Total Change in Assets Available	37,521	37,896	37,146

Currency Risk

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

The Fund's currency rate risk is routinely monitored by the Fund in accordance with the Fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the Fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Asset Value as at 31 March 2017
	£'000	£'000
Overseas Quoted Securities	0	0
Overseas Unit Trusts	40,075	31,580
Overseas Public Sector Bonds (Quoted)	0	0
Total Overseas Assets	40,075	31,580

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 11.7%.

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

An 11.7% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Currency Exposure – Asset Type	Asset Value as at 31 March 2017	Change to Net Assets	Change to Net Assets
		+11.7%	-11.7%
	£'000	£'000	£'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	31,580	35,275	27,885
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	31,580	35,275	27,885

Currency Exposure – Asset Type	Asset Value as at 31 March 2016	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	0	0	0
Overseas Unit Trust	40,075	44,083	36,067
Overseas Public Sector Bonds (Quoted)	0	0	0
Total Change in Assets Available	40,075	44,083	36,067

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 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 2017 was £3,640,000 and at 31 March 2016 (£386,000). This was held with the following institutions:

Summary	Rating	Balance as at 31 March 2016	Balance as at 31 March 2017
		£'000	£'000
Money Market Funds			
Deutsche Managed GBP	AAAm	0	0
Deutsche Euro	AAAm	1	0
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	339	320
BNY Mellon	AAAm	45	0
BNP Paribas	AAAm	0	3,318
Subtotal		385	3,638
Bank Current Accounts			
Clydesdale Bank	BBB+	1	2
Total		386	3,640

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 at all times.

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2017 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2016 £0 which represented 0% of the total fund assets).

Note 15: Breakdown of Long Term and Current Assets and Liabilities

	31 March 2016	31 March 2017
	£'000	£'000
Long Term Assets	378	350
Employees' Contributions due	3	3
Employer's Contributions due	16	16
Sundry Debtors	266	159
	285	178
Bank	1	2
Total Current Assets	286	180
Total Long Term and Current Assets	664	530

Analysis of Assets (Debtors Only)*	31 March 2016	31 March 2017
	£'000	£'000
Central Government Bodies	378	350
Other Entities and Individuals	0	0
Total Long Term Assets	378	350
Central Government Bodies	43	31
Other Local Authorities	0	0
Other Entities and Individuals	242	147
Total Current Assets*	285	178
Total Long Term and Current Assets	663	528

*The above is an analysis of Debtors only and does not include the Bank

	31 March 2016	31 March 2017
Current Liabilities	£'000	£'000
Sundry Creditors	108	305
Benefits Payable	137	129
Total Current Liabilities	245	434

Analysis of Liabilities	31 March 2016	31 March 2017
	£'000	£'000
Other Local Authorities	0	0
Other Entities and Individuals	245	434
Total Current Liabilities	245	434

Note 16: Related Party Transactions

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

The cost of these services for the Aberdeen City Council Transport Fund was £37,567 (2016 - £35,456).

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 £320,000 (2016 - £339,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,265 (2016 - £1,698) for the Aberdeen City Council Transport Fund.

Note 17: Key Management Personnel

Certain employees of Aberdeen City Council hold key positions in the financial management of the Aberdeen City Council Transport Fund. However they are not members of the Aberdeen City Council Transport Fund.

Note 18: 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 Head of Finance, Aberdeen City Council, Corporate Governance, 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 Funds.

Note 19: Critical Judgements in applying Accounting Policies

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

The items in the net asset statement at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial present value of of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in note 1.

Note 20: Events after the Balance Sheet Date

The draft Statement of Accounts was authorised for issue by the Head of Finance on 23 June 2017. 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 2017, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

At the time of publication there were no material post balance sheet event to report, the Fund continues to implement the approved De-Risking Investment Strategy.

Independent Auditor's Report

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

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

Opinion on financial statements

I certify that I have audited the financial statements in the annual accounts of North East Scotland Pension Funds for the year ended 31 March 2017 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Accounts, the Net Assets Statements and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the 2016/17 Code).

In my opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2016/17 Code of the financial transactions of the funds during the year ended 31 March 2017 and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2016/17 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis of opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing in the UK and Ireland (ISAs (UK&I)). My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am independent of the funds in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standards for Auditors, and I have fulfilled my other ethical responsibilities in accordance with these requirements. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Responsibilities of the Head of Finance for the financial statements

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the

Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the audit of the financial statements

My responsibility is to audit and express an opinion on the financial statements in accordance with applicable legal requirements and ISAs (UK&I) as required by the Code of Audit Practice approved by the Accounts Commission. Those standards require me to comply with the Financial Reporting Council's Ethical Standards for Auditors. An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the funds and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements.

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

Other information in the annual accounts

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

In connection with my audit of the financial statements in accordance with ISAs (UK&I), my responsibility is to read all the financial and non-financial information in the annual accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinions on other prescribed matters

I am required by the Accounts Commission to express an opinion on the following matters.

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the

- financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016); and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2014.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

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

26 September 2017

Appendix 1- Statement by the Consulting Actuary

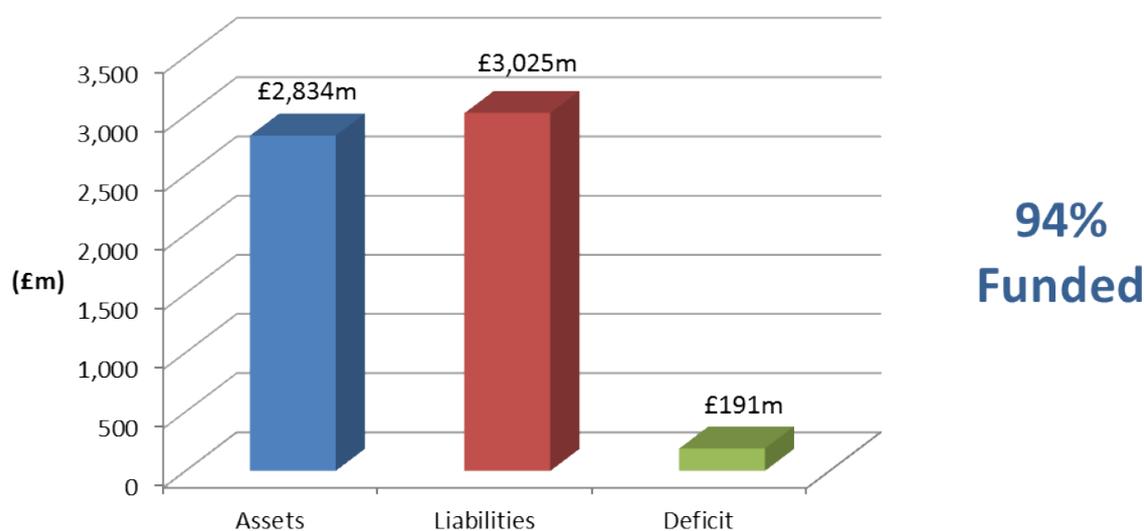
Accounts for the year ended 31 March 2017 - Statement by the Consulting Actuary

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 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £2,834 million represented 94% of the Fund's past service liabilities of £3,025 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.9% of pensionable pay per annum was required from employers. The common 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. It allows for the new LGPS benefit structure effective from 1 April 2015.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

In practice, each individual employer's (or employer group's) position is assessed separately and the contributions required are set out in our 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 (or employer group) is in accordance with the Funding Strategy Statement (FSS).

Different approaches adopted in implementing contribution increases and deficit recovery periods are as determined through the FSS consultation process. Due to investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution (of 19.3% of pensionable pay for the Council group which covers the majority of the Fund). This would be expected to remove the 31 March 2014 deficit over a period of 11 years if all the assumptions are borne out in practice.

The valuation was carried out using the projected unit actuarial method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	4.9% per annum	5.6% per annum
Rate of pay increases	4.1% per annum*	4.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.6% per annum	2.6% per annum

* allowance was also made for short-term pay restraint over a 3 year period for some employers within the Fund.

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2018.

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 2017 (the 31 March 2016 assumptions are included for comparison):

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.6% per annum	2.5% per annum
Rate of pay increases	3.5% per annum*	3.8% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

* includes a corresponding allowance to that made in the most recently completed actuarial valuation/funding update for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes, including those updated as part of the 2016 funding review. Full details of the 2014 actuarial valuation assumptions are set out in the formal report on the actuarial valuation dated March 2015. The assumptions used for the 2016 funding review have been issued separately to the Council.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.6% p.a.). The expected long-term rate of CPI inflation increased during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served to increase the liabilities significantly over the year.

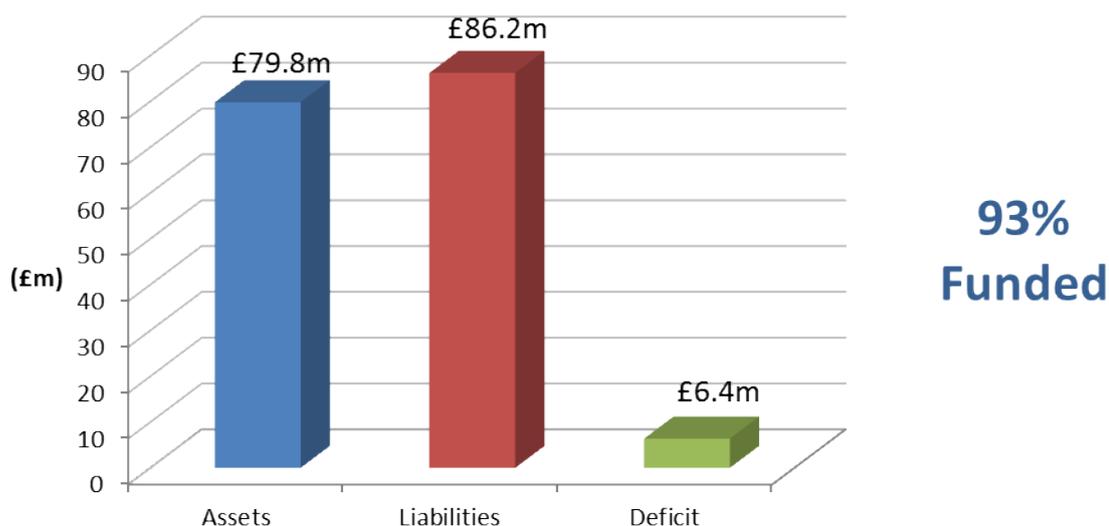
The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £3,803 million. Interest over the year increased the liabilities by c£137million, and allowing for net benefits accrued/paid over the period also increased them by c£11 million (including any increase in liabilities arising as a result of early retirements / augmentations). There was then a further increase in liabilities of c£767 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 for IAS26 purposes is therefore £4,718 million.

Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2014 to determine the contribution rates with effect from 1 April 2015 to 31 March 2018.

On the basis of the assumptions adopted, the Fund's assets of £79.8 million represented 93% of the Fund's past service liabilities of £86.2 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 44.9% of pensionable pay per annum was required. The common 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 is to achieve and then maintain a funding level of 100% of the Fund's past service liabilities. As part of the negotiations with the employer it has been agreed that contributions will be maintained at the 2014 level (33.0% of pensionable pay plus £1,500,000 per annum). If all assumptions are borne out in practice this would be expected to remove the 31 March 2014 deficit over a period of 6-7 years. Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2015.

The valuation was carried out using the projected accrued defined benefit method and the main actuarial assumptions used for assessing the Funding Target and the common contribution rate were as follows:

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	3.65% per annum	3.65% per annum
Rate of pay increases*	5.1% per annum	5.1% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.1% per annum	3.1% per annum

* allowance was also made for short-term pay restraint over the 4 years following the valuation at the rate of CPI inflation

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2017. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2018.

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:

	31 March 2016	31 March 2017
Rate of return on investments (discount rate)	3.5% per annum	2.5% per annum
Rate of pay increases	4.0% per annum*	4.3% per annum*
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.0% per annum	2.3% per annum

* includes a corresponding allowance to that made in the most recently completed actuarial valuation/funding update for short-term pay restraint.

The demographic assumptions are the same as those used for funding purposes, including those updated as part of the 2016 funding review. Full details of the 2014 actuarial valuation assumptions are set out in the formal report on the actuarial valuation dated March 2015. The assumptions used for the 2016 funding review have been issued separately to the Council.

During the year corporate bond yields decreased, resulting in a lower discount rate being used for IAS 26 purposes at the year-end than at the beginning of the year (2.5% p.a. versus 3.5% p.a.). The expected long-term rate of CPI inflation increased

during the year, from 2.0% p.a. to 2.3%. Both of these factors combined served significantly to increase the liabilities over the year.

The value of the Fund's promised retirement benefits for the purposes of IAS 26 as at 31 March 2016 was estimated as £75.3 million. Interest over the year increased the liabilities by c£2.6 million, and allowing for net benefits accrued/paid over the period reduced them by c£3.0 million (including any increase in liabilities arising as a result of early retirements/augmentations). There was then a further increase in liabilities of c£10.7 million made up of "actuarial losses" (mostly changes in the actuarial assumptions used, primarily the discount rate and assumed rate of future CPI as referred to above).

The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2017 for IAS26 purposes is therefore £85.6 million.

Paul Middleman
Fellow of the Institute and Faculty of Actuaries
Mercer Limited
May 2017

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

1. Aberdeen City Council (Administering Authority)	Scheduled
2. Aberdeenshire Council	Scheduled
3. Moray Council	Scheduled
4. Scottish Water	Scheduled
5. Grampian Valuation Joint Board	Scheduled
6. Scottish Fire and Rescue Service	Scheduled
7. Scottish Police Authority	Scheduled
8. North East Scotland College	Scheduled
9. Moray College	Scheduled
10. Visit Scotland	Scheduled
11. NESTRANS	Scheduled
12. Robertson Facilities Management (Shire)	Transferee
13. Bon Accord Care Ltd	Transferee
14. Bon Accord Support Services Ltd	Transferee
15. Aberdeen Heat & Power	Transferee
16. Station House Media Unit	Transferee
17. Aberdeen Sports Village	Transferee
18. Sport Aberdeen	Transferee
19. Robertson Facilities Management (City)	Transferee
20. Forth & Oban Ltd	Transferee
21. Alcohol and Drugs Action	Transferee
22. Idverde UK	Transferee
23. Visit Aberdeenshire	Transferee
24. Citymoves Dance Agency	Transferee
25. Xerox Ltd	Transferee
26. Northern Community Justice Authority	Admitted
27. Aberdeen Endowments Trust	Admitted
28. North East Sensory Services	Admitted
29. Aberlour Child Care Trust	Admitted
30. Fraserburgh Harbour Commissioners	Admitted
31. Peterhead Port Authority	Admitted
32. Robert Gordons University	Admitted
33. Robert Gordon's College	Admitted
34. Aberdeen Cyrenians	Admitted
35. Mental Health Aberdeen	Admitted
36. Fersands & Fountain Community Project	Admitted
37. SCARF	Admitted
38. Inspire	Admitted
39. The Manor Project	Admitted
40. Archway	Admitted
41. Middlefield Community Project	Admitted
42. Gordon Rural Action	Admitted
43. St Machar Parent Support Project	Admitted
44. Printfield Community Project	Admitted
45. HomeStart Aberdeen	Admitted
46. Aberdeen Foyer	Admitted
47. HomeStart (NEA)	Admitted

48. Aberdeen Greenspace	Admitted
49. Pathways	Admitted
50. Outdoor Access Trust for Scotland	Admitted
51. Osprey Housing	Admitted
52. Aberdeen Performing Arts	Admitted
53. Aberdeen International Youth Festival	Admitted
54. Sanctuary Housing	Admitted
55. Sanctuary Scotland	Admitted
56. Scottish Lighthouse Museum	Admitted

Aberdeen City Council Transport Fund

1. First Aberdeen	Scheduled
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