



North East Scotland Pension Fund

Audited Annual Report & Accounts
For the period 1 April 2023 to 31 March 2024

Contents

Management Commentary.....	3
1. Foreword.....	3
2. About the North East Scotland Pension Fund.....	5
3. Administration 2023/24.....	6
4. Pensions Committee & Pension Board.....	7
5. Administration and Performance.....	14
6. Financial Performance.....	21
7. Economic and Market Background.....	26
8. NESPF Investment Strategy.....	32
9. Risk.....	35
10. Funding Strategy Statement.....	36
11. Statement of Investment Principles.....	37
12. Environmental, Social and Governance Issues.....	38
13. Acknowledgement.....	45
Statement of Responsibilities.....	46
Annual Governance Statement.....	48
Governance Compliance Statement.....	53
North East Scotland Pension Fund – Fund Account.....	55
North East Scotland Pension Fund – Net Assets Statement.....	56
Notes to the North East Scotland Pension Fund Accounts.....	57
Independent Auditor’s Report.....	99
Appendix 1 – Statement by the Consulting Actuary.....	104
Appendix 2 – Schedule of Employers.....	109
Appendix 3 – Declared Interests.....	111

Management Commentary

1. Foreword

As Convener of the Pensions Committee, I am pleased to introduce the 2023/24 Annual Report and Accounts which reflects a significant year of both challenges and achievements.

The continued war in Ukraine, the attacks between Hamas and Israel and the continued Cost of Living Crisis all dominated the headlines this year and contributed towards the Fund operating within a fast changing environment.

Despite these challenges, the Fund's Net Asset Value increased from £5,804m to £6,237m. This increase is not as a result of any of my own decisions, but rather the result of good decisions made by our fund managers and by staff at the NESPF.

The Fund's investment strategy has not only positively impacted the asset value but funding levels too. The 2023 actuarial valuation saw funding levels increase to 126%, which further demonstrated the strength and long term security of the Fund.

While financial performance and efficiency is a primary focus, the Fund remains committed to being a socially responsible investor. In 2023/24, the Fund engaged with the fund managers to expand their reporting on Environmental, Social and Governance (ESG) metrics. In the coming year, the NESPF will produce their first Task Force on Climate Related Financial Disclosures (TCFD) report, which aims to develop consistent climate related financial risk disclosures.

The NESPF was the first Local Government Pension Scheme (LGPS) in the UK to go live with the new online member portal, rebranded as My Pension+. With improved design, usability and enhanced security, the site also brings additional functionality including personalised Annual Benefit Statement (ABS) videos for active members produced utilising Artificial Intelligence (AI). The Fund will continue to make best use of technological advances to improve member experience and services.

From a regulatory and compliance point of view, the long awaited McCloud remedy came into force in October 2023, which expanded the underpin protection for certain members. Also, The Pensions Regulator's (TPR) new General Code of Practice took effect in March 2024. To ensure we met both these new requirements, the Fund updated processes, tested system developments and implemented new guidance.

In recognition of all that was achieved, I am delighted that the Fund was shortlisted for several awards including the LGPS Fund of the Year at the LAPF awards and Defined Benefit Scheme of the Year at the Pension Age awards. These national awards look at best practice, performance and innovation and the nominations highlight the Fund's accomplishments.

Looking ahead to 2024/25, in addition to the delivery of essential services, the Fund will proceed with several projects. These include a procurement for a Global

Custodian; further improvements to administrative processes; and the introduction of the Pensions Dashboard (a government initiative that allows the public to see all their pension savings online and in one single place).

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

Mr John Cooke

Councillor John Cooke
Pensions Committee Convener

16 September 2024

2. About the North East Scotland Pension Fund

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

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

NESPF has an asset value of £6.2 billion and 77,865 members. It is the third largest LGPS fund in Scotland.

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

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

3. Administration 2023/24

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

*Clydesdale Bank trading as Virgin Money

4. Pensions Committee & Pension Board

Pensions Committee

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

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

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

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

The Committee consists of nine elected members of Aberdeen City Council each with equal voting rights. Following a full Council meeting in February 2024, the number of Committee members was reduced from 13 to 9. As at 31 March 2024, the Committee had two vacancies.

Membership 2023/24

Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Cllr John Cooke	Yes			Yes
Cllr Neil MacGregor	Yes			Yes
Cllr Dell Henrickson	Yes			Yes
Cllr Alison Alphonse	Yes			Yes
Cllr Sarah Cross	Yes		21/02/2024	
Cllr Derek Davidson	Yes			Yes
Cllr Duncan Massey	Yes			Yes
Cllr Ciaran McRae	Yes		13/02/2024	
Cllr Christian Allard	Yes		13/02/2024	
Cllr Jennifer Bonsell	Yes		27/04/2023	
Cllr Kairin van Sweeden*		07/06/2023		Yes
Cllr Alex McLellan		07/06/2023	13/02/2024	
Total	10	2	(5)	7

Notes:

*Councillor van Sweeden resigned from the Pensions Committee on 12 October 2023 and was re elected on 14 December 2023.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	15/12/23	22/03/24	Overall Attendance
Cllr John Cooke	✓	✓	✓	✓	100%
Cllr Neil MacGregor	✓	✓	✓	✓	100%
Cllr Dell Henrickson	✓	✓	✓	✓	100%
Cllr Alison Alphonse	✓	X	✓	X	50%
Cllr Sarah Cross	✓	✓	✓	N/A	100%
Cllr Derek Davidson	✓	✓	✓	✓	100%
Cllr Duncan Massey	X	✓	✓	✓	75%
Cllr Ciaran McRae	✓	✓	✓	N/A	100%
Cllr Christian Allard	N/A*	✓	✓	N/A	100%
Cllr Kairin van Sweeden	✓	✓	✓	✓	100%
Cllr Alex McLellan	✓**	✓	✓	N/A	100%

Notes:

* Councillor Allard did not attend the meeting on the 23 June as he was missed from the original invitation in error.

**Councillor McLellan sent Councillor Delaney as a substitute.

Pension Board

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

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

Membership 2023/24

Membership	Name	Member as at 31 March 2023	Joined	Left	Member as at 31 March 2024
Unison	Morag Lawrence (Chair)*	Yes			Yes
Aberdeenshire Council	Cllr Stephen Smith (Vice Chair)	Yes			Yes
Aberdeen City Council	Cllr Jessica Mennie	Yes			Yes
The Moray Council	Cllr Graham Leadbitter	Yes		15/12/2023	No
The Moray Council	Cllr David Gordon		19/12/2023		Yes
First Bus	Ian Hodgson	Yes		22/09/2023	No
Robert Gordon University	Jeremy Lindley		15/02/2024		Yes
GMB	Neil Stirling	Yes			Yes
UCATT	Gordon Walters	Yes			Yes
Unite	Alan Walker**	Yes			Yes
Total		8	2	(2)	8

Notes:

* Morag Lawrence was reappointed to the Pension Board on 13 February 2024.

** Alan Walker was reappointed to the Pension Board on 24 January 2024.

Meeting Attendance in 2023/24

Name	23/06/23	15/09/23	25/09/23*	15/12/23	22/03/24	Overall Attendance
Morag Lawrence	✓	✓	✓	✓	✓**	100%
Cllr Stephen Smith	✓	✓	✓	✓	✓	100%
Cllr Jessica Mennie	✓	✓	✓***	✓	✓	100%
Cllr Graham Leadbitter	✓	✓	✓	✓	N/A	100%
Cllr David Gordon	N/A	N/A	N/A	✓****	✓	100%
Ian Hodgson	✓	X	N/A	N/A	N/A	50%
Jeremy Lindley	N/A	N/A	N/A	N/A	X	0%
Neil Stirling	✓	✓	✓	✓	✓	100%
Gordon Walters	✓	✓	✓	X	✓	80%
Alan Walker	✓	✓	✓	✓	✓	100%

Notes:

* Pension Board additional meeting.

** Morag Lawrence sent Kenny Luke as a substitute.

*** Councillor Mennie sent Councillor Neil Copland as a substitute.

**** Councillor David Gordon attended the meeting on 15 December 2023 in an observing role.

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

In assisting with compliance, the Board can report the Fund to The Pensions Regulator for non compliance with guidance or regulations. In 2023/24 no issues were reported by the Board to The Pensions Regulator. The Pensions Regulator's General Code of

Practice came into force on 28 March 2024. This code details TPR's expectations of what is required to maintain an effective system of governance. The Fund have taken appropriate steps to ensure compliance with the new code.

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

Conflicts of Interest

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

A 'Declaration of Interest' form is completed every 12 months and individuals confirm that the information submitted is complete, accurate and is to the best of their knowledge.

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

- a member can withdraw from the discussion and decision making process;
- the Pension Board can establish a sub board to review the issue (where the terms of reference give the power to do so); or
- if the conflict is so fundamental that it cannot be managed in any other way, the member can resign.

Pensions Committee members are governed by the national Councillors' Code of Conduct. Training on the Code of Conduct was delivered by Aberdeen City Council in May 2022. Full list of each member's interests can be found on the Aberdeen City Council website: <https://committees.aberdeencity.gov.uk/mgMemberIndex>.

Committee and Board Training 2023/24

Pensions Committee members are not legally obliged to undertake training. The Fund feels strongly that Committee members should receive training to ensure that they have the necessary level of knowledge and understanding to exercise their functions. Whereas for the Board, the Public Service Pensions Act 2013 requires that members have an appropriate level of knowledge and understanding in order to carry out their role. The agreed Training Plan for both Committee and Board members has an expectation that members maintain their level of knowledge and training throughout the year. Recording and monitoring of attendance at meetings or training events ensures the requirements of the Training Plan are met.

At the June 2019 meeting the Pensions Committee and Pension Board agreed to undertake the online Public Service Toolkit produced by The Pensions Regulator.

The Training Report and Training Policy was approved at the June 2022 Pensions Committee. It was recommended that Committee and Board members work through

and complete the Hymans LGPS Online Learning Academy (LOLA), and on an ongoing basis thereafter as new versions were delivered.

Pensions Committee - Mandatory Training Record as at 31 March 2024				
Name	Hymans Robertson LOLA Version 1.0*	Hymans Robertson LOLA Version 2.0*	TPR Toolkit	Attended
Cllr John Cooke	✓	✓	✓	3/3
Cllr Neil MacGregor	✓		✓	2/3
Cllr Dell Henrickson	✓	✓	✓	3/3
Cllr Alison Alphonse				0/3
Cllr Derek Davidson				0/3
Cllr Duncan Massey	✓		✓	2/3
Cllr Jennifer Bonsell	✓			1/3
Cllr Kairin van Sweeden**				0/2
Cllr Sarah Cross**	✓			1/3
Cllr Alex McLellan**				0/2
Cllr Ciaran McRae**				0/2
Cllr Christian Allard**				0/2

Pension Board - Mandatory Training Record as at 31 March 2024				
Name	Hymans Robertson LOLA Version 1.0*	Hymans Robertson LOLA Version 2.0*	TPR Toolkit	Attended
Morag Lawrence	✓		✓	2/3
Cllr Stephen Smith	✓			1/3
Cllr Jessica Mennie				0/3
Cllr Graham Leadbitter				0/3
Cllr David Gordon**		✓		1/2
Ian Hodgson				0/3
Jeremy Lindley**				0/2
Neil Stirling	✓	✓	✓	3/3
Gordon Walters	✓			1/3
Alan Walker	✓	✓	✓	3/3

Notes for Committee and Board tables above:

* Hymans Robertson LOLA Version 1.0 24 June 2022 to 23 April 2023
Version 2.0 24 April 2023 to 31 March 2024

** Leavers/joiners during the year

In addition to the mandatory training, the Pensions Committee and Board were offered 25 additional training opportunities including:

- Introduction training delivered by Laura Colliss, Pensions Manager, for all new Committee and Board members;
- A variety of webinars covering topics from industry experts such as:
 - Pension Dashboards;
 - Cyber Risk;
 - Investment Markets;
- Actuarial training delivered by Mercer;
- The NESPF Finance Forum.

Members had the option to complete further additional training courses outwith those advertised, if they so wished.

5. Administration and Performance

Digital Developments

A primary focus for the NESPF throughout the course of 2023/24 was the development of our new member self service portal.

Following an internal administration review in 2022, the NESPF placed focus on making advancements to its systems and processes. This coincided with the introduction of software developer, Heywood Pension Technologies' (HPT) new member portal and upon seeing the potential opportunities this could bring, NESPF volunteered to be an early adopter.

Working closely alongside Heywood, the Fund commenced its journey, that included extensive testing, to implement a new intuitive platform, My Pension+, which went live in June 2023. The NESPF was the first LGPS in the UK to go live with the platform.

My Pension+ offers an entirely fresh look, with enhanced technologies that vastly improve functionality across the site. Some of the primary developments which went live in June 2023 include:

- Simpler login, without the requirement of usernames and security questions; Members can use their email address and password to access;
- Enhanced security with two factor authentication;
- Simplified navigation and design built with users in mind which incorporates best User Experience (UX) practices;
- Retirement forecasting tools;
- Personalised explanatory videos for complex topics, e.g. Annual Benefits Statements.

Although the new portal is now live, it remains a hybrid system. Not all features of the previous member portal have been developed for My Pension+, with the site linking back to the old portal for specific functionality. As such NESPF and HPT will continue to work closely as the remaining functionality is built, with feature parity the primary focus in 2024/25. In addition to the development of outstanding functionality, further innovative developments to be implemented within the next year include:

- Electronic Identification verification which will allow members to verify their identity when registering, removing the need for Fund intervention and reducing registration lead time;
- SMS multi factor authentication;
- Fully digital, online retirement and refund processes.

Digital Engagement

The delivery of My Pension+ to the Fund's membership was coordinated to coincide with the publication of our Annual Benefit Statements. This resulted in the migration of thousands of members to the new site, with over 12,500 members registered in the first six months after launch.

Registration and migration statistics as at 31 March 2024 are displayed below:

	Registered for My Pension+*	% Members Registered	Migrated to My Pension+	% Members Migrated
Active	15,717	63.0%	7,632	48.6%
Deferred	9,948	59.1%	3,748	37.7%
Pensioners & Dependants	8,675	35.5%	2,540	29.3%
Total	34,340		13,920	

*Based on member headcount

Annual Benefit Statements

Annual Benefit Statements (ABS) in 2023 were delivered online as per previous years, however the medium of Active and Deferred statements differed. Deferred members were able to view an ABS document that had been generated onto their record which they could then download.

However for active members, with the implementation of My Pension+, we were able to provide ABS via a newly designed, regulatory compliant ABS webpage which delivers information in a easy to understand and visually engaging way. As part of the revised ABS area, each active member can access a personalised video, outlining key figures and information in a conversational and user friendly manner. Deferred members will have a similar ABS page available to them ahead of their 2024 Statements.

A key advantage of using digital statements is that it allows us greater performance monitoring. Through website analytics, ABS email testing and establishing key performance indicators such as open and click through rates of email campaigns, the Fund can gain a better understanding of its membership and their behaviours and thus modify its approach to maximise engagement with them.

The overall percentage achieved for providing Annual Benefit Statements to more than 45,000 active and deferred members prior to the 31 August deadline was 99.78% (98.31% 2022/23).

Pension Administration Strategy (PAS)

In December 2022 a revised PAS was approved by the Pension Committee following a full consultation. The aim of the PAS is to aid the delivery of high quality pension administration for the members of the Fund on behalf of its participating employers.

The underlying objectives are:

- To provide high quality pension service delivery;
- Paying pensions and calculating benefits due accurately and on time;
- Good working relationships between the NESPF and its participating employers;
- Delivery of the LGPS requirements in line with the Scheme regulations;
- Compliance around the Codes of Practice put in place around service delivery and service standards.

Processing Performance

Key performance measurement	Target	Work Volume	Target Achieved	2023/24	2022/23
Letter notifying death in service to dependant	5 days	45	39	87%	82%
Letter notifying retirement estimate	10 days	496	478	96%	95%
Letter notifying actual retirement benefit	10 days	1,738	1,596	92%	90%
Letter notifying deferred benefit	10 days	1,980	1,875	95%	96%
Letter notifying amount of refund	10 days	1,178	1,157	98%	98%
Letter detailing transfer in quotes	10 days	176	122	69%	68%
Letter detailing transfer out quotes	10 days	544	303	56%	63%
Total		6,157	5,570	91%	91%

This year saw similar performance to 2022/23 with the overall percentage achieved above 90% for the second consecutive year.

Actual retirement benefit percentage continues to increase and the number of retirement estimate requests continues to fall as members choose to self serve online through My Pension+. Bulk automated processing of deferred benefits for members with Care only service increased to almost 1,000 and continues to deliver efficiency savings.

Transfer processing proved difficult with cases having to be stockpiled from announcement of Superannuation Contributions Adjusted for Past Experience (SCAPE) rate change on 29 March 2023 until new factors delivered in July 2023 and

for cases impacted by McCloud from the date regulations came into force on 1 October 2023 until new guidance was received in March 2024.

McCloud Remedy

In December 2018, the Court of Appeal ruled in *McCloud v Ministry of Justice* that transitional protection offered to some members as part of pension reform amounted to unlawful discrimination. In July 2019 following employment tribunal Government stated difference in treatment would be remedied across all public sector Schemes. This became known as the McCloud remedy with the LGPS (Remediable Service) (Scotland) Regulations 2023 coming into force on 1 October 2023.

Communications were issued in December 2023 to eligible members advising that there was no requirement to do anything whilst the Fund recalculates their benefits. In February 2024 recalculations for 15,227 members identified a total cost of £6,900 for pension and death benefits paid out during the remedy period from 1 April 2015 to 31 March 2022, work is underway to rectify the underpayments.

Delivering the remedy has been challenging, initially the Fund worked closely with employers to identify any missing or incorrect data during the remedy period and this resulted in 3,781 updates to the pensions administration system. The 18 month delay between draft and final regulations caused issues with software already delivered which had to be amended and re delivered in additional releases. Despite all this the majority of work required to comply with the regulations has been completed.

Employer Data Provision

Throughout the year, good quality, timely data for all active members was provided by the participating employers of the NESPF through the secure online portal, i-Connect. The information uploaded monthly directly updates our member database with starters, leavers, contributions and pay information and ensures that each members personal details are kept up to date.

More than 1 million data events have been uploaded to the pension administration system in 2023/24.

The use of i-Connect for data collection has provided substantial benefits to the fund over the last few years ensuring that the Fund is in the best position to meet the administrative and regulatory requirements of the Scheme.

The benefits include:

- Reduced administrative burden for day to day processing, contribution reconciliation and preparations needed in advance of issuing annual benefit statements;
- Improved data quality allowing the Fund and the participating employers to have confidence in the triennial valuation results;

- Members have access to up to date information on their individual records through My Pension+;
- Significant advantages in respect of the future challenges faced by the Fund around being dashboard ready, applying the McCloud remedy and other regulatory requirements.

The Fund continues to engage with participating employers, the system provider and other pension funds around the development of i-Connect to ensure it continues to deliver data requirements of the ever changing LGPS.

Data Quality

The Fund holds a vast amount of data on our pension administration system. This database holds individual records for each contract of employment for all members including active, pensioner and deferred members. The quality of the data held in relation to these member records directly impacts on all aspects of Fund administration including the calculation of benefits, payment of members pensions and the triennial valuation results.

Due to the method of data collection and the level of checking and reconciliation that is carried out the information held is consistently of a high quality. This provides comfort for the Fund, the participating employers and the members around the accuracy of the benefits held and the funding calculations.

The data quality scores that are provided by the Fund as part of the Pension Regulator annual Scheme return are determined by our data analysis tool, Insights. Dashboards and reports allows us to assess the data held against a number of parameters allowing for direct comparison against previous years and other LGPS funds.

The annual Scheme return scores are as follows:

	2022	2023	Target
Common Data	97.9%	98.7%	100%
Scheme Specific Data	99.2%	99.2%	100%

The Fund's data quality improvement plan is revised annually in an effort to maintain the high quality of data held and explore options for further improvement. This is especially relevant with onboarding to the Pension Dashboards ecosystem scheduled for 2025.

Complaints

NESPF aims to demonstrate the highest level of customer service at all times, however disputes and issues sometimes arise. The Fund takes all complaints seriously and will attempt to resolve issues in an effective and timely manner.

Complaints are handled in accordance with Aberdeen City Council's Complaints Handling Procedure. All complaints the Fund receives are monitored and recorded by the Governance team in the Complaints Register.

If no resolution is possible at the informal stage, the complaint proceeds to the Fund's Internal Dispute Resolution Procedure (IDRP). The IDRP consists of two formal stages. Stage 1 is dealt with by an independent appointed person. If the complainant is not satisfied with the appointed person's decision, the matter proceeds to Stage 2 of the process which is dealt with by the Scottish Ministers.

The table below is an analysis of those complaints received during 2023/24. There were 11 complaints made during the year. Of the 7 complaints that were within the Fund's scope to help remedy, all were resolved at the informal stage.

Complaint Analysis	Number of Complaints
Waiting Time – Correspondence	3
Processing Delay	3
Staff Knowledge	1
No NESPF Power to Remedy	4
Total Complaints	11

Complaints may not always relate to a NESPF decision or process, for example it may relate to an employer decision, e.g. ill health retirement. In these instances the complainant may take their complaint directly to the Pensions Ombudsman.

Not included in the above is one prior year complaint, which was submitted to the Pension Ombudsman Stage during 2023/24. The case is ongoing.

The full complaints procedure and IDRP process is on our website:
<https://www.nespf.org.uk/about/complaints>.

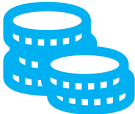
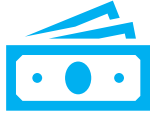



Actuarial Valuation







The work around the triennial exercise to value the liabilities held within the North East Scotland Pension Fund commenced in 2022 well in advance of the effective date. The valuation as at 31 March 2023 was carried out by Mercer, the Scheme actuary, to determine the overall funding level as well as determine the individual contribution rates for all participating employers within both Funds.

All work including determining the methodology and assumptions that were to be applied by the Scheme actuary, and the gathering and reconciliation of member data were all carried out in line with the valuation timelines with indicative results and suggested contribution requirements being made available for the Fund and participating employers in late 2023. This allowed the Employer Relationship Team to begin the process of communicating with the individual employers around the appropriateness of the assumptions used by the actuary, affordability and funding.

The valuation certificate was signed off by the Scheme actuary in March 2024 following the completion of the consultation process, reaching an agreement on the contribution rates for each employer and approval from the Pensions Committee. The valuation reports detailing the funding levels, the finalised rates and providing some climate change analysis were issued to all employers, provided to the Scottish Public Pensions Agency (SPPA) and published on the Funds website following the completion of the actuarial process. The actuarial statement (appendix 1) outlines the valuation outcomes.

6. Financial Performance

2023/24 at a Glance	
<p>£179m</p>  <p>Additions</p>	<p>£231m</p>  <p>Withdrawals</p>
<p>£26m</p>  <p>Management Expenses</p>	<p>£533m</p>  <p>Net Return on Investments</p>
<p>£6,237m</p>  <p>Net Assets of the Fund at the End of the Year</p>	

Key Statistics	
<p>41</p>  <p>Total Number of Employers</p>	<p>77,865*</p>  <p>Total Membership</p>
<p>1,554</p>  <p>Votes at AGMS</p>	<p>52%*</p>  <p>Members Registered for My Pension+</p>
<p>42.5</p>  <p>Staff Employed (FTE)</p>	<p>1,832</p>  <p>Members to Staff Ratio</p>

*Total membership is based on membership records as a member can have more than one record. Equivalent number in terms of member headcount is 66,213. This figure is used for the percentage of Members registered for My Pension+.

North East Scotland Pension Fund Financial Summary

From the year 2022/23, the following tables are the merged figures for the NESPF and ACCTF.

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Contributions Less Benefits and Expenses paid Net Additions/ (Withdrawals)	(30,977)	(51,481)	(33,048)	(34,257)	(78,570)
Net Investment Income Change in Market Value Net Return on Investment	(71,648)	1,462,128	181,752	(342,832)	532,616
Transfer In of ACCTF at Market Value	0	0	0	290,035	0
Revaluation of Insurance Buy In Contract	0	0	0	(35,062)	(20,924)
Net Increase/ (Decrease) in Fund	(102,625)	1,410,647	148,704	(122,116)	433,122
Fund Balance as at 31 March (Market Value)	4,366,542	5,777,189	5,925,893	5,803,777	6,236,899

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

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

Budget

	Note	Actual Spend 2023/24 £'000	Budget or Forecast 2023/24 £'000	Over or (Under) Spend 2023/24 £'000
Administration Expenses	1	3,113	3,032	81
Oversight and Governance Expenses	2	872	1,119	(247)
Investment Management Expenses	3	22,039	19,886	2,153
Management Expenses Total		26,024	24,037	1,987

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

1. Over spend – Pay award and one off IT costs.
2. Under spend – Although there were increases in the Actuarial Fees and General Expenses those increases were less than anticipated.
3. Over spend – The upturn in markets has meant that generally the assets held have risen therefore Investment Management Fees & Expenses based on Net Asset Values (NAV) have also increased.

Membership Statistics

NESPF	2019/20	2020/21	2021/22	2022/23	2023/24
Active	26,275	26,315	26,961	27,751	27,708
Pensioners	22,156	22,692	23,854	26,146	27,171
Deferred	17,965	17,704	18,150	19,379	19,246
Frozen Leavers	3,021	2,664	3,111	3,602	3,740
Total	69,417	69,375	72,076	76,878	77,865

Active membership appears to have remained stable from 2022/23 to 2023/24 and may reflect the continuing budgetary pressure faced by the Local Authorities as, in previous years, there has consistently been an increase to the active membership totals. The number of deferred members has remained consistent indicating that members accessing their pensions and transferring their benefits have been in line with the number of leavers. Pensioner numbers have increased in line with previous years despite the early retirement exercises currently being undertaken by Local Authorities. Frozen leavers represent the members who have left the Scheme and have yet to claim their entitlement to a contributions refund or a transfer of their entitlement.

Management Expenses

	2019/20 £'000	2020/21 £'000	2021/22 £'000	2022/23 £'000	2023/24 £'000
Administration	1,822	2,236	2,388	2,958	3,113
Oversight and Governance	422	713	615	743	872
Investment Management	17,953	23,820	23,901	17,767	22,039
Total Management Expenses	20,197	26,769	26,904	21,468	26,024

Unit Cost Per Member

	2019/20 £	2020/21 £	2021/22 £	2022/23 £	2023/24 £
Administrative Unit Cost per Member	26.25	32.23	33.13	38.48	39.98
Oversight and Governance Unit Cost per Member	6.08	10.28	8.53	9.66	11.20
Investment Management Unit Cost per Member	258.62	343.35	331.61	231.11	283.03
Total Cost per Member	290.95	385.86	373.27	279.25	334.21

Remuneration Report

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

Note 22 to the Accounts details the Key Management Personnel. Councillor and senior employee remuneration is detailed within the Remuneration Report of Aberdeen City Council's Financial Statements.

7. Economic and Market Background

Global Market

The past financial year was marked by volatility driven by high inflation and rapid interest rate hikes. The stock market oscillated between fears of recession and hopes of interest rate cuts as inflation moderated. The market overall rallied with the Morgan Stanley Capital International All Country World Index (MSCI ACWI) GBP returning +20.6% as technology stocks, especially those related to Artificial Intelligence (AI), dominated while the rest of the market took time to catch up. Policymakers were focused on balancing the risk of recession with persistent inflation. While the Federal Reserve held rates steady, it signalled the intention to cut rates in 2024. The European Central Bank (ECB) and Bank of England (BoE) also maintained a cautious stance. Despite the potential delay in rate cuts, the financial markets continued to post positive returns, driven by the anticipation of returns from AI in the technology sector and the performance of value stocks towards the latter part of the period.

US Equities

During the year ending 31 March 2024, the US equity markets experienced a strong and sustained rally. The S&P 500 index gained 29.88% during the 1 year period, with high growth stocks leading the way. Last March, exuberance around AI helped the market shake off the turbulence of the regional banking crisis. The market rally was driven by positive economic conditions, including the Federal Reserve's expected rate cut timeline, strong earnings, low unemployment, and high consumer spending. In terms of index performance, the Russell 1000 Growth index outperformed the Russell 1000 Value index over the 1 year period, on the backs of the "Magnificent Seven" tech giants (Microsoft, Apple, Nvidia, Amazon, Meta, Tesla, and Alphabet), which accounted for a significant portion of the growth index returns. While sentiment in the market shifted positive over the last year with many market participants growing increasingly bullish in their outlooks, questions remain on the continued growth of productivity, outlook for inflation and long term effects of higher interest rates.

UK Equities

2023 was another year where markets remained focused on interest rate policy and inflation, as central banks deliberated on how to respond to a mixed picture from the inflation data. Central bankers had been quick through the year to reaffirm their commitment to curbing inflation, highlighting the need for rates to remain elevated against the backdrop of falling goods inflation, but services inflation remained sticky, driven by tight labour markets. Further volatility was sparked through the year, first as the collapse of Silicon Valley Bank and Signature Bank led to concerns of a banking

crisis in the US. This was shortly followed by a disruption in the financial sector in Europe as Credit Suisse was taken over by UBS in a deal brokered by the Swiss National Bank. Then followed the rise of AI, with divergence driven by the perceived beneficiaries versus the victims, and finally the outbreak of war in the Middle East. At the end of 2023 interest rate expectations fell sharply and risk assets rallied. Global equity markets rallied at the start of 2024 on strong earnings from technology names, despite mixed macroeconomic data. The Financial Times Stock Exchange (FTSE) All Share rose 8.4%, however lagged global equity markets on concerns around growth in China, notably in the commercial real estate market.

European Equities

European equities delivered very strong returns over the last year, despite a backdrop of cautious sentiment given concerns over a potential recession, weaker China macro data and geopolitical risks. The asset class remains under owned by investors and we observe a generally defensive positioning. European markets particularly started to rally from November 2023 on into the end of the period as market expectations began to look past the potential for recession which had clouded sentiment for more than 18 months. This move was supported by a dramatic fall in energy prices in the region, which had risen because of the Russian invasion of Ukraine, feeding through, amongst other factors, into lower inflation and an increasing likelihood of cuts to interest rates. During the most recent earnings season, we noted more companies speaking of stabilisation and/or potential for improvement, with very clear trajectory for increasing orders in certain end markets.

Emerging Markets Equities

MSCI Emerging Markets ended the period up 8.5%, materially underperforming Developed Markets, which gained +25.7%. Emerging Markets started 2023 on a strong note as sentiment surrounding China equities meaningfully reversed amid growing excitement around China's much awaited reopening from the Covid-19 pandemic, and the market was hopeful for a peaking US dollar. However, China's reopening ultimately disappointed and the US proved remarkably resilient despite aggressive monetary tightening. Elsewhere the trend of generative AI propelled the technology sector to substantial gains and Taiwan reached all time highs towards the tail end of Q1 2024 as the cases for AI grew.

Regionally, Latin America emerged as the top performer over the period with a 23.4% increase. Peru stood out as one of the strongest performers, largely due to the sustained high demand for its primary export, copper, in the wake of the AI boom. The Central and Eastern Europe, Middle East, and Africa (CEEMEA) region saw a 10.6% rise. Asia, excluding Japan, lagged (+4.3%), primarily due to China's weakness.

Japanese Equities

Japan equity markets gained during this period, driven by heightened expectations of corporate reforms by Tokyo Stock Exchange, Semiconductor and other related growth stocks positioned to benefit from the adoption of AI, and greater inbound demand by foreign tourists.

In April, the market experienced a rally triggered by statements by American Investor Warren Buffet accompanied by expectations for structural reforms in domestic companies, such as improvement in Price to Book Ratio, reopening of the economy causing greater inbound demand, and continuation of accommodative monetary policy. Furthermore, the market experienced a rally in growth stocks, fuelled by heightened expectations for AI related companies. Following such rout, the market experienced profit taking along with higher US long term interest rates which impacted US and Japan markets. However, as the market factored in rate cuts, lower treasury yields helped US and Japan equities to soar. Coming into 2024, data further confirmed that Japan is finally breaking out of the deflationary cycle and entering a virtuous cycle of price increases and wage hikes. Although Bank of Japan (BoJ) has ended its negative interest rate policy, such reversal, confirmed Japan's return to normal policy and above mentioned cycle of prices increases and wage hikes.

Bonds

Q2 2023 saw negative bond market sentiment, as economic data points in developed markets pointed to an environment in which central banks would need to continue increasing interest rates to slow down the economy. In the US, the March Year on Year (YoY) Consumer Price Index (CPI) inflation rate accelerated by 5.0% YoY. This was slightly below the consensus expectation of 5.1%, and a notable decline from the February CPI number of 6.0%. By the end of the quarter, the Federal Reserve had paused their interest rate increases. Uncertainty surrounding the ongoing US debt ceiling negotiations contributed to the negative sentiment. In May, a debt ceiling deal was agreed which included a suspension of the debt ceiling until January 2025. Euro area inflation also printed in line with expectations, with March headline and core inflation rising to 6.9% and 5.7% YoY respectively. Meanwhile, in what was a second consecutive upside surprise in the UK, prices accelerated by 10.1% having been expected to accelerate by only 9.8% YoY in March. The ECB and the BoE increased interest rates over the quarter. UK Inflation once again surprised to the upside with core at 7.1% YoY vs expected 6.8%. The UK became the only country in the G7 with rising inflation.

Q3 2023 saw mixed bond market performance, driven by the release of generally soft economic data, and views on longer term inflation and interest rates. As widely expected, after pausing its aggressive rate hiking trajectory in June, the Federal Reserve raised key interest rates during the month. The US CPI inflation rate for the

month of June accelerated by 3.0% YoY. The ECB also raised rates during the month. In the Euro Area, Gross Domestic Product (GDP) figures increased by 0.3% quarter on quarter as expected. Once again in the UK, the main story for the month was inflation, with core inflation remaining high while Services CPI rose, and headline inflation met expectations. The BoE raised rates to 5.25%. Global bond market sentiment ended the quarter negative as developed market government bond yields generally rose over the month, driven mostly by hawkish projections by the Federal Open Market Committee (FOMC), which left its policy rate unchanged at 5.25% to 5.50%. In Europe, the ECB raised its key interest rates, while the BoE maintained the Bank Rate at 5.25% following the drop in inflation. However, they cut their forecasts for economic growth for the second quarter while warning rates may need to remain at these high levels.

Global bond market sentiment was generally negative at the start of Q4 2023, driven predominantly by a continued 'higher for longer' narrative and solid economic data in the US. In the US, the CPI inflation data for September showed increases in the Month over Month (MoM) core and headline rates. Euro area headline inflation fell from 2.9% YoY in October, below consensus. CPI inflation data was published during the month in the UK. On a YoY basis prices increased marginally ahead of expectations in September, with headline inflation printing at 6.7% against the 6.6% expected. By the middle of the quarter, many believed that developed market central banks had finally reached the end of their tightening cycles. In the US, headline CPI inflation was flat on the month, holding the YoY inflation rate. In the Euro Area, headline CPI inflation surprised to the downside and MoM CPI decelerated, as did UK inflation. Global bond markets finished the year on a highly positive note, with bond yields falling notably in developed markets in December. In the US and the Euro area, November CPI inflation printed in line with expectations. In the UK, YoY November CPI was lower than expected.

With the start of Q1 2024, global bond markets experienced a slight downturn, with economic data and central bank communications not swaying expectations for rate cuts in 2024, despite a challenging start to the year for risk assets. The Federal Reserve maintained its policy rate, and the ECB noted a declining inflation trend, while BoJ continued its ultra loose policy. Europe's GDP growth was stagnant, but jobs growth showed a slight increase, and the ECB maintained its rates. The BoE held the bank rate steady with a dovish tone, and the unemployment rate was lower than expected. The quarter ended on a high in March, where global bond market sentiment was positive, with tightening spreads and slightly reduced yields. The US ended the quarter with a slight decrease in core CPI both MoM (0.35%) and YoY (3.8%), while Europe confirmed its annual inflation rates to be in line with estimates, and the UK experienced a drop in CPI inflation YoY (3.4%). Japan's CPI figures were in line with expectations. Government bond yields in developed markets fell modestly, with US treasury yields, German bund yields, and UK gilt yields all declining. Most G10

currencies weakened against the US dollar, except for the Canadian and Australian dollars which appreciated slightly.

UK Property

The past year has been a dynamic period for the UK real estate market, characterised by a mix of challenges and opportunities. At the end of 2023, we reflected on what was a very challenging year for the UK real estate markets, as investors grappled with the implications of higher costs of debt and falling valuations. In the prior 18 months, we have seen inflation remain persistently high and, as a result, have witnessed continual rises in the base rate, totalling 500 basis points in that time. The ramifications of such a large change in the macro environment have been felt throughout all financial markets. This has affected all assets and led to repricing in line with this fundamental rebasing as the period of great moderation comes to an end.

In the UK, debt costs continued to remain above yields, even for prime properties, which caused a widening of the bid ask spread as buyer and seller expectations moved further apart. The lack of price discovery from subdued transaction activity made it difficult to monitor pricing and led to a steep decline in liquidity across all sectors. Capital market activity ended the year on a weak note. In 2023, UK All Property transaction volumes totalled £32 billion, which is 42% below the five year average. As yields decompress in 2024, we expect buyer and seller expectations to become more aligned, supporting a pickup in transaction volumes.

We began to observe a degree of stabilisation by the end of Q4 2023. Valuations remained steady for several months following a 22% decline in the UK real estate market from peak pricing in June 2022. This reflected a level of transparency compared to much of the rest of the world and indicated that the significant correction appears to be behind us.

It seems that an inflection point is imminent in 2024, with inflation seemingly on a downward trajectory and interest rates at the peak of the hiking cycle as the BoE held rates steady at 5.25%, and forward guidance is becoming slightly more dovish. The renewal in the relative attractiveness of the UK real estate market will be driven by the first rate cut forecasted to happen later in 2024, coupled with the growing optimism surrounding the UK's macroeconomic climate, now in expansionary territory, translating to a more positive outlook for the real estate market going into 2024.

Market Returns	1 Year (% p.a.)	3 Year (% p.a.)	5 Year (% p.a.)
Equities			
FTSE All Share Index	2.9	13.8	5.0
FTSE All World Index	-6.9	15.9	7.4
FTSE All World ex UK Index	-7.2	15.9	7.6
FTSE North American Index	-3.1	18.0	13.1
FTSE European (ex UK) Index	2.1	14.9	4.9
FTSE Japan Index	2.0	7.8	3.9
FTSE Developed Asia (ex Japan) Index	-9.5	14.0	2.5
FTSE Emerging Markets Index	-4.3	29.4	13.9
Bonds			
FTSE Actuaries UK Conventional Gilts All Stocks Index	-16.3	-9.1	-3.1
ICE BofA Sterling Non Gilts Index	-10.3	-3.1	-0.8
FTSE Actuaries UK Index Linked Gilts All Stocks Index	-26.7	-7.6	-3.2

Source: Bloomberg

8. NESPF Investment Strategy

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

There are a range of Fund Managers employed to again spread risk, with different style biases, each with clear and documented agreements in place detailing their investment mandates. In addition, the Fund employ an independent Global Custodian.

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

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

Asset Structure 2023/24

Asset Class	Distribution as at 31 March 2023		Distribution as at 31 March 2024	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
Equities (including alternative assets)	63.3	55.0	63.5	55.0
Bonds/Credit	17.7	22.5	17.9	22.5
Property/Infrastructure	15.9	20.0	16.4	20.0
Cash/Other	3.1	2.5	2.2	2.5
Total	100.0	100.0	100.0	100.0

During the first part of 2023 and given the volatility in markets, NESPF slowed its rebalancing efforts, making selective and tactical changes in line with its investment strategy where appropriate. Given the rise in equity markets towards the back end of 2023 and into 2024, this has positively increased the overweight to equities and therefore allocations have been made to infrastructure and direct lending, with more rebalancing to follow.

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

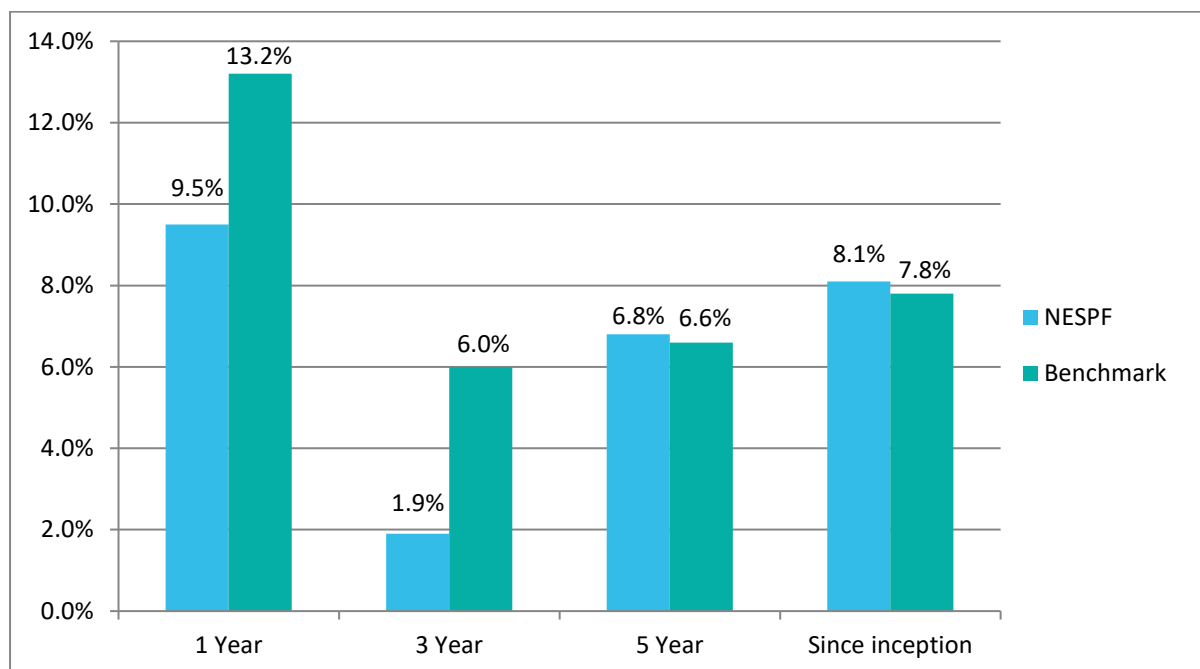
Equities	50.0% (range +/- 5%)
Alternative Assets (including private equity)	5.0% (range +/- 5%)
Bonds/Credit	22.5% (range +/- 5%)
Property/Infrastructure	20.0% (range +/- 5%)
Cash/Other	2.5% (range +/- 5%)

North East Scotland Pension Fund Performance

Investment returns over the last year have been strongly positive delivering 9.5%, given a difficult market backdrop with constant changes regarding sentiment towards interest rates and inflation affecting different asset classes. In the shorter term some of the active Equity holdings are behind benchmark, but performance is beginning to turn around and the NESPF has conviction in these positions as a long term investor. A number of benchmarks are also arbitrarily higher this year on Sterling Overnight Index Average (SONIA) targets, which is not necessarily reflective of the asset class it is measuring against.

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

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



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

Year Ending	2021/22	2022/23	2023/24	Since Inception Annualised
	%	%	%	%
CPI*	7.0	10.1	3.2	2.9
Average Earning*	7.0	5.8	5.7	3.3
NESPF Return	2.4	-4.1	9.5	8.1

*Source: Office of National Statistics

Investment Management Structure

Details of the Investment Management Structure is in the “Investments Analysed by Fund Manager” Note to the Accounts.

9. Risk

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

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

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

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

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

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

Risk Management

Risk management is an ongoing process with quarterly reporting provided to the Pensions Committee and can be found within the Committee packs. These reports detail the progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new risks that have been identified. It is also key that the Fund has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

10. Funding Strategy Statement

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

The purpose of the FSS is therefore:

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

The FSS is required as part of Regulation 56 of the Local Government Pension Scheme (Scotland) Regulations 2018. As part of the 2023 actuarial valuation, the FSS for the North East Scotland Pension Fund was reviewed, with employers consulted on the revised version.

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

11. Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund. All investment decisions are governed by the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2016. The Fund objective is to meet benefit liabilities as they fall due at a reasonable cost to participating employers, given that employee contributions are fixed. “Reasonable” in this context refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding (ratio of the value of assets to liabilities) and the assumptions underlying the actuarial valuation.

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

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

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

12. Environmental, Social and Governance Issues

Responsible Investment & Engagement

As a long term investor the Fund has a duty to engage with the companies we invest in on Environmental, Social and Governance (ESG) issues, and to work with others to effect change.

What does this look like in practice?

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

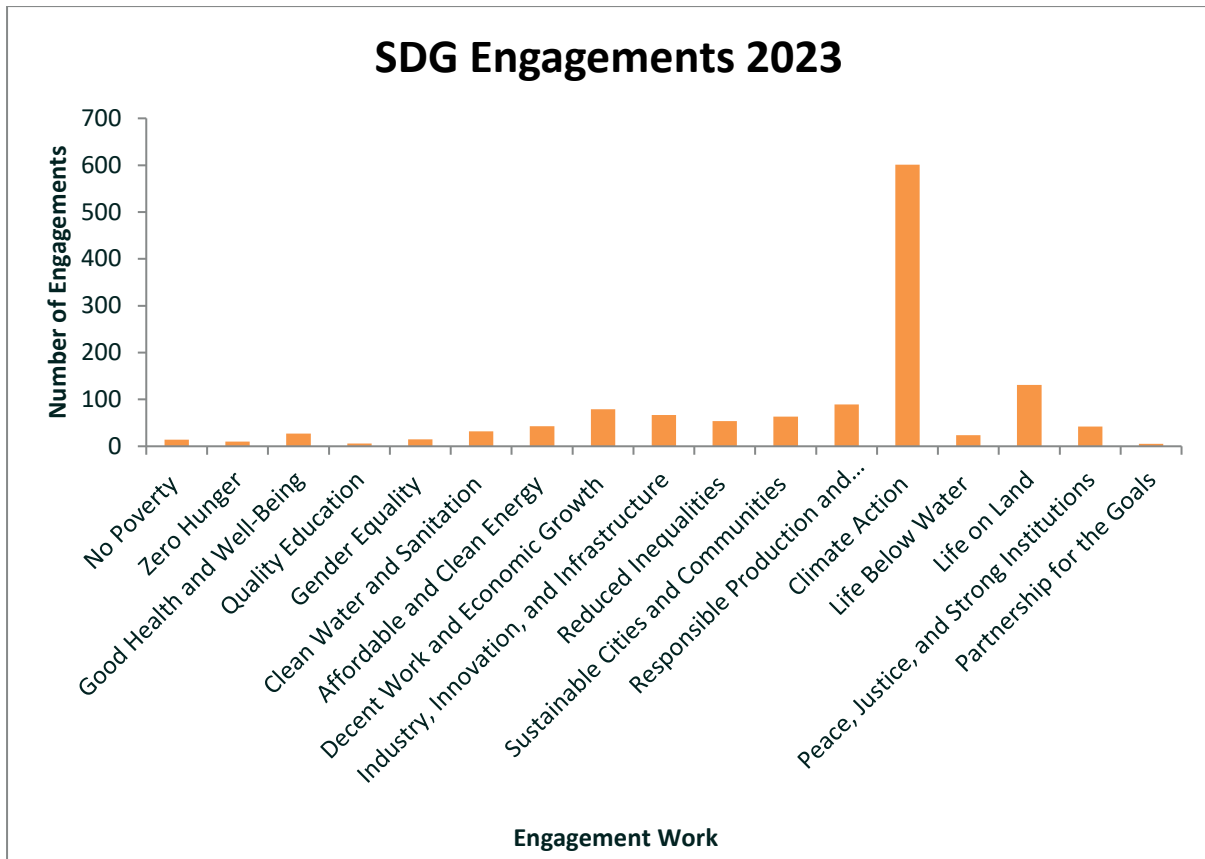
Collaboration

There are limits to what we can achieve as a single investor and we believe greater progress can be made through collaboration with other investors. Our main collaboration is with the Local Authority Pension Fund Forum (LAPFF). We also engage with our Fund Managers on a regular basis.

LAPFF brings together a diverse range of Local Authority Pension Funds (87 funds and 6 pools) with combined assets of over £350 billion. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss shareholder engagement and investment issues.

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

LAPFF engagement work examples are noted below:



Mining and Human Rights

Context – LAPFF has been engaging with major mining companies on human rights for the last five years. This engagement stemmed from tailings dam collapses in Brazil linked to mining companies BHP, Vale and from Rio Tinto's destruction of cultural heritage at Juukan Gorge in Australia.

Activities –LAPFF has undertaken an engagement with Grupo Mexico in relation to a tailings pond leak at one of its operations in Sonora, Mexico. Certain health problems and environmental damage – in particular, water contamination – are linked to this leak. LAPFF has met once with the company and once with affected community members at this stage and will look to progress the engagement in the coming year. Human rights engagements with Rio Tinto and Anglo American are continuing too.

LAPFF also attended the 2024 African Mining Indaba in Cape Town, South Africa in first quarter of 2024.

Outcomes – Positive outcomes for LAPFF members after visiting Brazil is that LAPFF published a report of its findings after thorough engagement with both the affected communities and the companies involved. Translation of the report into Portuguese was also completed.

LAPFF is continuing to work with Rio Tinto to ensure that their relationship with communities affected by their operations globally are improving.

Engagement with Anglo American is taking place primarily through LAPFF's participation in the new Principles for Responsible Investment (PRI) Advance human rights initiative.

LAPFF submitted a response to the United Nations (UN) Working Groups consultation on investors and ESG, which included the submission of its reports and work with affected community members. This focus appears to be of interest at the international level, and LAPFF will continue to work with the UN Working Group and other stakeholders to inform best practice on mining and human rights, while linking the work to financial materiality for investors.

Climate

Context – Drax owns the UK's largest power generation site in Yorkshire. It consists of a coal burning plant converted to burning wood pellets, mainly imported from North America. It meets approximately 7-8% of the UK's electricity demand. Despite the switch from coal, Drax is the UK's largest carbon emitter as stated in research by climate think tank Ember and is government subsidised.

Drax uses the concept of 'dynamic carbon sinks' to justify its claims to carbon neutrality, i.e., forests are harvested and the wood that is burned regrows.

Activities – LAPFF engaged with Drax in first quarter of 2024 as there are questions about the time scale over which new growth of trees will compensate for the >10 Million Tonnes (MT) of CO₂ Drax emits each year. The Forum sought to understand the company's business model, associated risks and sustainability of the supply chain for wood pellets for combustion at Drax Power Station, which are mainly imported.

LAPFF responded to the consultation from the Department of Energy Security and Net Zero on prolonging the subsidy to Drax. LAPFF's response to the consultation covered the evidence that Drax's supplies of wood are not carbon neutral, nor sustainable as a supply source (being dependent on US imports). BBC Panorama had its second exposé of Drax's activities that showed that not only has Drax been cutting and using whole trees, but that the trees cut were from rare forest wood, rather than managed plantations.

LAPFF attended the 2023 AGM and there was significant unease at Drax's activities, with no shareholders speaking positively. There were also representations from people in the southern US states concerned about cutting down primary forest and health affecting emissions from pellet plants.

Outcomes – Achievements have been wholly negative as LAPFF has seen no evidence that the forest stock in the US is growing to offset Drax's emissions. From Drax commissions "catchment area" reports it is apparent that rather than a quantitative test to prove contemporaneous offset, the test in the reports is that forest stock is not shrinking. There is significant concern that Drax is contributing to net increases in atmospheric carbon, in addition to wood being an inefficient source of

energy which, per unit of energy obtained, creates more carbon emissions than even coal.

Drax's answer is that things will be clearer once the company is able to capture carbon from its burning by using carbon capture technology. However, that is not proven at scale and is heavily subsidy dependent, on top of an already exceptionally large subsidy required for pellet burning. Drax's activities continue to attract cross party criticism.

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

Fund Managers

It is the role of the Fund's fund managers to incorporate analysis of ESG issues into their investment analysis. They are expected to engage on these issues with the companies in which they invest, and ensure that their decisions are in keeping with the Fund's ESG approach.

Through our fund managers we can engage with companies more directly by raising concerns and meeting with Senior Management and Executives. Fund managers report their engagements on a quarterly basis so we can monitor engagement activity.

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

Biodiversity on offshore wind farm

Through one of our Infrastructure portfolios the Fund invests in an offshore wind farm in the Dutch part of the North Sea, on the border with Belgium. The biodiversity of the construction site was assessed as the project commenced. The action taken was the release of 2,400 flat oyster tables. The oyster tables were placed on the base of some of the wind turbines in October 2020.

A team of researchers reviewed the oyster tables in 2023. The outcome being they discovered in addition to the survival, presence and growth in oyster larvae they also increase biodiversity. For this they used Environmental DNA traces in the water and an underwater camera, The underwater water videos showed a lot of life around the foundations with a total of the 65 species found. The researchers will return with the hope of seeing the oysters have settled in the shell layer and rock surrounding the wind turbine.

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

- 2022 Global Investor Statement;
- 2022 Non Disclosure Campaign (NDC);
- Bangladesh Accord on Fire and Building Safety (the Accord);
- Climate Action 100;

- Carbon Disclosure Project;
- Principles for Responsible Investment.

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

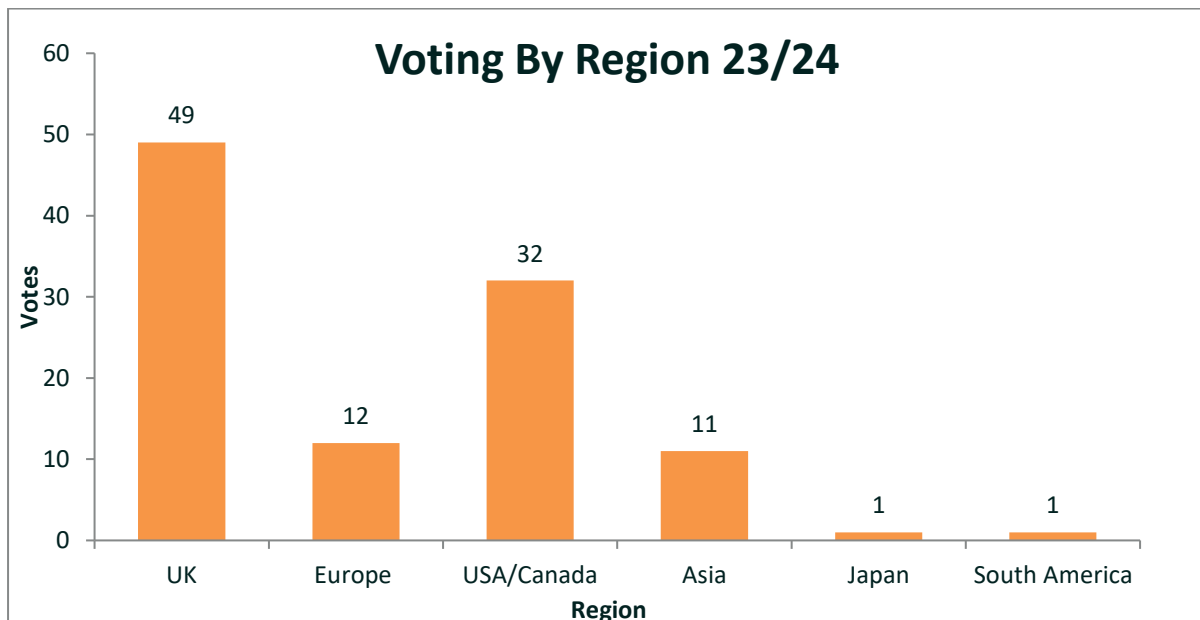
By working together, we and other investors can use our collective size to influence decision making and promote the highest standards of corporate governance and corporate responsibility.

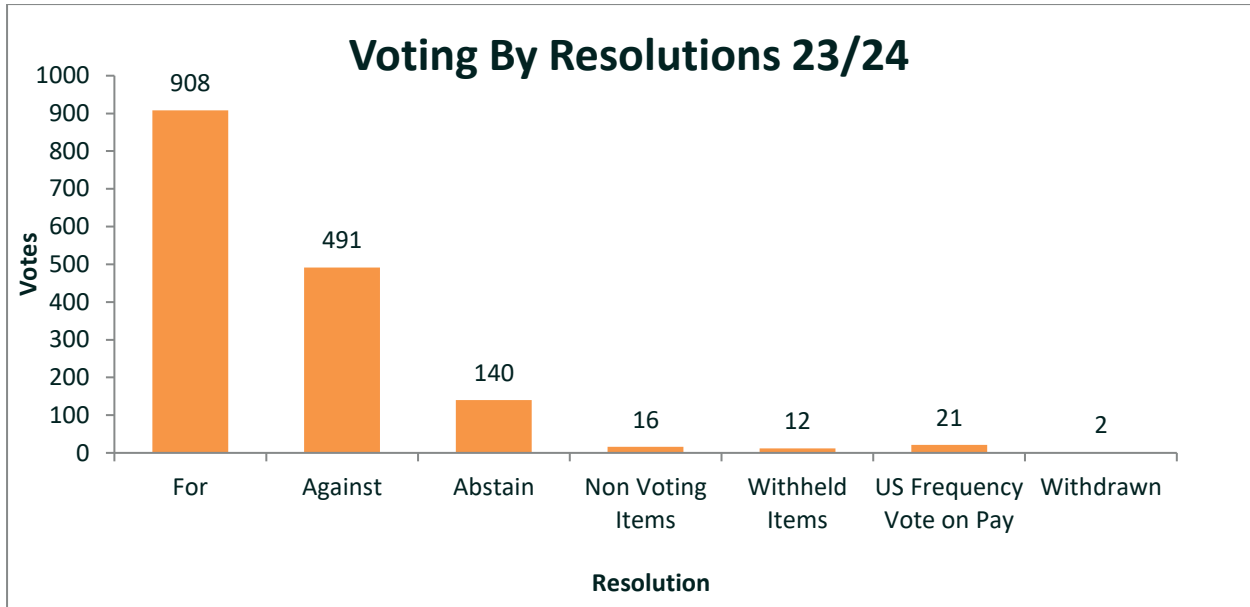
Voting

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

The Fund vote in house on all our active managers holdings and over the last year have voted at 106 Annual General Meetings/Special meetings on 1,554 resolutions. The Fund’s voting advice is provided by Pensions & Investments Research Consultants Ltd (PIRC). Additional advice is also received from the Local Authority Pension Fund Forum.

Further information on the Fund’s Voting record can be found on our website:
<https://www.nespf.org.uk/about/investment/responsible-investment/voting/>.





During the year to 31 March 2024, the main reasons for casting a vote against a resolution are listed below:

Directors

- Insufficient independent representation on the board.
- Global Diversity and Inclusion efforts of the company.
- Executives who are employees should not be additionally rewarded with bonuses or Long Term Incentive Plans (LTIPs) for duties that are considered part of the job.
- The Chair cannot effectively represent two corporate cultures.
- Company has not disclosed quantified targets for the performance criteria of its variable remuneration policy.

Share Issues/Repurchase

- No clear case as to how this would benefit long term shareholders.

Annual Reports

- Concerns over sustainability policies and practice.

Task Force on Climate Disclosures (TCFD)

North East Scotland Pension Fund recognise that Climate Change is a systemic risk and thus a material long-term financial risk, and thus support the recommendations of the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD).

TCFD provides a global framework to enable stakeholders to understand the financial system's exposure to climate-related risks particularly affecting organisations most likely to experience climate-related financial impacts from transition and physical risks.

North East Scotland Pension Fund is committed to reporting on its approach to climate risk within the TCFD framework which includes thematic areas of Governance, Strategy, Risk Management and Metrics and Targets. The Fund's first TCFD will be published in 2024/25.

13. Acknowledgement

The production of the Annual Report and Accounts is very much a team effort involving many staff as well as information supplied by our advisors. We would like to take this opportunity to acknowledge the considerable efforts of staff in the production of the 2023/24 Annual Report and Accounts.

Angela Scott

Angela Scott
Chief Executive

Jonathan Belford

Jonathan Belford, CPFA
Chief Officer – Finance

Mr John Cooke

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council.

16 September 2024

Statement of Responsibilities

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

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

I confirm that these Annual Accounts were approved for signature by the Pensions Committee at its meeting on 13 September 2024.

Signed on behalf of Aberdeen City Council.

Mr John Cooke

Councillor John Cooke
Pensions Committee Convener

16 September 2024

The Chief Officer - Finance responsibilities:

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

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

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

The Chief Officer - Finance has also:

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

Financial Position:

I certify that the Annual Accounts give a true and fair view of the financial position of the North East Scotland Pension Fund at the reporting date and the transactions of the Fund for the year ended 31 March 2024.

Jonathan Belford

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance

16 September 2024

Annual Governance Statement

Scope of Responsibility

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

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

In discharging this overall responsibility, the Aberdeen City Council Pensions Committee is responsible for putting in place proper arrangements for the governance of the Fund's affairs and facilitating the effective exercise of its functions, which includes arrangements for the management of risk. In addition, the Fund also has its own dedicated Risk Management Policy which forms part of the Risk Management Framework along with the Risk Register.

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.

The Fund relies on Aberdeen City Council as Administering Authority to provide guidance on anticorruption, counter fraud and whistleblowing through their internal policies.

Purpose of the Governance Framework for North East Scotland Pension Fund

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

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

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

A governance framework has been in place at Aberdeen City Council and North East Scotland Pension Fund during 2023/24 and up to the date of approval of the Annual Report and Accounts.

The Governance Framework

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

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

The systems include:

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

These arrangements also include:

- A training programme to ensure that Pensions Committee and Pension Board members develop the required level of knowledge and understanding of the LGPS;
- Identifying the objectives of the Fund in the Funding Strategy Statements, Statement of Investment Principles and Service Plan. Quarterly updates are presented to the Pensions Committee;
- Monitoring the achievement of objectives by the Pensions Committee and senior officers;
- A systematic approach to monitoring service performance by the Pensions Committee, senior officers and stakeholders including benchmarking of services;
- A clear statement of risk combined with effective risk management arrangements. A risk register is updated and regularly reported to the Pensions Committee;

- The Monitoring Officer reports on any non compliance with laws and regulations of which the Pensions Committee are made aware;
- Operating within clearly established investment guidelines defined by the Local Government Pension Scheme Investment Regulations and the Fund's Statement of Investment Principles;
- Compliance with the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme and the Myners Principles on investment;
- Appropriate investment custody arrangements with a Global Custodian and access to the custodian's extensive internal control framework;
- Monitoring of appointed fund managers and third party providers ensuring compliance within their management agreements and receipt of assurances from them on the adequacy of the internal financial control systems operated by them.

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

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

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

Review of Effectiveness

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

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

Management Assurance

As the administration of the Pension Fund is directly within the remit of the Chief Officer - Finance, assurance was sought from him in relation to the effectiveness of internal financial controls. These assurances provide the opportunity to highlight any weaknesses or areas of concern that should be taken account of. For 2023/24, 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 (2016). Furthermore, in relation to statutory postholders, the effectiveness of the Council's arrangements can be evidenced through the relationship that they have had throughout the year with the Council and its officers, being full members of the Corporate Management Team. In addition, the Chief Officer - Finance and the Monitoring Officer are generally in attendance to advise not only the Council at its meetings, but the Audit, Risk and Scrutiny Committee and the Pensions Committee.

The Audit, Risk and Scrutiny Committee remains responsible for ensuring the effectiveness of the Internal Audit function and considering reports prepared by the External Auditor. Further to this, the Pensions Committee has oversight of the internal and External Audit functions in respect of the Pension Fund.

Assurance from Internal Audit

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

Towards the end of the year, Internal Audit conducted a review of the Pension Fund's Investment Strategy with the outcome reported to the March 2024 Pensions Committee. No major issues or risks were reported.

The Chief Internal Auditor's annual report concluded that in his opinion the NESPF had an effective framework for Governance, Risk Management and Control. The Full Internal Audit report is on the Fund's website: www.nespf.org.uk.

At the Pensions Committee meeting on 22 March 2024, the 2024-27 three year Internal Audit plan was approved. These audits will focus on:

- 2024/25: Pension Fund Payroll
- 2025/26: Key Administrative Processes
- 2026/27: Complaints Handling

External Audit and Other External Scrutiny

The External Auditor, Audit Scotland, reports to the Pensions Committee on the year end financial audit and issues national performance audit reports.

Governance Compliance Statement

The LGPS regulations require administering authorities to measure their governance arrangements against the standards set out in the guidance. Where compliance does not meet the published standard, there is a requirement for administering authorities to set out any reasons for non compliance in their Governance Compliance Statement. We consider our current governance structure to be fully compliant with the requirements of the CIPFA and SOLACE Principles A ii) and B i) as key stakeholders are represented on the Pension Board, which was established to underpin the work of

the Pensions Committee. In 2023/24, there were no significant issues to highlight on the Governance Compliance Statement.

A copy of the Governance Compliance Statement is on our website: www.nespf.org.uk/about/policies-and-statements/.

Certification

It is our opinion that reasonable assurance can be placed upon the adequacy and effectiveness of systems of governance operated by Aberdeen City Council and the North East Scotland Pension Fund. The annual review demonstrates that the governance and internal control environment operated effectively during the 2023/24 financial year. On a quarterly basis, written updates regarding the Pension Fund's adherence to Investment Strategies and Performance are provided to the Pensions Committee.

Angela Scott

Angela Scott
Chief Executive

Jonathan Belford

Jonathan Belford, CPFA
Chief Officer – Finance

Mr John Cooke

Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

16 September 2024

Governance Compliance Statement

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

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
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 Committee.	Fully compliant
7. Scope	
a) That Administering Authorities have taken steps to bring wider Scheme issues within the scope of their governance arrangements.	Fully compliant
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

Full details on how the Fund remains compliant can be viewed in our Governance Compliance Statement available on our website:
www.nespf.org.uk/about/policies-and-statements/.

Angela Scott
Angela Scott
Chief Executive

Jonathan Belford
Jonathan Belford, CPFA
Chief Officer – Finance

Cllr John Cooke
Councillor John Cooke
Pensions Committee Convener

On behalf of Aberdeen City Council

16 September 2024

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Fund Account for the year ended 31 March 2024

This statement shows a summary of the income and expenditure that the Pension Fund has generated and consumed in delivering the LGPS. 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	2022/23	2023/24
		£'000	£'000
Dealings with members, employers and others directly involved in the Fund			
Employees' Contributions	3	(37,056)	(39,651)
Employers' Contributions	3	(124,477)	(135,877)
Transfer Values	4a	(2,656)	(3,415)
Other Income		(3)	(3)
Additions		(164,192)	(178,946)
Employers' Surplus Refunds/Exit Payments			
Employers' Surplus Refunds/Exit Payments	5	1,186	24,864
Retirement Pensions	6	140,887	157,148
Retirement Allowances	6	25,257	33,436
Death Gratuities	6	5,845	7,741
Contributions Refunded	7	583	499
Transfer Values	7	3,223	7,804
Withdrawals		176,981	231,492
Net (Additions)/Withdrawals from dealings with members			
Net (Additions)/Withdrawals from dealings with members		12,789	52,546
Management Expenses	8a	21,468	26,024
Net (Additions)/Withdrawals including Fund Management Expenses		34,257	78,570
Return on Investment			
Investment Income	9	(83,274)	(87,224)
Taxes on Income	9	552	530
Profits and Losses on Disposal of Investments and Changes in Market Value of Investments	10	425,554	(445,922)
Net Return on Investments		342,832	(532,616)
Transfer In of ACCTF at Market Value			
Transfer In of ACCTF at Market Value	4b	(290,035)	0
Revaluation of Insurance Buy In Contract			
Revaluation of Insurance Buy In Contract	18c	35,062	20,924
Net (Increase)/Decrease in the Net Assets available for Benefits during the year			
Net (Increase)/Decrease in the Net Assets available for Benefits during the year		122,116	(433,122)
Opening Net Assets of the Fund			
Opening Net Assets of the Fund		(5,925,893)	(5,803,777)
Closing Net Assets of the Fund			
Closing Net Assets of the Fund		(5,803,777)	(6,236,899)

NORTH EAST SCOTLAND PENSION FUND ACCOUNTS
Net Assets Statement as at 31 March 2024

This statement provides a breakdown of type and value of all Net Assets at the year end.

	Notes	2022/23 £'000	2023/24 £'000
Investment Assets			
Bonds		46,218	0
Equities		2,161,917	2,431,401
Pooled Funds	11	2,230,604	2,516,109
Direct Property	15	367,200	381,000
Private Equity		480,612	500,286
Private Debt		155,026	129,789
Funds held by Investment Managers		74,044	137,659
ACC Loans Fund Deposit	21	145,610	41,150
Investment Income Due		2,024	2,543
Investment Sales Amount Receivable		161	16,520
Total Investment Assets		<u>5,663,416</u>	<u>6,156,457</u>
Investment Liabilities			
Investment Purchases Amount Payable		0	(27,072)
Net Investment Assets		<u>5,663,416</u>	<u>6,129,385</u>
Insurance Buy In Contract	20a	158,000	127,000
Life Time Tax Allowance	20a	189	174
Long Term Assets		<u>158,189</u>	<u>127,174</u>
Current Assets	20b	16,452	16,607
Current Liabilities	20c	(34,280)	(36,267)
Net Current Assets/(Liabilities)		<u>(17,828)</u>	<u>(19,660)</u>
Closing Net Assets of the Fund		<u>5,803,777</u>	<u>6,236,899</u>

The unaudited accounts were authorised on 21 June 2024 and the audited accounts were authorised for issue by Jonathan Belford on 13 September 2024.

Jonathan Belford

Jonathan Belford, CPFA
Aberdeen City Council, Chief Officer – Finance
16 September 2024

NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

Note 1: Accounting Policies

The North East Scotland Pension Fund's Accounts have been prepared in accordance with the Code of Practice on Local Authority accounting in the UK (the Code).

The Annual Accounts summarise the Fund's transactions for the 2023/24 financial year and its position at year end as at 31 March 2024.

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

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

Contribution Income

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

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

Transfers to and from other Schemes

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

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

Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accruals basis.

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

Fund Account - Expenses

Benefits Payable

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

Taxation

The 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's policy.

b.) Investment Management Expenses

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

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

In addition, the Fund has negotiated performance related fees with several of its investment managers. Performance related fees were £5,618,140 in 2023/24 (£4,586,458 2022/23).

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 2024 and are determined as follows:

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

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

Derivatives

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

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

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

Cash

Cash comprises of cash in hand and demand deposits.

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

Financial Liabilities

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

Actuarial Present Value of Promised Retirement Benefits

The actuarial present value of promised retirement benefits of the Fund is assessed on a quarterly basis by the Scheme Actuary and is in accordance with the requirements of International Accounting Standard 19 (IAS 19) and relevant actuarial standards.

As permitted under IAS 26, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the Net Assets Statement (Note 2) together with the full Statement by the Consulting Actuary is 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 Fund, 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. AVCs are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the Annual Accounts however they are detailed in a Note to the Accounts.

Critical Judgements in applying Accounting Policies

Unquoted Private Equity/Debt and Infrastructure Investments

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

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

The value of unquoted investments at 31 March 2024 was £1,084,758,078 (31 March 2023 £925,701,847).

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 Scheme Actuary. These values are calculated in line with IAS 19 assumptions and comply with requirements of IAS 26. However, the results are subject to significant variances based on changes to the underlying assumptions.

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

Insurance Buy In Contract

In 2020/21, a bulk annuity insurance buy in contract was purchased with Rothesay Life Plc. The insurer underwrites the risk of meeting the liabilities of a specified group of pensioners on the former Aberdeen City Council Transport Fund's pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group as long as they or their dependants are entitled to a pension.

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

Events after the Reporting Period

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

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

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

Changes in Accounting Policies

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

Accounting Standards That Have Been Issued but Not Yet Adopted

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

- **IFRS 16 Leases** - This standard replaces IAS 17 and removes the operating classification for leases, eliminating the ability for organisations to keep operating leases off balance sheet, by reporting them as a note to the accounts. With the new standard all leases will be considered finance leases unless they meet the

specific exception criteria. Implementation of this standard is from 1 April 2024. This amendment is not expected to have an impact on the Financial Statements.

- **Lease Liability in a Sale and Leaseback (Amendments to IFRS 16)** - The amendments to IFRS 16 add subsequent measurement requirements for sale and leaseback transactions. This amendment is not expected to have a significant impact on the Financial Statements.

- **Classification of Liabilities as Current or Non Current (Amendments to IAS 1)** - The amendments are:

Specify that an entity's right to defer settlement must exist at the end of the reporting period;

Clarify that classification is unaffected by management's intentions or expectations about whether the entity will exercise its right to defer settlement;

Clarify how lending conditions affect classification; and

Clarify requirements for classifying liabilities an entity will or may settle by issuing its own equity instruments.

This amendment is not expected to have a significant impact on the Financial Statements.

- **Non-current Liabilities with Covenants (Amendments to IAS 1)** - The amendments improved the information an entity provides when its right to defer settlement of a liability for at least 12 months is subject to compliance with covenants.

This amendment is not expected to have a significant impact on the Financial Statements.

- **International Tax Reform: Pillar Two Model Rules (Amendments to IAS 12)** - Pillar Two applies to multinational groups with a minimum level of turnover. The amendments are:

A temporary exception to the requirements to recognise and disclose information about deferred tax assets and liabilities related to Pillar Two income taxes; and
Targeted disclosure requirements for affected entities.

These amendments are not likely to affect Pension Fund transactions.

- **Supplier Finance Arrangements (Amendments to IAS 7 and IFRS 7)** - The amendments require an entity to provide additional disclosures about its supplier finance arrangements. The new requirements aim to provide users of financial statements with information that enables them to:
Assess how supplier finance arrangements affect an entity's liabilities and cash flows; and

Understand the effect of supplier finance arrangements on an entity's exposure to liquidity risk and how the entity might be affected if the arrangements were no longer available.

This amendment is not expected to have a material impact on the Financial Statements.

Note 2: Actuarial Valuation Report

An Actuarial Report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2023.

Information from the 2023 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£5,804,000,000
Liabilities	£4,614,000,000
Surplus	£1,190,000,000

Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities	126%
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Achieving the Solvency Funding Target

The funding objective as set out in the Funding Strategy Statement (FSS) is to achieve and maintain a solvency funding level of 100% of liabilities (**the solvency funding target**). In line with the FSS, the Fund has determined a contribution requirement for each employer taking into account the offset of any surplus held or the recovery of any deficit due. The average spread/recovery period adopted by the Fund is 13 years.

The valuation determined that the average employer cost of providing members benefits across the Fund was 20.2% (the Primary contribution rate.) By spreading the surplus over 13 years the Secondary contribution rate for the whole Fund is -6.2% meaning that the average employer contribution rate is 14.0% of pensionable pay.

In practice, each employer's position is assessed separately, details of which can be found in the 2023 Actuarial Valuation report. This sets out the contributions for each employer over the 3 year period to 31 March 2027.

Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the 3 year period to 31 March 2027. The rates have been determined in accordance with the FSS. Any adjustments made to the rates proposed by the Scheme Actuary were made as a result of the consultation carried out by the Fund and were made in line with the approaches agreed with the Scheme Actuary. Contribution requirements for the period from 1 April 2027 onwards will be revised as part

of the next actuarial valuation as at 31 March 2026 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

Assumptions used to Calculate Funding Target

Discount Rate (Past Service)	4.60% p.a.
Discount Rate (Future Service)	4.10% p.a.
Assumed Long Term Price Inflation (CPI)	2.60% p.a.
Salary Increases – Long Term	4.10% p.a.
Pension Increases in Payment	2.60% p.a.

The 2023 Actuarial Report and the NESPF Funding Strategy Statement are available from the office of the Executive Director Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

Actuarial Statement

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 26 (IAS 26) assumptions, is estimated to be £4,706m (2023 £4,598m).

The following factors that have had a key impact on the actuarial gains shown for the year to 31 March 2024:

- A change in financial assumptions including an increase in the discount rate and a slight increase in corporate bond yields has resulted in a small reduction in liabilities;
- The demographic assumptions have been changed to reflect the new data available from the Continuous Mortality Investigation (CMI_2022). This has had the effect of reducing the liabilities;
- Allowances for the impact of the 6.7% pension increase awarded in April 2024 have been made within the calculation. Additionally, CPI since September 2023 has been included. Since current inflation is higher than the long term inflation assumptions this has increased the value of the liabilities;
- Following the completion of the 2023 valuation the actual member experience from the previous valuation in 2020 has fed into the calculation.

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

The full statement by the Scheme Actuary is in Appendix 1.

Note 3: Contributions Receivable

By Category	2022/23	2023/24
	£'000	£'000
Employees' Normal Contributions	37,056	39,651
Employers' Normal Contributions	121,677	132,815
Employers' Deficit Recovery Contributions	2,800	3,062
Total Employers' Contributions	124,477	135,877
Total	161,533	175,528

By Authority	2022/23	2023/24
	£'000	£'000
Administering Authority	42,834	47,980
Scheduled Bodies	102,012	111,570
Admitted Bodies	16,687	15,978
Total	161,533	175,528

Note 4a: Transfers In from other Pension Funds

	2022/23	2023/24
	£'000	£'000
Individual Transfers	2,656	3,415
Total	2,656	3,415

Note 4b: Analysis of Transfer Value from Aberdeen City Council Transport Fund

	2022/23	2023/24
	£'000	£'000
Net Investment Assets	85,414	0
Long Term Assets	202,216	0
Bank Accounts	3,230	0
Current Assets	87	0
Current Liabilities	(912)	0
Total	290,035	0

Note 5: Employers' Surplus Refunds/Exit Payments

	2022/23	2023/24
	£'000	£'000
Employers' Surplus Refunds/Exit Payments*	1,186	24,864
Total	1,186	24,864

*Two employers terminated their admission agreements with the Fund in each of the above years. Surplus refunds/exit payments were calculated by the Scheme Actuary.

Note 6: Benefits Payable

By Category	2022/23	2023/24
	£'000	£'000
Pensions	140,887	157,148
Commutation and Lump Sum Retirement Benefits	25,257	33,436
Lump Sum Death Benefits	5,845	7,741
Total	171,989	198,325

By Authority	2022/23	2023/24
	£'000	£'000
Administering Authority	45,710	50,137
Scheduled Bodies	102,687	112,004
Admitted Bodies	23,592	36,184
Total	171,989	198,325

Note 7: Payment to and on Account of Leavers

	2022/23	2023/24
	£'000	£'000
Refunds to Members Leaving Service	584	503
Payments for Members Joining State Scheme	(1)	(4)
Individual Transfers	3,223	7,804
Total	3,806	8,303

Note 8a: Management Expenses

	2022/23	2023/24
	£'000	£'000
Pension Fund Staffing Costs – Administration	1,595	1,787
Information Technology	474	556
Supplies & Services	161	192
Accommodation	714	560
Printing and Publications	14	18
Administration Expenses Total	2,958	3,113
Pension Fund Staffing Costs – Investment	232	262
Pension Fund Committee	2	2
Pension Board	3	4
External Audit Fee	45	51
Internal Audit Fee	11	12
Actuarial Fees	287	330
General Expenses	163	211
Oversight and Governance Expenses Total	743	872
Investment Management*	11,328	14,395
Performance Fees*	4,586	5,618
Direct Operating Property Expenses	793	761
Transaction Costs	921	1,095
Custody Fees	139	170
Investment Management Expenses Total	17,767	22,039
Management Expenses Grand Total	21,468	26,024

*In accordance with CIPFA guidance, the Fund treats those fees deducted from private equity/debt investments as Investment Management or Performance Fees. See the table below for a breakdown by asset class.

Quantifying these costs involves requesting the relevant fund managers for information, not all of which can be independently verified. Sometimes, fee estimates are required and there is a risk that the amount is incorrectly stated. However, as costs are offset by a corresponding adjustment to the change in market value of investments, any inaccuracy in the estimate will not change the Fund's net movement for the year.

Note 8b: Investment Management Expenses by Asset Class

2023/24	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Bonds	81				81
Equities	4,804	1,820		1,095	7,719
Pooled Funds	2,264	950			3,214
Property	1,077		761		1,838
Private Equity	3,525	1,767			5,292
Private Debt	2,644	1,081			3,725
Subtotal	14,395	5,618	761	1,095	21,869
				Custody Fees	170
				Grand Total	22,039

2022/23	Management Fees	Performance Fees	Direct Property Expenses	Transaction Costs	Total
	£'000	£'000	£'000	£'000	£'000
Bonds	75				75
Equities	4,335	2,034		837	7,206
Pooled Funds	451	1,188		84	1,723
Property	1,222		793		2,015
Private Equity	3,688	417			4,105
Private Debt	1,557	947			2,504
Subtotal	11,328	4,586	793	921	17,628
				Custody Fees	139
				Grand Total	17,767

Note 8c: Analysis of Transaction Costs

Commission £'000	Fees/ Tax £'000	2022/23 Total £'000	Asset Type	Commission £'000	Fees/ Tax £'000	2023/24 Total £'000
324	513	837	Equities	384	711	1,095
0	84	84	Pooled Funds	0	0	0
324	597	921	Total	384	711	1,095

Note 9: Investment Income

	2022/23	2023/24
	£'000	£'000
Bonds	257	186
Equity Dividends	19,978	24,544
Property Rental Income	18,862	20,333
Interest on Cash Deposit	4,790	8,911
Pooled Funds	21,894	20,704
Private Equity	3,645	585
Private Debt	10,139	12,206
Other (including P/L from Currency & Derivatives)	3,709	(245)
Total	83,274	87,224
Tax		
Withholding Tax – Equities	(552)	(530)
Total Tax	(552)	(530)
Net Total	82,722	86,694

Note 10: Investment Assets

Reconciliation of Movements in Investments and Derivatives:

	Market Value 31 March 2023	Purchases	Sales	Change in Market Value	Market Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000
Bonds	46,218	0	(41,889)	(4,329)	0
Equities	2,161,917	824,687	(894,245)	339,042	2,431,401
Pooled Funds	2,230,604	169,479	(30,116)	146,142	2,516,109
Property	367,200	40,297	(12,012)	(14,485)	381,000
Private Equity	480,612	75,204	(38,532)	(16,998)	500,286
Private Debt	155,026	(7,581)	(14,206)	(3,450)	129,789
	5,441,577	1,102,086	(1,031,000)	445,922	5,958,585
Other					
Cash	219,654				178,809
Investment Income Due	2,024				2,543
Investment Sales Amount Receivable	161				16,520
Investment Purchases Amount Payable	0				(27,072)
Net Investment Assets	5,663,416				6,129,385

Reconciliation of Movements in Investment and Derivatives (continued):

	Market Value 31 March 2022	Purchases	Sales	Change in Market Value	Market Value 31 March 2023
	£'000	£'000	£'000	£'000	£'000
Bonds	0	63,010	(0)	(16,792)	46,218
Equities	2,319,608	641,102	(644,885)	(153,908)	2,161,917
Pooled Funds	2,347,495	197,477	(105,094)	(209,274)	2,230,604
Property	427,375	4,742	(3,211)	(61,706)	367,200
Private Equity	518,689	55,748	(106,805)	12,980	480,612
Private Debt	143,106	11,299	(2,525)	3,146	155,026
	5,756,273	973,378	(862,520)	(425,554)	5,441,577
Other					
Cash	196,372				219,654
Investment Income Due	2,264				2,024
Investment Sales Amount Receivable	7,155				161
Investment Purchases Amount Payable	(14,395)				0
Net Investment Assets	5,947,669				5,663,416

Note 11: Analysis of Investments

	2022/23	2023/24
	£'000	£'000
Bonds	46,218	0
Equities - UK	399,957	392,251
Equities - Overseas	1,761,960	2,039,150
Equities	2,161,917	2,431,401
Pooled Funds Breakdown:		
Bonds	855,510	840,348
Equities	965,698	1,125,612
Infrastructure - Unit Trust	119,333	95,466
Infrastructure - Limited Partnership	290,063	454,683
Pooled Funds	2,230,604	2,516,109
Direct Property	367,200	381,000
Private Equity	480,612	500,286
Private Debt	155,026	129,789
Other Investments	1,002,838	1,011,075
Funds held by Investment Managers	74,044	137,659
ACC Loans Fund Deposit	145,610	41,150
Investment Income Due	2,024	2,543
Investment Sales Amount Receivable	161	16,520
Other Balances	221,839	197,872
Investment Assets Total	5,663,416	6,156,457
Investment Liabilities		
Investment Purchases Amounts Payable	(0)	(27,072)
Investment Liabilities Total	(0)	(27,072)
Net Investment Assets	5,663,416	6,129,385

Note 12: Analysis of Derivatives

Futures

There were no outstanding exchange traded future contracts as at 31 March 2024.

Forward Foreign Currency

There were no outstanding forward foreign currency contracts as at 31 March 2024.

Note 13: Investments Analysed by Fund Manager

	31 March 2023		31 March 2024	
	£'000	%	£'000	%
Investment Assets				
State Street Global Advisors	1,326,129	22.9	1,468,479	23.5
Baillie Gifford	1,189,218	20.5	1,291,963	20.7
BlackRock Asset Management	1,009,413	17.4	1,161,225	18.6
BlackRock Renewable Power III	41,303	0.7	62,552	1.0
Abrdn (Property)	380,057	6.5	391,347	6.3
Abrdn (Property Residential)	29,525	0.5	28,123	0.5
HarbourVest	326,824	5.6	330,500	5.3
ACC Loans Fund Deposit	145,610	2.5	41,150	0.7
Global Custodian	26,416	0.5	97,404	1.5
Partners Group	47,314	0.8	35,815	0.6
Maven Capital	407	0.0	22	0.0
Unigestion	56,938	1.0	81,411	1.3
Russell Multi Asset Credit	105,705	1.8	116,939	1.9
Aviva Infrastructure	119,332	2.1	95,466	1.5
Hermes Infrastructure	96,176	1.7	82,651	1.3
Alcentra	70,757	1.2	62,133	1.0
Hayfin Direct Lending	84,269	1.5	67,656	1.1
Insight Credit	366,558	6.3	380,542	6.1
Allianz Home Equity	19,609	0.3	24,420	0.4
IFM Global Infrastructure	152,707	2.6	309,587	5.0
Schroders	69,149	1.2	0	0.0
	5,663,416	97.6	6,129,385	98.3
Net Long and Current Assets				
Bank Account	938	0.0	10	0.0
Long Term and Current Debtors Less Creditors	139,423	2.4	107,504	1.7
Net Assets	5,803,777	100.0	6,236,899	100.0

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

Security	Market Value 31 March 2023	% of Net Investment Assets	Market Value 31 March 2024	% of Net Investment Assets
	£'000		£'000	
MPF International Equity Index Pooled Fund*	489,120	8.64	611,736	9.98
MPF UK Equity Pooled Fund*	476,578	8.42	513,875	8.38
Insight Investment Mgt Global Funds*	366,558	6.47	380,542	6.21
MPF UK Index Linked Gilts*	360,431	6.36	342,868	5.59
IFM Global Infrastructure	152,692	2.70	308,067	5.03
HarbourVest Tranche L	297,332	5.25	265,487	4.33

*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 14: Stock Lending

	31 March 2023	Collateral Percentage	31 March 2024	Collateral Percentage
	£'000		£'000	
Stock on Loan				
Equities	421,438		537,669	
Total Exposure	421,438		537,669	
Total Collateral	444,759	106%	573,243	107%

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

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

Note 15: Property Holdings

	2022/23	2023/24
	£'000	£'000
Opening Balance	427,375	367,200
Purchases	0	35,150
Construction	4,557	5,092
Subsequent Expenditure	185	55
Disposals	(3,211)	(12,012)
Net Increase/(Decrease) in Market Value	(61,706)	(14,485)
Closing Balance	367,200	381,000

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

The valuation has been prepared against a backdrop where valuations have stabilised and there is a more promising outlook as we move into the rest of 2024. Therefore, the valuation is not reported as being subject to 'material valuation uncertainty' as defined in the RICS Valuation – Global Standards.

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

	2022/23	2023/24
	£'000	£'000
Within One Year	17,846	19,304
Between One Year and Five Years	60,388	60,591
Later than Five Years	80,089	88,631
Total	158,323	168,526

In accordance with IAS 17, the above table has been presented using the 'break date' of the lease agreements.

Based upon the Fund's own historic experience but also on similar properties received from the Fund's property letting agents, the above disclosure for 2023-24 has seen no adjustment being required for a credit loss allowance.

Note 16: Financial and Non Financial Instruments

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

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

31 March 2023				31 March 2024		
Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost		Designated as Fair Value through Profit & Loss	Assets at Amortised Cost	Financial Liabilities at Amortised Cost
£'000	£'000	£'000		£'000	£'000	£'000
			Financial Assets			
46,218			Bonds	0		
2,161,917			Equities	2,431,401		
2,230,604			Pooled Funds	2,516,109		
480,612			Private Equity	500,286		
155,026			Private Debt	129,789		
	219,654		Cash		178,809	
	2,185		Other Investment Balances		19,063	
	174,641		Debtors		143,781	
5,074,377	396,480		Subtotal	5,577,585	341,653	
			Financial Liabilities			
		(0)	Other Investment Balances			(27,072)
		(34,280)	Creditors			(36,267)
		(34,280)				(63,339)
5,074,377	396,480	(34,280)	Financial Instruments Total	5,577,585	341,653	(63,339)
			Non Financial Instruments			
367,200			Property	381,000		
5,441,577	396,480	(34,280)		5,958,585	341,653	(63,339)
		5,803,777	Net Assets of the Fund			6,236,899

Note 17: Net Gains and Losses on Financial and Non Financial Instruments

31 March 2023		31 March 2024
£'000	Financial Assets	£'000
(363,848)	Fair Value through Profit and Loss	460,407
	Financial Liabilities	
0	Fair Value through Profit and Loss	0
(363,848)	Net Gains and Losses on Financial Instruments	460,407
	Non Financial Instruments	
(61,706)	Fair Value through Profit and Loss	(14,485)
(425,554)	Net Gains and Losses of the Fund	445,922

Note 18: Valuation of Financial and Non Financial Instruments carried at Fair Value

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

Level 1

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

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

Level 2

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

Level 3

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

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

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

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

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

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

Note 18a: Fair Value – Basis of Valuation

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

Description of Asset	Valuation Hierarchy	Basis of Valuation	Observable and Unobservable Inputs	Key Sensitivities Affecting the Valuations Provided
Market Quoted Investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not required	Not required
Quoted Bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not required	Not required
Exchange Traded Pooled Investments	Level 1	Closing bid value on published exchanges	Not required	Not required
Forward Foreign Exchange Derivatives	Level 2	Market forward exchange rates at the year end	Exchange rate risk	Not required
Pooled Investments – Overseas Unit Trusts and Property Funds	Level 2	Closing bid price where bid and offer prices are published. Closing single price where single price published	NAV based pricing set on a forward pricing basis	Not required
Freehold and Leasehold Properties	Level 3	Valued at fair value at the year end using the investment method of valuation by Valuers under the supervision of Tom Priest MRICS and Claire Magowan MRICS of Savills	Existing lease terms and rentals Independent market research Nature of Tendencies Covenant Strength for existing	

		in accordance with the <i>RICS Valuation Professional Standard</i>	tenants Assumed vacancy levels Estimated rental growth Discount rate	
Unquoted Equity/Debt & Infrastructure	Level 3	Comparable valuation of similar companies in accordance with <i>International Private Equity and Venture Capital Valuation Guidelines (2018)</i>	Earnings Before Interest, Taxes, Depreciation, and Amortisation (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 Accounts

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2024	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,492,827		1,084,758	5,577,585
Non Financial Assets at Fair Value through Profit and Loss			381,000	381,000
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,492,827	0	1,465,758	5,958,585

	Quoted Market Price	Using Observable Inputs	With Significant Unobservable Inputs	
Values at 31 March 2023	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
Financial Assets at Fair Value through Profit and Loss	4,148,676		925,701	5,074,377
Non Financial Assets at Fair Value through Profit and Loss			367,200	367,200
Financial Liabilities at Fair Value through Profit and Loss	0			0
Net Investment Assets (Fair Value)	4,148,676	0	1,292,901	5,441,577

Note 18b: Transfers between Levels

There were no transfers between levels 1 and 2.

However, in 2023/24 £381m (£367m 2022/23) of Direct Property was transferred between levels 2 and 3, as a result of the basis of valuation used by the Fund's valuer.

Note 18c: Reconciliation of Fair Value Measurements within Level 3

	Market Value 31 March 2023	Purchases during the year & Derivatives Payments	Sales during the year & Derivative Receipts	Realised Gains & Losses	Unrealised Gains & Losses (a)	Market Value 31 March 2024
	£'000	£'000	£'000	£'000	£'000	£'000
Direct Property	367,200	40,297	(12,012)	(5,155)	(9,330)	381,000
Infrastructure – Limited Partnership	290,063	168,479	(3,929)	3,929	(3,859)	454,683
Private Equity	480,612	75,204	(38,532)	22,419	(39,417)	500,286
Private Debt	155,026	(7,581)	(14,206)	3,726	(7,176)	129,789
Total	1,292,901	276,399	(68,679)	24,919	(59,782)	1,465,758

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

Bulk Annuity Insurance Buy In Contract

The transfer of assets from the ACCTF included a Bulk Annuity Insurance Buy In Contract with Rothesay Life Plc. The insurance cover provides that the insurer underwrites the risk for meeting the liabilities of a specified group of pensioners on the pensions payroll as at the inception date 19 November 2020. The insurer will pay the cost of the monthly pension payments for this group so long as they or their dependants are entitled to a pension.

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

	Total
	£'000
Transfer from ACCTF of Insurance Buy In on 1 April 2023	158,000
Level Pensions Paid by Insurer	(10,076)
Actuarial Revaluation	(20,924)
Closing Market Value as at 31 March 2024	127,000

Note 18d: Sensitivity of Assets Valued at Level 3

Having analysed historical data, current market trends and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges and has set out below the consequent potential impact on the closing value of investments held at 31 March 2024.

	Assessed Valuation Range (+/-)	Value at 31 March 2024	Value on Increase	Value on Decrease
		£'000	£'000	£'000
Direct Property	13%	381,000	430,530	331,470
Infrastructure – Limited Partnership	26%	454,683	572,901	336,465
Private Equity	26%	500,286	630,360	370,212
Private Debt	26%	129,789	163,534	96,044
Total		1,465,758	1,797,325	1,134,191

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

		Valuation 31 March 2024	Valuation Increase	Valuation Decrease
Change in Assumptions	Adjustment	£m	£m	£m
Discount Rate Adjustment	(-/+) 0.5%	127	133	122
Life Expectancy Adjustment	(+/-) 1 Year	127	132	122

It is important to note that the above are sensitivities rather than being 'upper or lower bounds' on the value of the policy.

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

Note 19: Risk arising from Financial and Non Financial Instruments

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

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

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

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

Market Risk

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

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

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

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

Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year and in consultation with the Fund's Investment Adviser, the Fund has determined that the following movements in market price risk are possible for the 2023/24 reporting period.

Asset Type	Potential Market Movements (+/-)
UK Bonds	7.5%
Overseas Bonds	7.5%
UK Equities	16.0%
Overseas Equities	20.5%
Pooled – Diversified Growth Fund	12.5%
Infrastructure - Other	13.0%
Infrastructure - Limited Partnership	26.0%
Private Equity	26.0%
Private Debt	26.0%
Property	13.0%
Cash	1.5%

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 Investment Adviser's most recent review. This analysis assumes that all other variables, particularly foreign currency exchange rates and interest rates, remain the same.

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

Asset Type	Value as at 31 March 2024	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	342,867	7.5	368,582	317,152
Overseas Bonds	497,481	7.5	534,792	460,170
UK Equities	906,127	16.0	1,025,438	742,558
Overseas Equities	2,650,886	20.5	3,220,983	2,125,047
Infrastructure - Other	95,466	13.0	107,877	83,055
Infrastructure - Limited Partnership	454,683	26.0	572,901	336,465
Private Equity	500,286	26.0	630,360	370,212
Private Debt	129,789	26.0	163,534	96,044
Total	5,577,585		6,624,467	4,530,703

Asset Type	Value as at 31 March 2023	% Change	Value on Increase	Value on Decrease
	£'000		£'000	£'000
UK Bonds	429,465	8.0	463,822	395,108
Overseas Bonds	472,263	8.0	510,044	434,482
UK Equities	876,535	16.3	1,019,410	733,660
Overseas Equities	2,251,080	20.5	2,712,551	1,789,609
Infrastructure - Other	119,333	13.0	134,846	103,820
Infrastructure - Limited Partnership	290,063	26.0	365,479	214,647
Private Equity	480,612	26.0	605,571	355,653
Private Debt	155,026	26.0	195,333	114,719
Total	5,074,377		6,007,056	4,141,698

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 2023 and 31 March 2024 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 2023	As at 31 March 2024
	£'000	£'000
Cash and Cash Equivalents	219,654	178,809
Cash Balances	938	10
Bonds	901,728	840,348
Total	1,122,320	1,019,167

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 BPS from one year to the next and experience suggests that such movements are likely.

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

Exposure to Interest Rate Risk	Asset Values as at 31 March 2024	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	178,809	180,597	177,021
Cash Balances	10	10	10
Bonds	840,348	848,751	831,945
Total	1,019,167	1,029,358	1,008,976

Exposure to Interest Rate Risk	Asset Values as at 31 March 2023	Impact	
		+ 1%	- 1%
	£'000	£'000	£'000
Cash and Cash Equivalents	219,654	221,851	217,457
Cash Balances	938	947	929
Bonds	901,728	910,745	892,711
Total	1,122,320	1,133,543	1,111,097

Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2024 and as at the previous year end:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Asset Value as at 31 March 2024
	£'000	£'000
Overseas Quoted Securities	866,225	966,194
Overseas Unquoted Securities	627,402	640,063
Overseas Unit Trusts	961,383	1,109,217
Total Overseas Assets	2,455,010	2,715,474

Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund's investment advisers, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10.4%.

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

A 10.4% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the Net Assets to pay benefits as shown below:

Assets Exposed to Currency Risk	Asset Value as at 31 March 2024	Potential Market Movement	
		+10.4%	-10.4%
	£'000	£'000	£'000
Overseas Quoted Securities	966,194	1,066,678	865,710
Overseas Unquoted Securities	640,063	706,630	573,496
Overseas Unit Trust	1,109,217	1,224,576	993,858
Total	2,715,474	2,997,884	2,433,064

Assets Exposed to Currency Risk	Asset Value as at 31 March 2023	Potential Market Movement	
		+10.1%	-10.1%
	£'000	£'000	£'000
Overseas Quoted Securities	866,225	953,714	778,736
Overseas Unquoted Securities	627,402	690,770	564,034
Overseas Unit Trust	961,383	1,058,483	864,283
Total	2,455,010	2,702,967	2,207,053

Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Scheme Investment Regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Fund's 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 2024 was £178,819,000 (31 March 2023 was £220,592,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2023 £'000	Balance as at 31 March 2024 £'000
Liquidity Funds			
HSBC Liquidity Funds	AA-	56,247	115,566
Bank Deposit Accounts			
ACC Loans Fund Deposit	N/A	145,610	41,150
HSBC	AA-	17,797	22,093
Subtotal		219,654	178,809
Bank Current Accounts			
HSBC Bank	AA-	927	0
Virgin Money*	A-	11	10
		938	10
Total		220,592	178,819

*Clydesdale Bank trading as Virgin Money.

Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert into cash. As at 31 March 2024 the value of illiquid assets was £1,465,758,078 which represented 23.5% of the Total Net Assets of the Fund (31 March 2023 £1,292,901,847 which represented 22.3% of the Total Net Assets of the Fund).

Note 20a: Long Term Assets

	31 March 2023	31 March 2024
	£'000	£'000
Insurance Buy In Contract	158,000	127,000
Life Time Tax Allowance	189	174
Total Long Term Assets	158,189	127,174

Note 20b: Current Assets

	31 March 2023	31 March 2024
	£'000	£'000
Employees' Contributions due	3,023	3,215
Employers' Contributions due	8,853	9,526
Sundry Debtors	3,638	3,856
Subtotal	15,514	16,597
Bank	938	10
Total Current Assets	16,452	16,607

Note 20c: Current Liabilities

	31 March 2023	31 March 2024
	£'000	£'000
Sundry Creditors	24,862	28,154
Benefits Payable	9,418	8,113
Total Current Liabilities	34,280	36,267

Note 21: Related Party Transactions

Both the UK and Scottish Governments have a significant influence over the general operations of the Fund. They are responsible for providing the statutory framework within which the Fund operates and prescribes the terms of benefit payments to the Fund's membership. Members' benefit payments are shown in Notes 6 and 7.

The Fund's related party transactions with the Administering Authority, i.e. Aberdeen City Council, are:

	31 March 2023	31 March 2024
	£'000	£'000
Income:		
Contributions Receivable	39,964	43,031
Loans Fund Interest	1,767	5,234
Excess Pensions	2,355	2,522
Strain on Fund	515	2,426
Expenditure:		
Central Support Services	2,045	2,267
Accommodation – 2 Marischal Square	393	387
Debtors:		
Contributions Due	3,430	3,576
Excess Pensions Due	325	347
Creditors:		
Central Support Services Payable	571	635
Cash Balances:		
ACC Loans Fund Deposit	145,610	41,150

Audit Scotland are the appointed External Auditors of the Fund and Aberdeen City Council. They attend the Pensions Committee and Pension Board meetings. Their fee is disclosed in Note 8a.

Note 22: Key Management Personnel

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

		Accrued Pension 2022/23	Accrued Pension 2023/24
		£'000	£'000
Steven Whyte	Director of Resources	52	56
Jonathan Belford	Chief Officer - Finance	45	49

Steven Whyte retired from his position on 31/03/2024.

Governance

As at 31 March 2024, 7 members of the Pensions Committee and 8 members of the Pension Board were active members or pensioners of the North East Scotland Pension Fund.

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

Conflicts of Interest are managed in accordance with the Conflicts of Interest Policy or Codes of Conduct for Councillors or Employees. A list of Declared Interests are disclosed in Appendix 3.

The Fund's related party transactions with those declared interests are:

2023/24	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	686	23	55
Robert Gordon University	7,533	57	619

2022/23	Income		Debtors
	Contributions Receivable	Excess Pensions	Contributions Due
	£'000	£'000	£'000
Grampian Valuation Joint Board	647	23	57
Robert Gordon University	6,878	57	640

For the above related parties there were no expenditure transactions and no outstanding creditor balances for both years.

Note 23: Contractual Commitments as at 31 March 2024

As at 31 March 2024 the NESPF had contractual commitment in respect of Private Equity/Debt and Global Real Estate portfolios. The undrawn commitments are outstanding call payments £430.249m (£589.846m 31 March 2023):

	Contractual Commitments	Undrawn Commitments
	£'000	£'000
HarbourVest	607,367	276,975
Partners Group	86,348	19,235
Maven (SLF)	6,308	22
Unigestion	141,065	67,865
AAM Residential Property	30,000	1,249
Hermes Infrastructure	100,000	9,448
Alcentra EDL	85,494	15,398
Hayfin DLF	85,494	15,317
Blackrock Renewable	79,161	24,740
Allianz Home Equity	25,000	0
IFM Global Infrastructure	300,000	0
Total	1,546,237	430,249

Note 24: Additional Voluntary Contributions (AVC)

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

Members of the North East Scotland Pension Fund are included in the following tables.

The amount of Additional Voluntary Contributions paid by members during the year is shown as income in the table below:

2022/23	Income (AVCs Paid by Members)	2023/24
£'000		£'000
7	Standard Life	9
3,395	Prudential	4,465

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 2023		31 March 2024
£'000		£'000
1,043	Standard Life	983
25,841	Prudential	27,254

Note 25: Contingent Assets/Liabilities

The North East Scotland Pension Fund currently holds one cash bond in respect of the participating employers within the fund. The bond guards against the possibility of being unable to recover pension liabilities from this Admission Body should they terminate their participation of the Scheme. A high level review of the bond requirements for the participating employers within the Fund was undertaken by the Scheme Actuary in 2024 following the completion of the triennial valuation to determine if any bonds needed to be put into place for the protection of the Scheme guarantors and the other participating employers as a whole. As a result of the bond review and the positive funding position it was determined that no amendments needed to be made at this time.

The pension liabilities for all Transferee Admission Bodies are guaranteed by the originating employer as per Regulation 61(5)(a) of the Local Government Pension Scheme (Scotland) Regulations 2018. In total, the Fund has secured guarantees for 20 Admission Bodies currently participating in the Scheme.

NESPF was the lead plaintiff in the Under Armour Class Action. The Class Action was regarding potential securities fraud. A settlement of \$434m has been reached, which is subject to definitive documentation and final court approval.

Note 26: Impairment for Bad and Doubtful Debts

The risk of employers being unable to meet their pension obligations is managed through the NESPF Termination Policy and the NESPF Employer Covenant Assessment Policy which are embedded within the Funding Strategy Statement. During 2023/24 three admission bodies exited from the Fund. Two of those were a managed exit and one where the employer went into administration. Following these termination events, the assets and liabilities for each employer were assessed by the Scheme Actuary. The Actuary's assessment is to determine the funding level and the deficit or surplus held in accordance with the regulations. The Fund paid exit credits to two of the exiting employers as a surplus was identified upon exit. The liabilities for the third employer was subsumed by the guarantor as at the exit date. Termination certificates, signed by the Scheme Actuary, were issued to the employers to confirm that the liabilities had been discharged.

Note 27: 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 Executive Director of Corporate Services, Aberdeen City Council, Level 1 West, Business Hub 7, Marischal College, Broad Street, Aberdeen, AB10 1AB.

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

Note 28: Critical Judgements in applying Accounting Policies

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

The items in the Net Assets Statement as at 31 March 2024 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumption
Actuarial Present Value of Promised Retirement Benefits.	Estimation of the net liability to pay pensions depends on several complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the Scheme Actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the Scheme Actuary every 3 months. Further information can be found in Note 2.
Direct Property Private Equity Private Debt & Pooled Infrastructure (Unquoted)	Private equity/debt and unquoted pooled infrastructure investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	Direct Property £381m. Private equity £500m. Private Debt £130m. Pooled Infrastructure (Unquoted) £455m. There is a risk that these investments may be under or overstated in the accounts.
Insurance Buy In Contract	The Insurance Buy In Contract is included in the Net Assets Statement as an Asset and is valued at year end by the Scheme Actuary. The insurer underwrites the risk of meeting the liabilities of a group of pensioners within the Fund. Key assumptions are the Discount Rate and Life Expectancy.	Further information can be found in Note 18d Sensitivity Analysis.

Note 29: Events after the Balance Sheet Date

The Unaudited Statement of Accounts was authorised for issue by the Chief Officer – Finance on 21 June 2024. 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 2024, the figures in the Annual Accounts and Notes have been adjusted in all material respects to reflect the impact of this information. No such adjustments have been required.

Note 30: Agency Arrangement for Administering Compensatory ‘Added’ Years

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

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

	2022/23	2023/24
	£'000	£'000
Cost incurred/(recovered) on behalf of:		
Aberdeen City Council	2,355	2,522
Aberdeenshire Council	1,358	1,442
Moray Council	698	730
Scottish Water	1,297	1,390
Other	280	297
Total	5,988	6,381

	2022/23	2023/24
	£	£
Associated Payroll Cost	4	4

Independent Auditor's Report

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

Reporting on the audit of the financial statements

Opinion on financial statements

I certify that I have audited the financial statements in the annual report of North East Scotland Pension Fund (the fund) for the year ended 31 March 2024 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the Fund Account, the Net Assets Statement and notes to the financial statements, including a summary of material accounting policy information. The financial reporting framework that has been applied in their preparation is applicable law and UK adopted international accounting standards, as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (the 2023/24 Code).

In my opinion the accompanying financial statements:

- give a true and fair view of the financial transactions of the fund during the year ended 31 March 2024 and of the amount and disposition at that date of its assets and liabilities;
- have been properly prepared in accordance with UK adopted international accounting standards, as interpreted and adapted by the 2023/24 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

Basis for opinion

I conducted my audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the [Code of Audit Practice](#) approved by the Accounts Commission for Scotland. My responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of my report. I was appointed by the Accounts Commission on 3 April 2023. My period of appointment is five years, covering 2022/23 to 2026/27. I am independent of the fund in accordance with the ethical requirements that are relevant to my audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and I have fulfilled my other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council as administering authority for the fund. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Conclusions relating to going concern basis of accounting

I have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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

These conclusions are not intended to, nor do they, provide assurance on the fund's current or future financial sustainability. However, I report on the fund's arrangements for financial sustainability in a separate Annual Audit Report available from the [Audit Scotland website](#).

Risks of material misstatement

I report in my Annual Audit Report the most significant assessed risks of material misstatement that I identified and my judgements thereon.

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

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

In preparing the financial statements, the Chief Officer - Finance is responsible for assessing the fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention to discontinue the fund's operations.

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

Auditor's responsibilities for the audit of the financial statements

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

Irregularities, including fraud, are instances of non-compliance with laws and regulations. I design procedures in line with my responsibilities outlined above to

detect material misstatements in respect of irregularities, including fraud. Procedures include:

- using my understanding of the local government sector to identify that the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, the Local Government in Scotland Act 2003, and The Local Government Pension Scheme (Scotland) Regulations 2018 as amended are significant in the context of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance as to other laws or regulations that may be expected to have a fundamental effect on the operations of the fund;
- inquiring of the Chief Officer - Finance and the Interim Chief Officer - Governance concerning the fund's policies and procedures regarding compliance with the applicable legal and regulatory framework;
- discussions among my audit team on the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

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

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

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

Reporting on other requirements

Other information

The Chief Officer – Finance is responsible for the other information in the annual report. The other information comprises the Management Commentary, Annual Governance Statement, Governance Compliance Statement, Statement of Responsibilities and other reports included in the annual report other than the financial statements and my auditor's report thereon.

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

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

Opinions prescribed by the Accounts Commission on the Management Commentary, Annual Governance Statement and Governance Compliance Statement

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

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003;
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016): and
- the information given in the Governance Compliance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with The Local Government Pension Scheme (Scotland) Regulations 2018.

Matters on which I am required to report by exception

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

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

I have nothing to report in respect of these matters.

Conclusions on wider scope responsibilities

In addition to my responsibilities for the annual report, my conclusions on the wider scope responsibilities specified in the Code of Audit Practice are set out in my Annual Audit Report.

Use of my report

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 108 of the Code of Audit Practice, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Oliphant

Michael Oliphant FCPFA
Audit Director
Audit Scotland
4th Floor
102 West Port
Edinburgh
EH3 9DN

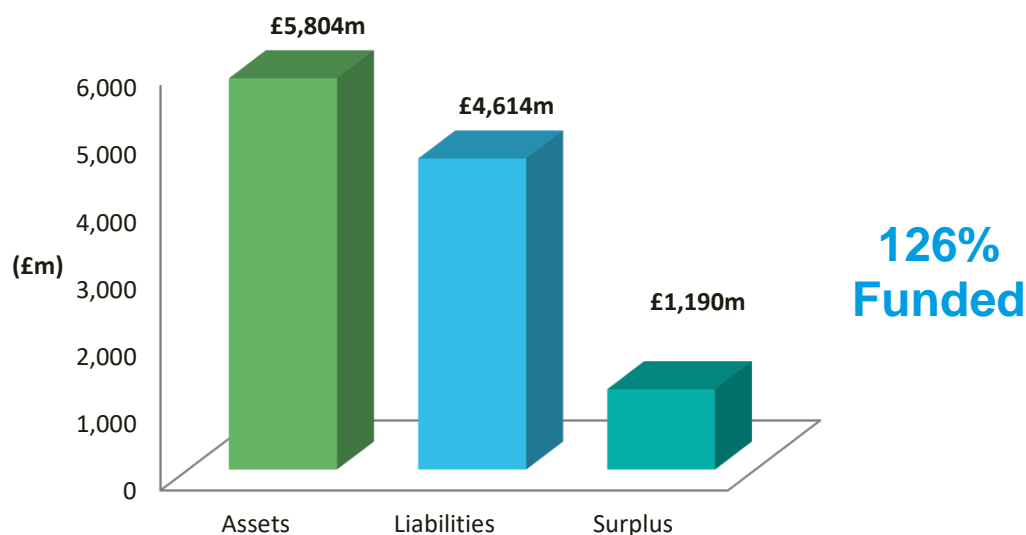
16 September 2024

Appendix 1 – Statement by the Consulting Actuary

This statement has been provided to meet the requirements under Regulation 55(1)(d) of The Local Government Pension Scheme (Scotland) Regulations 2018.

North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2023 to determine the contribution rates with effect from 1 April 2024 to 31 March 2027.



On the basis of the assumptions adopted, the Fund's assets of £5,804 million represented 126% of the Fund's past service liabilities of £4,614 million (the "Solvency Funding Target") at the valuation date. The surplus at the valuation was therefore £1,190 million.

This position allows for the merger of the Aberdeen City Council Transport Fund into the North East Scotland Pension Fund on 1 April 2022. In particular, the figures include the bulk annuity insurance buy in contract with Rothesay Life Plc in respect of a specified group of pensioners. For the purpose of the actuarial valuation the 31 March 2023 liabilities relating to the insured pensioner members have been assessed on the Fund's ongoing valuation basis and the assets have been taken from the audited Fund accounts.

The valuation also showed that a Primary contribution rate of 20.2% of pensionable pay per annum was required from employers. The Primary rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

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

The FSS sets out the process for determining the recovery plan in respect of each employer. At this actuarial valuation the weighted average recovery period adopted is 13 years, and the total initial recovery payment (the “Secondary rate” for 2024/27) is a surplus offset of approximately 6.2% per annum in % terms (which allows for the contribution plans which have been set for individual employers under the provisions of the FSS).

Further details regarding the results of the valuation are contained in the formal report on the actuarial valuation dated March 2024.

In practice, each individual employer’s position is assessed separately and the contributions required are set out in the report. In addition to the certified contribution rates, payments to cover additional liabilities arising from early retirements (other than ill health retirements) will be made to the Fund by the employers.

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

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

	For past service liabilities (Solvency Funding Target)	For future service liabilities (Primary rate of contribution)
Rate of return on investments (discount rate)	4.6% per annum	4.1% per annum
Rate of pay increases (long term)	4.1% per annum	4.1% per annum
Rate of increases in pensions in payment (in excess of GMP)	2.6% per annum	2.6% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2026. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2027.

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 2024 (the 31 March 2023 assumptions are included for comparison):

	31 March 2023	31 March 2024
Rate of return on investments (discount rate)	4.8% per annum	4.9% per annum
Rate of CPI Inflation / CARE benefit revaluation	2.7% per annum	2.7% per annum
Rate of pay increases	4.2% per annum*	4.2% per annum
Increases on pensions (in excess of GMP)/Deferred revaluation	2.8% per annum	2.8% per annum

* the 31 March 2023 assumption includes a corresponding allowance to that made at the 2020 actuarial valuation for short term public sector pay restraint.

The demographic assumptions are the same as those used for funding purposes:

- the start of period assumptions are based on the 2020 actuarial valuation assumptions, updated to reflect the initial demographic study carried out as preparation for the 2023 actuarial valuation, CMI_2021 with a long term rate of life expectancy improvement of 1.5% p.a.
- the end of period assumptions are based on the final demographic assumptions adopted for the 2023 actuarial valuation, updated to CMI_2022 with a long term rate of life expectancy improvement of 1.5% p.a.

Full details of the demographic assumptions are set out in the formal report on the actuarial valuation dated March 2024.

The movement in the value of the Fund's promised retirement benefits for IAS 26 is as follows:

Start of period liabilities	£4,598m
Interest on liabilities	£217m
Net benefits accrued/paid over the period*	(£44m)
Actuarial (gains)/losses (see below)	(£65m)
End of period liabilities	£4,706m

**This includes any increase in liabilities arising as a result of early retirements*

Key factors leading to actuarial gains above are:

- **Change in financial assumptions:** Corporate bond yields increased slightly over the year, with a corresponding increase in discount rate from 4.8% p.a. to 4.9% p.a. The long term assumed CPI is the same at the end of year as it was at the start of year. In combination, these factors lead to a small reduction in liabilities.
- **Change in demographic assumptions:** As noted above, the assumptions have been updated to reflect the new CMI model available. This acts to reduce the liabilities.
- **Pension increases / recent high short-term inflation:** The figures allow for the impact of the April 2024 pension increase of 6.7%, to the extent it wasn't allowed for in the 2023 statement, along with known CPI since September 2023 (which will feed into the 2025 pension increase). As current inflation is higher than the long term assumption, this increases the liabilities.
- **2023 actuarial valuation:** The year end liabilities allow for the final 2023 valuation results, and so will allow for the difference between the assumptions and actual member experience over 2020/23. This will include factors such as the impact of actual pay increases awarded, actual rates of ill health retirement, etc.

Paul Middleman
Fellow of the Institute and
Faculty of Actuaries

Mark Wilson
Fellow of the Institute and
Faculty of Actuaries

Mercer Limited
May 2024

APPENDIX 1a – ADDITIONAL CONSIDERATIONS

The “McCloud judgment”: The figures above allow for the impact of the judgment **based** on the proposed remedy.

GMP indexation: The above figures allow for the provision of full CPI pension increases on GMP benefits for members who reach State Pension Age after 6 April 2016.

Covid 19/Ukraine/Gaza conflict: The financial assumptions allow for these factors to the degree that they are reflected in the market values on which the assumptions are based. The impact of COVID deaths over the period 2020 to 2023 will be included in the actuarial gains / losses item above. The mortality assumption includes no specific adjustment for COVID as our view is that it is not possible at this point to draw any meaningful conclusions on the long term impact.

High inflation over last two years The period end figures above allow for the impact of actual known CPI at the accounting date as noted above. The period end assumptions then allow for expected (market implied) CPI from that point.

Appendix 2 – Schedule of Employers

North East Scotland Pension Fund

	Employers as at 31 March 2023	New Admissions	Ceased	Employers as at 31 March 2024
Scheduled Bodies	10	0	0	10
Admission Bodies	34	0	(3)	31
Total	44	0	(3)	41

Ceased during 2023/24

- | | |
|-----------------------------|----------|
| 1. Aberdeen Cyrenians | Admitted |
| 2. First Aberdeen | Admitted |
| 3. St Machar Parent Project | Admitted |

Participating Employers as at 31 March 2024

- | | |
|--|-----------|
| 1. Aberdeen City Council | Scheduled |
| 2. Aberdeenshire Council | Scheduled |
| 3. Grampian Valuation Joint Board | Scheduled |
| 4. Moray College | Scheduled |
| 5. Moray Council | Scheduled |
| 6. NESTRANS | Scheduled |
| 7. North East Scotland College | Scheduled |
| 8. Scottish Fire and Rescue Service | Scheduled |
| 9. Scottish Police Authority | Scheduled |
| 10. Scottish Water | Scheduled |
| 11. Aberdeen Endowments Trust | Admitted |
| 12. Aberdeen Foyer | Admitted |
| 13. Aberdeen Heat & Power Ltd | Admitted |
| 14. Aberdeen Performing Arts | Admitted |
| 15. Aberdeen Sports Village | Admitted |
| 16. Alcohol and Drugs Action | Admitted |
| 17. Bon Accord Care Ltd | Admitted |
| 18. Bon Accord Support Services Ltd | Admitted |
| 19. Community Integrated Care (Inspire Legacy Staff) | Admitted |
| 20. Fersands and Fountain Community Project | Admitted |
| 21. Forth and Oban Ltd | Admitted |
| 22. Fraserburgh Harbour Commissioners | Admitted |

23. HomeStart Aberdeen	Admitted
24. HomeStart NEA	Admitted
25. Idverde UK	Admitted
26. Mental Health Aberdeen	Admitted
27. North East Sensory Services	Admitted
28. Outdoor Access Trust for Scotland	Admitted
29. Pathways	Admitted
30. Peterhead Port Authority	Admitted
31. Printfield Community Project	Admitted
32. Robert Gordon's College	Admitted
33. Robert Gordon University	Admitted
34. Robertsons Facilities Management (City)	Admitted
35. Robertsons Facilities Management (Shire)	Admitted
36. Sanctuary Scotland Housing Association Ltd	Admitted
37. SCARF	Admitted
38. Scottish Lighthouse Museum	Admitted
39. Sport Aberdeen	Admitted
40. Station House Media Unit	Admitted
41. Xerox (UK) Ltd	Admitted

Appendix 3 – Declared Interests

In 2023/24 Members/Key Management Personnel had disclosed an interest that is included within the following list:

Aberdeen Bulawayo Trust
Aberdeen City Heritage Trust
Aberdeen Civil Service Curling Club
Aberdeen Community Health Care Village Limited
Aberdeen Endowments Trust
Aberdeen Football Club
Aberdeen Gomel Trust
Aberdeen International Airport Consultative Committee
Aberdeen Lads Club
Aberdeen Outdoor Access Forum
AGHOCO 2175 Limited
Asco Group Ltd
Association of Public Service Excellence
BAE Systems
Bonsell Accounting Services
Carbon Reduction Analysts Ltd
Care and Repair Initiative Scotland
Champions Board
Clydesdale Bank
Convention of Scottish Local Authorities (COSLA) Health and Social Care Board
Cruden Bay Golf Club
Etiom Ltd
Fersands Area Forum
First Group Plc
Friends of the Gordon Highlander Museum
GMB Union
Grampian Houston Association
Grampian Racial Equality Council (GREC)
Grampian Valuation Joint Board
Granite City Speakers Club
Historic Scotland
Hub North Scotland Limited
Hub North Scotland (Alford) Limited
Hub North Scotland (FWT) Limited
Institute of Chartered Accountants Scotland (ICAS)
Integration Joint Board
Kellas Midstream Ltd
Lloyds Banking Group

Longhaven District Hall Association
Longhaven Social Club
Mennico Ltd
Modern Money Scotland
North East Agricultural Advisory Committee
North East Scotland Fisheries Development
Printfield Community Project
Punk Anatomist and Scotonomics
Robert Gordon University
Royal National Lifeboat Institution (RNLI)
Rubislaw Field Committee
Saga
Santander
Scotch Malt Whisky Society
Scottish Ambulance Service
Scottish & Southern Electricity (SSE) Plc
Sport Aberdeen
The Gordon Highlanders Advisory Group
The Vestry
UNISON (Public Service Union)
UNITE the Union
University of the Highlands & Islands (UHI) Foundation
Virgin Money
Woodside Neighbourhood Community Planning and Regeneration Network

Our Ref: PEN/GF
Your Ref:
Contact: Gary Ferguson
Direct Dial: 01224 053210
E-Mail: GarFerguson@nespf.org.uk
Date: 16 September 2024

Level 1
2 Marischal Square
Broad Street
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AB10 1LP

Email pensions@nespf.org.uk
Website www.nespf.org.uk

Michael Oliphant
Audit Director
Audit Scotland
4th Floor
102 West Port
EDINBURGH
EH3 9DN

Dear Michael

North East Scotland Pension Fund Annual Report and Accounts 2023/24

1. This representation letter is provided about your audit of the annual report and accounts of North East Scotland Pension Fund (herein referred to as North East Scotland Pension Fund or the fund) for the year ended 31 March 2024 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the financial reporting framework, and for expressing other opinions on the management commentary, annual governance statement and the governance compliance statement.

2. I confirm to the best of my knowledge and belief and having made appropriate enquiries of Aberdeen City Council's Corporate Management Team and North East Scotland Pension Fund's Management Team, the following representations given to you in connection with your audit of the fund's annual accounts for the year ended 31 March 2024.

General

3. The fund and I have fulfilled our statutory responsibilities for the preparation of the 2023/24 annual accounts. All the accounting records, documentation and other matters which I am aware are relevant to the preparation of the annual accounts have been made available to you for the purposes of your audit. All transactions undertaken by the fund have been recorded in the accounting records and are properly reflected in the financial statements.

4. I confirm that the effects of uncorrected misstatements are immaterial, individually and in aggregate, to the financial statements as a whole. I am not aware of any uncorrected misstatements other than those reported by you.

Financial Reporting Framework

5. The annual accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2023/24 (2023/24 accounting code), the requirements of the Local Government (Scotland) Act 1973, the Local Government in Scotland Act 2003 and The Local Authority Accounts (Scotland) Regulations 2014.

6. In accordance with the 2014 regulations, I have ensured that the financial statements give a true and fair view of the financial position of North East Scotland Pension Fund at 31 March 2024 and the transactions for 2023/24.

Accounting Policies & Estimates

7. All significant accounting policies applied are as shown in the notes to the financial statements. The accounting policies are determined by the 2023/24 accounting code where applicable. All accounting policies applied are appropriate to the fund's circumstances and have been consistently applied.

8. The significant assumptions used in making accounting estimates are reasonable and properly reflected in the financial statements. Judgements used in making estimates have been based on the latest available, reliable information. Estimates have been revised where there are changes in the circumstances on which the original estimate was based or as a result of new information or experience.

Going Concern Basis of Accounting

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

Assets

Investments

10. For the year ended 31 March 2024, the amounts included in the net assets statement reflect investments managed/held both internally and externally by appointed fund managers and the global custodian on behalf of the fund. Amounts have been calculated in accordance with approved bases of valuation and fairly represent the levels of investment at 31 March 2024. In making these assertions I am reliant on the opinions of the appointed fund managers. As far as we can reasonably ascertain, all assets are free from any lien, encumbrance or charge except as disclosed in the financial statements.

11. All contractual commitments at 31 March 2024 in respect of investments have been identified and disclosed in accordance with the 2023/24 accounting code.

Long Term Assets

12. For the year ended 31 March 2024, the amount included in the net assets statement for the insurance buy-in contract is the valuation provided by the fund's actuary. The pension assumptions made by the actuary in this valuation have been considered and I confirm that they are consistent with management's own view.

Banking and Cash Flow Arrangements

13. North East Scotland Pension Fund maintains a separate bank account and while the account forms part of Aberdeen City Council's treasury management arrangements, the pension fund can demonstrate that there is no borrowing from the administering authority. Amounts due to the administering authority to cover daily cash flows such as payments through the council's systems are reimbursed on a regular basis.

Other Current Assets

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

Liabilities

15. All liabilities at 31 March 2024 of which I am aware have been recognised in the financial statements.

16. Provisions have been recognised in the financial statements for all liabilities of uncertain timing or amount at 31 March 2024 of which I am aware where the conditions specified in the 2023/24 accounting code have been met. The amount recognised as a provision is the best estimate of the expenditure likely to be required to settle the obligation at 31 March 2024. Where the effect of the time value of money is material, the amount of the provision has been discounted to the present value of the expected payments.

17. Provisions recognised in previous years have been reviewed and adjusted, where appropriate, to reflect the best estimate at 31 March 2024 or to reflect material changes in the assumptions underlying the calculations of the cash flows.

18. The pension assumptions made by the actuary in the IAS 26 report for North East Scotland Pension Fund have been considered and I confirm that they are consistent with management's own view.

19. There are no plans or intentions that are likely to affect the carrying value or classification of the liabilities recognised in the financial statements.

Contingent assets and liabilities (Note 25)

20. There are no significant contingent liabilities, other than those disclosed in Note 25 to the financial statements, arising either under formal agreement or through formal undertakings requiring disclosure in the accounts. All known contingent liabilities have been fully and properly disclosed, including any outstanding legal claims which have not been provided under the 2023/24 accounting code and IAS 37.

21. The fund has been acting as the lead plaintiff in a Class Action against Under Armour, a United States (US) sportswear company, regarding potential securities fraud. While a settlement has been reached in principle, this is subject to US court approval in November 2024. North East Scotland Pension Fund's share is not a material amount and it has not been accrued in the fund's 2023/24 accounts. An update has however been included in Note 25. If court approval is granted, the fund's expected share is likely to be £2.5 million approximately.

Fraud

22. I have provided you with all information in relation to:

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

Laws and Regulations

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

Related Party Transactions

24. All material transactions with related parties have been appropriately accounted for and disclosed in the financial statements in accordance with the 2023/24 accounting code. I have made available to you the identity of all the fund's related parties and all the related party relationships and transactions of which I am aware.

Management commentary

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

Corporate Governance

26. I confirm that North East Scotland Pension Fund has undertaken a review of the system of internal control during 2023/24 to establish the extent to which it complies with proper practices set out in the Delivering Good Governance in Local Government:

Framework 2016. I have disclosed to you all deficiencies in internal control identified from this review or of which I am otherwise aware.

27. I confirm that the Annual Governance Statement has been prepared in accordance with the Delivering Good Governance in Local Government: Framework 2016 and the information is consistent with the financial statements. Other than the changes already reflected in the audited accounts, there have been no changes in the corporate governance arrangements or issues identified, since 31 March 2024, which require to be reflected.

Events Subsequent to the Date of the Balance Sheet

28. All events subsequent to 31 March 2024 for which the 2023/24 accounting code requires adjustment or disclosure have been adjusted or disclosed.

Yours sincerely

Jonathan Belford

Jonathan Belford, CPFA
Chief Officer - Finance