

# North East Scotland **PENSION FUND**

## ANNUAL REPORT & FINANCIAL STATEMENTS

FOR THE PERIOD

1 APRIL 2013 TO 31 MARCH 2014

ABERDEEN CITY COUNCIL,  
ADMINISTERING AUTHORITY FOR THE  
NORTH EAST SCOTLAND PENSION FUNDS



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# Foreword

On an annual basis the Pension Fund must publish a Statement of Accounts that complies with recognised accounting codes of practice. The purpose of the Financial Statements is to demonstrate the Fund's proper stewardship and accountability to which it is entrusted. At more than £2.8 billion, the North East Scotland Pension Fund is one of Scotland's larger Local Government Pension Funds, providing pension benefits for over 50,000 members drawn from over 50 employers.

## **Fund Achievements**

Following the Funds outstanding achievement during 2012/13 delivering the integrated payroll system, the Fund has continued throughout the year to assess and develop its systems and procedures to ensure continued delivery of a current and efficient service to all stakeholders.

Areas of development include the implementation of our Pensions Administration Strategy (PAS) which has seen over half of the Funds employers already signed up and the Fund continues to work with the remaining employers to finalise their agreement. In line with this strategy the Fund has also developed a dedicated employer services team providing a number of services and a dedicated contact for all employers of the Pension Fund.

Further details of this can be found in the Technical & Communication Report.

The Fund continues to operate in an ever changing environment with a new scheme being introduced in 2015. The Fund is also undergoing its triennial valuation which will examine the Funds' assets and liabilities and will inform the employer's contribution rates going forward.

Together with the changes to employer services the Fund will develop all areas of the Pension Fund. The Fund benefits greatly from retaining long serving experienced staff in all areas of the Fund. With increased governance arrangements and reporting requirements the Fund will also be developing a Governance team to deliver new arrangements ensuring the Funds on-going compliance with its statutory obligations.

With support from across all areas of the Pension Fund we have continued to engage with all stakeholders and delivered an Employer Forum at the end of January 2014 as well as a Pensioners Open Day in December 2013.

The Fund has already started communicating the above together with other initiatives including employer covenant agreement, all of which were introduced and discussed at the Employer Forum in January.

**Financial Statement** – shows income and expenditure from the Fund in relation to the scheme members and the investment and administration of the Fund, together with a reconciliation of the opening and closing net assets.

**Net Asset Statements** – provides a breakdown of type and value of all net assets at year end.

**Notes to the Accounts** – provides supporting details and analysis of the Financial Statements.

The Financial Statements for the North East Scotland Pension Fund show that members' contributions have increased slightly in 2013/14 to £26 million from £24.9 million. Total overall income in respect of members has increased to £110.7 million from £105.5 million in 2012/13, with member expenditure increasing to £108.8 million from £105.2 million over the same period in 2012/13.

Investment income has increased from £46 million in 2012/13 to £55.2 million in 2013/14.

Also included within the Financial Statements is the Aberdeen City Council Transport Fund which shows that members' contributions decreased from £152,000 in 2012/13 to £144,000 in 2013/14. Total overall income in respect of members has increased to £2.5 million from £2.4 million in 2012/13, with member expenditure down to £3.5 million from £3.6 million in 2012/13.

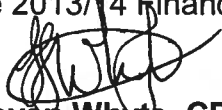
Investment income has increased to £1.7 million compared to £1.5 million in 2012/13.

With most major investment markets delivering strong returns over the financial year to 31 March 2014 the Fund's investment gains have increased in value by £217 million with the Transport Fund experiencing a small reduction in asset value of £2million. This was due to a number of factors including increasing investor confidence and overall good performance from the Fund's Investment Managers.

The method of valuation of the Funds' liabilities is based on the projected cost of future pensions based on gilt yields. The North East Scotland Pension Fund experienced a small reduction in liabilities of £3,423 million against a value of £3,435 million as at 31 March 2013 and £71.3 million to £73.1 million for the Aberdeen City Council Transport Fund. With contributions being set until 2015 there is no immediate impact to employers and further details regarding the Funds' funding position can be found in the notes to the accounts and in the Statement by the Consulting Actuary.

### **Acknowledgement**

The production of the Financial Statements is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2013/14 Financial Statements.



**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

# Statement of Responsibilities

**The North East of Scotland Pension Fund is governed by an Administering Authority which is Aberdeen City Council and it is required to:**

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. For the North East Scotland Pension Funds, that officer is the Head of Finance of Aberdeen City Council. During 2013/14 the Council agreed that in the absence of the Head of Finance, the Chief Accountant will be this officer.
- manage their affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Financial Statements within two months of receipt of the audit certificate.

## **The Head of Finance's responsibilities:**

The Head of Finance is responsible for the preparation of the Pension Funds Financial Statements in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing the Financial Statements, the Head of Finance has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the local authority Code

The Head of Finance has also:

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

## **Financial Position:**

The detailed financial statements set out in pages 48 to 116 give a true and fair view of the financial position of the North East Scotland Pension Funds for 2013/14 and its income and expenditure for the year ended 31 March 2014.

  
**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

# Statement on the System of Internal Financial Controls

This statement is given in respect of the 2013/14 Financial Statements for the North East Scotland Pension Funds. I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated in connection with the resources deployed by Aberdeen City Council as the administering authority for the North East Scotland Pension Funds.

The system of internal financial control can provide only reasonable, not absolute, assurance that resources are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period.

The system of internal financial control is based on a framework of regular management information, financial regulations, administrative procedures and processes (including segregation of duties), management supervision, and a system of delegation and accountability. The Funds also place reliance upon the internal financial controls within Aberdeen City Council's financial systems and the monitoring in place to ensure the effectiveness of these controls. Development and maintenance of the Funds' system is undertaken by managers within the North East Scotland Pension Funds. In particular, the system includes:

- identifying the objectives of the Funds in Funding Strategy Statements and Statements of Investment Principles;
- comprehensive budgeting systems;
- the regular review of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- formal governance arrangements.

The Director of Corporate Governance has overall management responsibility for Internal Audit in Aberdeen City Council (Administering Authority for the North East Scotland Pension Funds). The Internal Audit function is under contract to PricewaterhouseCoopers LLP. The Head of Internal Audit is responsible for the day to day management and has a direct reporting relationship to the Audit and Risk Committee and the Pensions Panel, with free access to myself, the Chief Executive, Directors and elected members of the Council when required.

The Internal Audit Section is responsible for:

- examining and evaluating the adequacy of the Pension Funds systems of internal control;
- ensuring adherence to Council policies, strategies and objectives;
- reviewing the means of safeguarding assets and, as appropriate, verifying their existence; and
- appraising the effective and efficient use of resources through value for money audits.

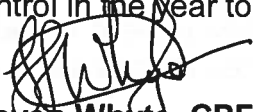
The Head of Internal Audit prepares an annual report for Aberdeen City Council containing a view on the adequacy and effectiveness of the system of internal controls, with specific Pension Fund audit work being referenced as appropriate.

My review of the effectiveness of the system of internal financial control is informed by:

- the work of the manager within the North East Scotland Pension Funds;
- regular reporting to the Pensions Panel;
- the work of Internal Audit ;
- external audit reports and annual audit letter;
- updates to the Audit and Risk Committee Members and the Pension Panel Members on progress on implementing internal audit recommendations.

Recommendations arising from the work of both the internal and external auditors are discussed with management and recommendations agreed and implemented within acceptable timescales.

Having reviewed the framework, it is in my opinion that reasonable assurance can be placed upon the adequacy and effectiveness of the system of internal financial control in the year to 31 March 2014.



**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

# About the Fund

The North East Scotland Pension Funds are administered by Aberdeen City Council within the Local Government Pension Scheme regulations. There are two Funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACC Transport Fund).

The Scheme was established under the Superannuation Fund Act 1972 and is a statutory scheme which is contracted out of the Second State Pension. The Scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire, Teachers).

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

Over the 12 Months to 31 March 2014 the North East Scotland Pension Fund membership grew from 54,217 to 57,253 with a small decline for the Aberdeen City Council Transport Fund of 651 to 645.

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

Further information regarding the Fund is provided throughout this report and the Funds' website at [www.nespf.org.uk](http://www.nespf.org.uk).

## Fund Administration

<b>Administering Authority</b>	Aberdeen City Council
<b>Committees</b>	Pensions Panel, Joint Investment Advisory Committee
<b>Head of Finance</b>	Steven Whyte – Appointed 27 January 2014
<b>Chief Accountant</b>	Steven Whyte – officer with the responsibility for the financial affairs of the Funds (with effect from 22 May 2013 to 26 January 2014)
<b>Actuary</b>	Mercer
<b>Global Custodian</b>	Bank of New York Mellon
<b>Performance Measurement</b>	Bank of New York Mellon
<b>Bank</b>	Clydesdale Bank



**AVC Providers**

Prudential, Standard Life Assurance Company

**External Auditors**

Audit Scotland

**Internal Auditors**

PricewaterhouseCoopers LLP

## Employers

### North East Scotland Pension Fund

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

46	Home Start (NEA) Fraserburgh	Admitted
47	Aberdeen Greenspace	Admitted
48	Pathways	Admitted
49	Cairngorms Outdoor Access Trust	Admitted
50	Aberdeenshire Housing Partnership	Admitted
51	Aberdeen Performing Arts	Admitted
52	Aberdeen International Youth Festival	Admitted
53	Sanctuary Housing	Admitted
54	Tenants First Housing Co-op	Admitted
55	Scottish Lighthouse Museum	Admitted
56	Multiple Sclerosis Society	Admitted
57	Reach Out	Admitted

**Aberdeen City Council Transport Fund**

1	First Aberdeen	Scheduled
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# Governance Compliance Statement

<b>Principle</b>	<b>Compliance</b>
<b>1. Structure</b>	
a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council	Fully compliant as per the Scheme Governance Statement
b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.	
c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.	
d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.	
<b>2. Committee Membership and Representation</b>	
a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-  i) employing authorities (including non-scheme employers, e.g., admitted bodies);  ii) scheme members (including deferred and pensioner scheme members),  iii) where appropriate, independent professional observers, and  iv) expert advisors (on an ad-hoc basis).	Fully compliant as per the Scheme Governance Statement
b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.	
<b>3. Voting</b>	
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.	Fully compliant as per the Scheme Governance Statement

<b>4.) Training/Facility time/Expenses</b>	
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.	Fully compliant as per the Scheme Governance Statement
b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.	
c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken.	
<b>5.) Meetings (frequency /quorum)</b>	
a) That an administering authority's main committee or committees meet at least quarterly.	Fully compliant as per the Scheme Governance Statement
b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.	
c) That an administering authority who does not include lay members in their formal governance arrangements, must provide a forum outside of those arrangements by which the interests of key stakeholders can be represented	
<b>6. Access</b>	
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee	Fully compliant as per the Scheme Governance Statement
<b>7. Scope</b>	
a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements	Fully compliant as per the Scheme Governance Statement
<b>8. Publicity</b>	
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.	Fully compliant as per the Scheme Governance Statement

# Compliance with the Myners Principles

Requirement	North East Scotland Pension Fund Arrangements	Assess Status
<p><b>Principle 1: Effective Decision Making</b></p>	<p>The Pension Fund Training Policy statement details the training agenda for elected members of the Pensions Panel and Joint Investment Advisory Committee (JIAC) and has been drawn up to meet their needs in relation to providing the Committee members with sufficient knowledge to be able to evaluate and challenge the advice they receive.</p> <p>The Head of Finance is responsible for the provision of the training plan for the Pensions Panel and JIAC to help them to make effective decisions; to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role. The training plan is reviewed on annual basis by the Pensions Panel.</p> <p>Conflicts of interest are governed by the City Council standing orders.</p>	<p><b>Compliant</b></p> <p>Subject to ongoing review and training</p>
<p><b>Principle 2: Clear Objectives</b></p>	<p>The Statement of Investment Principles and the Funding Strategy Statement define the Funds' primary funding objectives.</p> <p>Asset-liability modelling is undertaken with the help of external advisers to aid the setting of investment strategy in order to understand risks. The Funds have scheme-specific investment strategies.</p> <p>The attitude to risk of employers and the administering authority is specifically taken into account in the setting of strategy through the composition of the JIAC.</p>	<p><b>Compliant</b></p>

Reviews of investment strategy focus on the split between broad asset classes (equities, bonds and alternative investments).

Each Investment Management Agreement set clear benchmarks and risk parameters, and includes the requirement to comply with the Funds' Statement of Investment Principles.

Appointments of advisers are reviewed regularly. Investment and actuarial advisers are appointed under separate contract. Procurement of advisers is conducted within EU procurement Regulations.

The setting of the Funding Strategy included specific consideration of the covenants of the Funds' participating employers and the need to maintain stability in employer contribution rates.

### **Principle 3: Risk & Liabilities**

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.

These include the implications for council tax payers; the strength of the covenant of participating authorities; the risk of their default, and longevity risk.

The Fund takes advice from the scheme's actuary regarding the nature of its liabilities. Asset-liability modelling is undertaken periodically to aid the setting of investment strategy, and these exercises specifically take account of covenant strength and longevity risk.

The Funding objectives are expressed in relation to the solvency and employer contribution rates of the Pension Fund and are detailed in the Funding Strategy Statement.

The Head of Finance is responsible for ensuring appropriate controls of the Pension Funds. Controls are subject to internal audit and reported to the Pensions Panel.

Quarterly reporting of the Pensions Panel identifies issues which arise relating to the covenant of both schedule and admitted bodies.

The Pension Panel receives a quarterly update from the scheme actuary regarding the scheme's ongoing funding level.

**Compliant**

The Pension Funds maintain a risk register. The risk register is reported to the Pensions Panel on an annual basis.

The Pension Fund takes a full and constructive part in national discussions relating to the risks and liabilities of the LGPS as a whole.

#### **Principle 4: Performance Assessment**

Arrangements should be in place for the formal measurement of the performance of the investments, investment managers and advisers. Administering authorities should also periodically make a formal policy assessment of their own effectiveness as a decision-making body and report on this to scheme members.

The Funds' investment performance is measured by an independent external provider.

**Compliant**

Investment Performance is reviewed quarterly by the Pensions Panel and the JIAC

The Pensions Panel and the JIAC assess their own performance and that of their advisers on an annual basis.

Training and attendance of members of the Pensions Panel and JIAC are monitored and reported on an annual basis.

#### **Principle 5: Responsible Ownership**

Administering authorities should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee (ISC) Statement of Principles on the responsibilities of shareholders and agents. A statement of the authority's policy on responsible ownership should be included in the Statement of Investment Principles. Administering authorities should report periodically to members on the discharge of such responsibilities.

The Fund takes voting recommendation from Pension and Investments Research Consultants (PIRC) and is a member of the Local Authority Pension Fund Forum (LAPFF). The Voting policies of both organisations are in-line with the Institutional Shareholders' Committee Statement of Principles. Where the Fund cannot vote directly it ensures that the Fund Investment Manager adopts the ISC Statement of Principles.

**Compliant**

The Funds' policy on responsible ownership is contained in the Funds' Corporate Governance Statement and included in the Statement of Investment Principles.

The Funds' Annual Review includes i.) details of the Funds' voting activity, ii.) a summary of the Funds' approach to responsible investment.



A summary of the Annual Review is sent to members. The full report is available on the website, and is sent to members on request.

## **Principle 6: Transparency and reporting**

Administering authorities should act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives; and Provide regular communication to members in the form they consider most appropriate.

Aberdeen City Council has delegated strategic responsibility for the administration of the Pension Fund to the Pensions Panel. The Council's standing orders govern the actions of the Panel and its Officers.

**Compliant**

The Pension Panel and the Joint Investment Advisory Committee which supports the Pensions Panel both meet quarterly. Full details of the governance policy for the Fund can be found on the Pension Fund website at [www.nespf.org.uk](http://www.nespf.org.uk)

As a standing committee of the Council the Pensions Panel meeting is open to the public and a copy of the agenda and non confidential papers available in advance. The JIAC is a consultative committee with representatives of the major other scheme employers and admitted bodies. Copies of Pensions Panel reports and minutes are made available to members of the JIAC

Performance Standards are incorporated in an annual report to stakeholders.

The following Funds' policy statements, are to be found on the Pension Fund website and are reviewed on annual basis by the Pensions Panel or sooner if required:

- Governance Statement,
- Statement of Investment Principles,
- Funding Strategy Statement
- Training Policy, and
- Communication Policy

The Fund produces an Annual Review, annual newsletter for members and regular briefings for employers. The Funds' website is updated regularly.

# Pension Fund Committees

## **Pensions Panel**

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

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

The Pensions Panel is comprised of elected members of Aberdeen City Council.

## **Membership during the 2013 / 2014**

Councillor Barney Crockett (Convener)  
Councillor Ross Thompson (Vice Convener) – Left April 2013  
Councillor John Reynolds (Vice Convener) – Joined April 2013  
Councillor Jim Noble  
Councillor Aileen Malone  
Councillor Alan Donnelly – Joined February 2014

## **Joint Investment Advisory Committee (JIAC)**

The JIAC consists of 15 members, 5 elected members from Aberdeen City Council (members of the Pensions Panel), 4 elected members from Aberdeenshire Council, 2 elected members from The Moray Council, 1 member representing the Colleges and Admitted Bodies, 1 member representing Scottish Water and 2 Trade Union representatives.

## Membership during the 2013 / 2014

The JIAC have responsibility for monitoring the investment management of the Pension Funds and making recommendations to the Pensions Panel on appointments, retention and termination of investment management contracts. All members of the JIAC have equal voting rights.

Councillor Barney Crockett (Convener)	Aberdeen City Council	
Councillor Ross Thompson	Aberdeen City Council	Left April 2013
Councillor John Reynolds	Aberdeen City Council	Joined April 2013
Councillor Jim Noble	Aberdeen City Council	
Councillor Aileen Malone	Aberdeen City Council	
Councillor Alan Donnelly	Aberdeen City Council	Joined February 2014
Councillor Alastair Bews	Aberdeenshire Council	
Councillor Richard Cowling (Vice Convener)	Aberdeenshire Council	
Councillor Sheena Lonchay	Aberdeenshire Council	
Councillor Michael Watt	Aberdeenshire Council	
Councillor Graham Leadbitter	The Moray Council	
Councillor Gary Coull	The Moray Council	
Mr Michael McCall	Colleges & Admitted Bodies	
Mr Alun Williams	Trade Union representative	
Mr Michael Middleton	Trade Union representative	
Mr Alan Scott	Scottish Water	

# Risk

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

**Investment risk** is recognised as falling into distinct areas: market risk (beta) and manager skill (alpha). The structure of the investment strategy reflects this and is designed with the support of external expert advice. Details are contained in the **Statement of Investment Principles** and the **Funding Strategy Statement**.

The operational management of investment risk forms the basis of quarterly reporting to the Pensions Panel and the Joint Investment Advisory Committee.

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

**Benefits risk** is recognised as falling into distinct areas: operational risk (regulation compliance and staffing) and Information Technology (IT) risks. The risks associated with the operational payment of benefits and recording of pensioner records produces a complex set of risks, which are mitigated with the use of a dedicated Pension Fund administration system that is thoroughly and regularly tested, combined with the technical hierarchy checking of output by pension staff. IT risk is mitigated through the use of an externally hosted benefit administration system subject to regular update and review.

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

## **Risk Management Review**

A Risk Management Review was completed during 2012/13, establishing and maintaining a detailed Risk Register and Action List.

The review formalised the risk management process and identifies areas for development. Risk management is an on-going process.

Quarterly reporting is provided to the Pensions Panel detailing progress achieved in the implementation of the action plan, the ongoing review of the Risk Register and reporting of new Risks that have been identified.

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

<b>Risk</b>	<b>Scope</b>	<b>Control Measure</b>	<b>Are controls operating Effectively</b>
<b>Operational</b>			
Fraud and Negligence	Overpayments, unauthorised payments, system corruptions, audit criticism, reputational damage	All Pension payments signed off by a senior pensions officer – segregation of duties for staff processing lump sums	Yes
<b>Funding</b>			
Fall in bond yields leading to risk in value placed on liabilities	Increase in employer contributions	Quarterly funding updates reported to the Pensions Panel to monitor market	Yes
<b>Financial</b>			
Failure in world stock markets	Increase in employer contributions	Diversification of scheme assets, investment strategy review following outcome of triennial valuation	Yes
<b>Regulatory &amp; Compliance</b>			
Failure to comply with LGPS regulations	Audit criticism, legal challenge, reputation risk	Regular review of compliance with regulations and report to Pensions Panel	Yes
<b>Governance</b>			
Failure to monitor AVC arrangements	Audit criticism, legal challenge, reputation risk	Annual review of AVC arrangements carried out by the scheme actuary	Yes

# Funding Strategy Statement

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

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

As part of the 2011 actuarial valuation exercise, the Funding Strategy Statement was reviewed, providing a statement that was prepared by Aberdeen City Council (the Administering Authority) to set out the funding strategy for the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund (the Funds), in accordance with Regulation 31 of the Local Government Pension Scheme (Administration) (Scotland) Regulations 2008 (as amended) and the guidance papers issued in March 2004 by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

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

A copy of the full statement is available on the Funds' website [www.nespf.org.uk](http://www.nespf.org.uk).

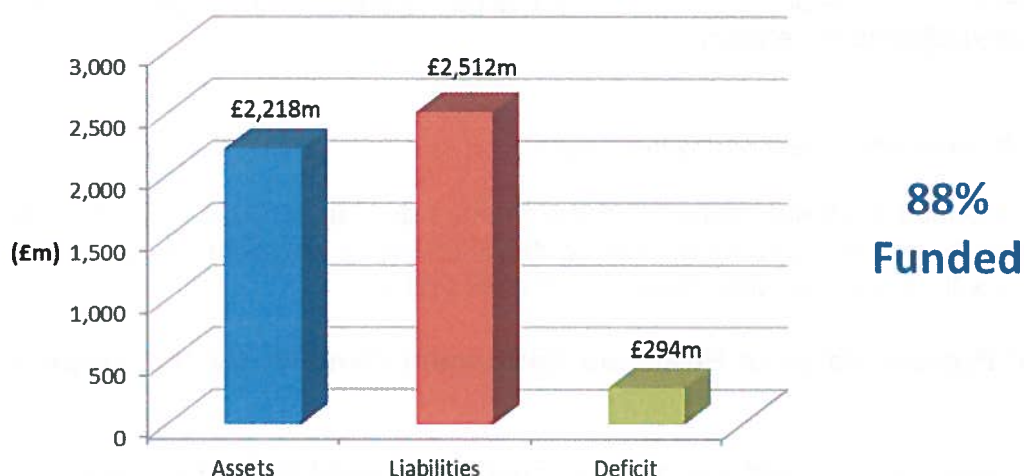
# North East Scotland Pension Fund and Aberdeen City Council Transport Fund

This statement has been provided to meet the requirements under Regulation 31A (1)(d) of The Local Government Pension Scheme (Administration) (Scotland) Regulations 2008.

## North East Scotland Pension Fund

An actuarial valuation of the North East Scotland Pension Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015.

On the basis of the assumptions adopted, the Fund's assets of £2,218 million represented 88% of the Fund's past service liabilities of £2,512 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 14.2% of pensionable pay per annum was required from employers. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012.

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

The funding plan adopted in assessing the contributions for each individual employer (or employer group) is in accordance with the Funding Strategy Statement (FSS). Different approaches adopted in implementing contribution increases and deficit recovery periods are determined through the FSS consultation process. Due to

investment market changes after the valuation date, it was agreed as part of the consultation that the majority of employers would maintain their current rate of contribution of 19.3% of pensionable pay. This would be expected to remove the deficit over a period of 16 years.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	5.9% per annum	6.5% per annum
- pre retirement	5.9% per annum	6.5% per annum
- post retirement		
Rate of pay increases	4.75% per annum	4.75% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.0% per annum	3.0% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable by the individual employers will be revised with effect from 1 April 2015.

### **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 2014 (the 31 March 2013 assumptions are included for comparison):



	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.15% per annum	4.15% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

We have also used a valuation methodology in connection with ill-health and death benefits which is consistent with IAS 19. Demographic assumptions are the same as those used for funding purposes.

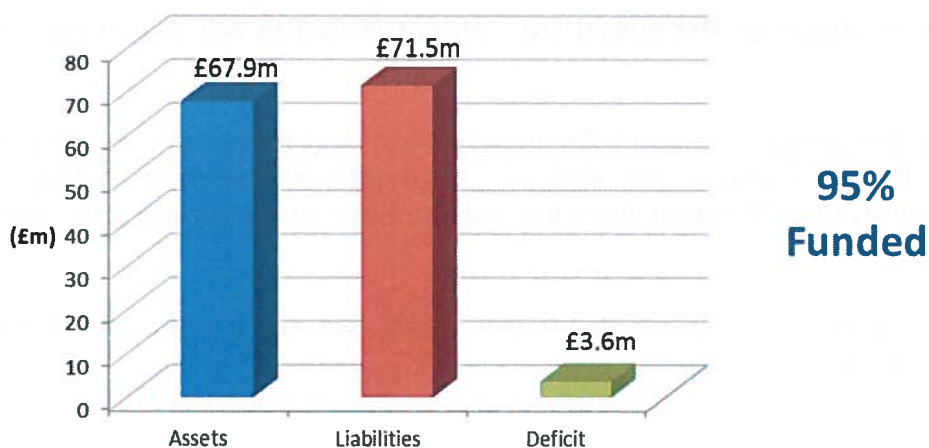
During the year corporate bond yields increased, resulting in a higher discount rate being used for IAS26 purposes at the year-end than at the beginning of the year (4.5% p.a. versus 4.2% p.a.).

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £3,435 million. The effect of the changes in financial assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by approximately £183 million. Adding interest over the year increases the liabilities by a further £145 million approximately, and allowing for net benefits accrued/paid over the period increases the liabilities by another £26 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £3,423 million, a reduction of £12 million.

### Aberdeen City Council Transport Fund

An actuarial valuation of the Aberdeen City Council Transport Fund was carried out as at 31 March 2011 to determine the contribution rates with effect from 1 April 2012 to 31 March 2015.

On the basis of the assumptions adopted, the Fund's assets of £67.9 million represented 95% of the Fund's past service liabilities of £71.5 million (the "Funding Target") at the valuation date.



The valuation also showed that a common rate of contribution of 30.8% of pensionable pay per annum was required. The common rate is calculated as being sufficient, together with contributions paid by members, to meet all liabilities arising in respect of service after the valuation date.

Adopting the same method and assumptions as used for assessing the Funding Target the deficit would be eliminated by an annual contribution addition of £609,000 for 7 years. However, due to investment market changes after the valuation date, as part of the consultation process it was agreed higher contributions would be paid on a stepped basis, and further details regarding the results of the valuation are contained in our formal report on the actuarial valuation dated 31 March 2012. The deficit contribution in 2013/14 was £1.25 million and the deficit contribution due in 2014/15 is £1.5 million.

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

	For past service liabilities (Funding Target)	For future service liabilities (Common Contribution Rate)
Rate of return on investments (discount rate)	5.9% per annum	5.9% per annum
- pre retirement	4.4% per annum	4.4% per annum
- post retirement		
Rate of pay increases	5.2% per annum	5.2% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	3.2% per annum	3.2% per annum

The assets were assessed at market value.

The next triennial actuarial valuation of the Fund is due as at 31 March 2014. Based on the results of this valuation, the contribution rates payable will be revised with effect from 1 April 2015.

### **Actuarial Present Value of Promised Retirement Benefits for the Purposes of IAS 26**

IAS 26 requires the present value of the Fund's promised retirement benefits to be disclosed, and for this purpose the actuarial assumptions and methodology used should be based on IAS 19 rather than the assumptions and methodology used for funding purposes.

To assess the value of the benefits on this basis, we have used the following financial assumptions:

	31 March 2013	31 March 2014
Rate of return on investments (discount rate)	4.2% per annum	4.5% per annum
Rate of pay increases	4.4% per annum	4.4% per annum
Rate of increases in pensions in payment (in excess of Guaranteed Minimum Pension)	2.4% per annum	2.4% per annum

The demographic assumptions are the same as those used for funding purposes other than the allowance for future improvements in life expectancy, which has been updated taking into account the latest evidence on this issue. The updated allowance underlying the 31 March 2014 calculations is in line with the projections model published in November 2009 by the Continuous Mortality Investigation (CMI) with a long-term improvement rate of 1.5% p.a. The previous allowance as at 31 March 2013 used a long-term improvement rate of 1.25% p.a.

The value of the Fund's promised retirement benefits for the purposes of IAS26 as at 31 March 2013 was estimated as £73.1 million. The effect of the changes in financial and demographic assumptions between 31 March 2013 and 31 March 2014 as described above is to decrease the liabilities by approximately £2.3 million. Adding interest over the year increases the liabilities by a further £3.0 million, and allowing for net benefits accrued/paid over the period reduces the liabilities by £2.5 million. The net effect of all the above is that the estimated total value of the Fund's promised retirement benefits as at 31 March 2014 is therefore £71.3 million.

**Paul Middleman**  
**Fellow of the Institute and Faculty of Actuaries**  
**Mercer Limited**  
**May 2014**

# Statement of Investment Principles

This statement sets out the principles governing decisions about investments for the North East Scotland Pension Fund and Aberdeen City Council Transport Fund and is effective from 4 June 2012. In its preparation, the Council has obtained appropriate professional advice.

All investment decisions are governed by The Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010.

The Fund's objective is to meet the benefit liabilities as they fall due at a reasonable cost to the participating employers, given that employee contributions are fixed. Reasonable, in this context, refers to both the absolute level of contribution – normally expressed as a percentage of pensionable payroll – and its predictability. The employer contribution rates are impacted by both the assessed level of funding – ratio of the value of assets to liabilities – and the assumptions underlying the actuarial valuation.

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

The trade-off, and its consequences on both funding level and employer contribution level, was examined by both the Pensions Panel and Joint Investment Advisory Committee and led to the strategic benchmark.

The full statement is available on the Funds' website [www.nespf.org.uk](http://www.nespf.org.uk).

# Investment Strategy

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

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

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

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

The Fund takes proper advice at reasonable intervals regarding its investments, through its advisors to the Pensions Panel and the Joint Investment Advisory Committee.

## Asset Structure 2013/14

Asset Class	Distribution as at 31 March 2013		Distribution as at 31 March 2014	
	Fund Actual %	Fund Benchmark %	Fund Actual %	Fund Benchmark %
<b>Equities (including alternatives)</b>	84.0	82.0	83.7	80.0
<b>Bonds</b>	8.9	10.0	7.8	10.0
<b>Property</b>	5.5	8.0	5.6	10.0
<b>Cash</b>	1.5	0.0	2.9	0.0
<b>Total</b>	100.0	100.0	100.0	100.0

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

Equities 70% (range +/- 5%)  
 Property 10% (range +/- 2%)  
 Bonds 8% (range +/- 2%)  
 Alternative assets (including private equity) 12%

There is no strategic allocation to cash in the current benchmark.

# Investment Performance

During the 12 months to 31 March 2014, most major investment markets delivered strong returns. This was due to a combination of factors including increasing investor confidence, improving economic and corporate fundamentals, and the continuation of the exceptionally loose monetary policy that remained a feature in many developed countries for much of the period.

In the US, signs that the economic recovery was gathering momentum proved to be particularly beneficial to the performance of equity markets. This is evident in economically sensitive data, such as housing starts and employment. Household debt has fallen and real earnings are finally rising, putting more money in consumers' pockets. Given this good economic news it was not a surprise when the Federal Reserve unveiled plans to reduce its bond buying programme in December and subsequently announced further plans to trim the levels of monetary support.

There was also increased optimism over prospects for the UK where the economy continued to strengthen, with falling unemployment and improvements in the housing market among the main features. Mark Carney took up his position as Governor of the Bank of England in July and outlined the conditions he would hope to see before implementing any increase in interest rates.

Meanwhile, the Japanese government of Shinzo Abe continued to try to address long-standing economic problems in their country, and this had a generally positive impact on the domestic stock market. The more upbeat mood extended to the Eurozone, where even the countries hit hardest by the financial crisis showed tentative signs of improvement. Nevertheless, the Eurozone economy remains vulnerable, and it is likely that the European Central Bank will provide further support, perhaps through a version of Quantitative Easing.

Within Emerging Markets, speculation surrounding the tapering of the US Federal Reserve's quantitative easing programme raised investors' fears and led short-term investors to withdraw funds, weakening local currencies. Concerns of a potential liquidity crunch and civil unrest in a number of Emerging countries dominated headlines and heightened market volatility, which was most apparent in Russia towards the end of the period.

There was, again, a marked dispersion of returns at a country level within Emerging Markets. Firmer global growth and ongoing expansion in global trade were helpful for countries such as Taiwan and Korea. However, countries with slowing growth and large current account deficits, such as Turkey and Indonesia, fared poorly due to concerns about their vulnerability to the tightening of US monetary policy. Despite these difficulties, emerging economies are still expected to grow faster on average than developed economies in the coming year.

Although there is no doubt that further political and economic challenges lie ahead, most commentators expect a continuation of the broad, improving trend in the global economy. With many central banks likely to change monetary policy, structural reforms in countries like Japan and evolving situations in emerging markets, it is likely that currency markets will remain volatile.

## **Equities**

US equities reached record highs during the period and, over the 12 months, gained 10% in sterling terms. Meanwhile, the more positive mood in Europe led to a stock market rise of 17%, led by the peripheral countries. The UK followed the general global trend, rising strongly for much of the period to record a rise of 9% for the 12 months as a whole. Emerging Markets, however, materially underperformed developed markets primarily due to currency weakness; although the Markets ended the year in positive territory, recording a rise of 4%, this became a loss of 11% after conversion from local currencies. Similarly, Developed Asia (including Japan) rose 13% in local currency terms, but this translated into a loss of 4% for Sterling-based investors.

## **Bonds**

Government bond markets suffered a reversal of the long upward trend, with UK government bonds ending the year around 2% lower. This was largely due to investors assuming that central banks may reduce bond purchases or even raise rates now that the economy is in a sustainable recovery. Similar trends were seen in other developed markets, while emerging market bonds fared poorly owing to weaker investment sentiment and weaker currencies.

The extra yield on corporate bonds proved attractive to investors seeking to improve their returns in a low interest rate environment and, although they suffered a dip as the period progressed, they ended the year 2% higher.

## **Property**

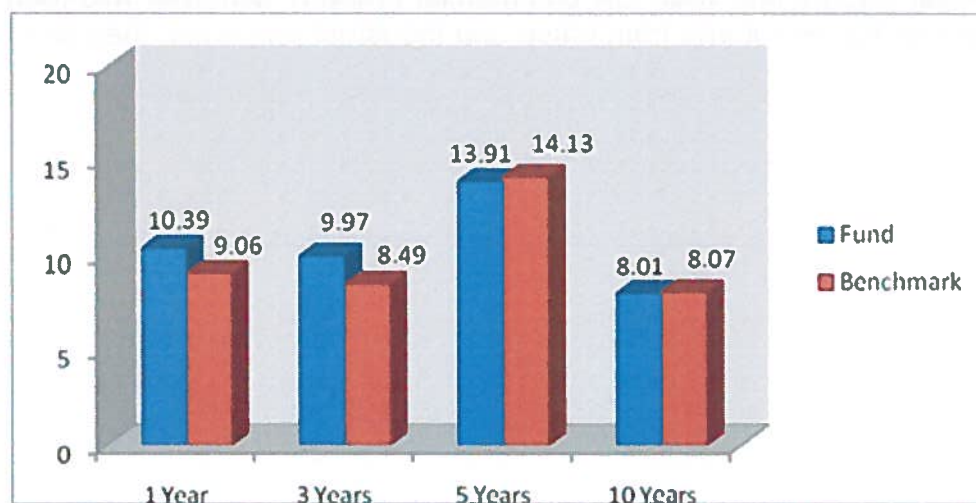
After posting modest returns last year, UK commercial property achieved mid-teen percentile returns with higher returns from office and industrial properties than retail properties.

Market Returns	1 Year (%)	3 Years (% p.a.)	5 Years (% p.a.)
Equities:-			
FTSE All Share Index	8.81	8.79	16.35
FTSE ALL World Index	6.75	7.66	14.95
FTSE All World ex UK	6.75	7.64	14.91
FTSE North American Index	10.30	12.02	17.15
FTSE Europe (ex UK) Index	17.26	7.03	14.40
FTSE Japan Index	-1.56	4.34	7.16
FTSE Developed Asia Ex Japan Index	-6.59	2.07	15.55
FTSE Emerging Markets Index	-10.79	-4.31	11.33
Bonds:-			
FTA Government Securities All Stocks	-2.56	5.49	4.46
ML UK Corporate Bonds	1.64	7.48	9.72
FTA Index Linked All Stocks	-3.80	7.78	8.02
Above are total returns in Sterling			

### North East Scotland Pension Fund

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

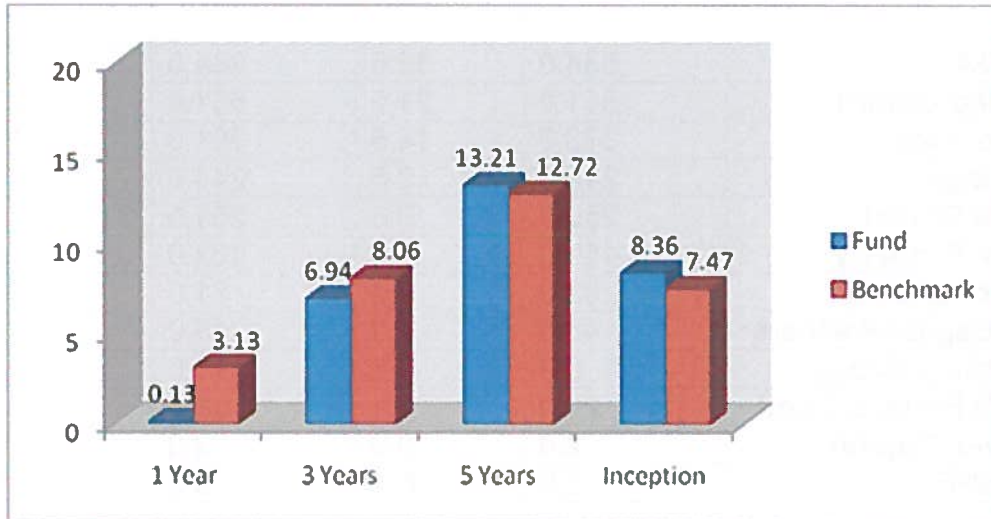
The graph below shows the Fund's performance over the short, medium and long term against the Fund's customised benchmark.





## Aberdeen City Council Transport Fund

The Transport Fund benchmark has moved over time from 70% equities / 30% bonds split to 60% equities / 40% bonds split in 2011/12. This move is part of a de-risking strategy to ensure that the assets meet the long term liabilities of the Fund.



### Long Term Fund Performance

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

Year Ending	2011/12	2012/13	2013/14	3 Yr Annualised	5 Yr Annualised
CPI	3.5	2.2	2.7	3.3	2.8
Average Earning	0.2	1.8	0.9	1.5	1.5
NESPF Return	1.0	12.9	10.4	8.0	14.0

## Investment Management Structure

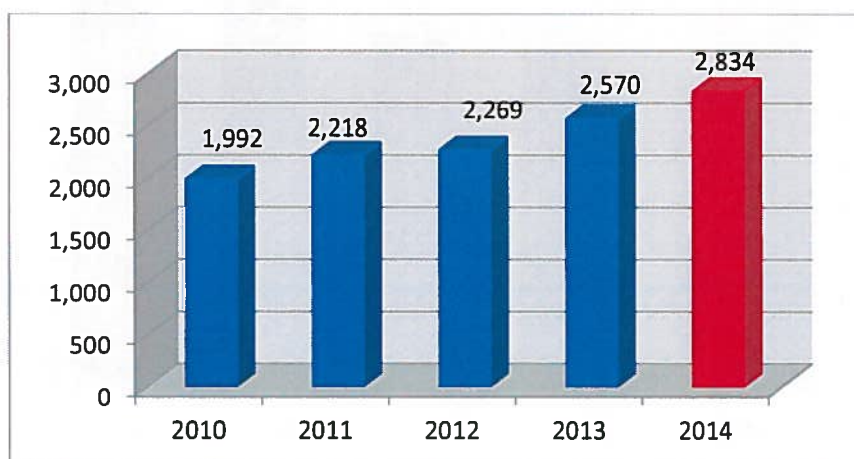
<b>Manager</b>	<b>31 March 2013 £M</b>	<b>31 March 2013 %</b>	<b>31 March 2014 £M</b>	<b>31 March 2014 %</b>
<b>SSGA</b>	834.0	32.5	934.0	33.0
<b>Baillie Gifford</b>	551.0	21.5	631.0	22.3
<b>Blackrock</b>	373.0	14.5	391.0	13.8
<b>Barings</b>	242.0	9.5	244.0	8.6
<b>AAM Global</b>	250.0	9.8	251.0	8.8
<b>AAM Property</b>	150.0	5.9	162.0	5.7
<b>Harbour Vest</b>	63.0	2.4	71.0	2.5
<b>SL Capital Partners</b>	48.0	1.8	48.0	1.7
<b>Partners Group</b>	8.0	0.3	13.0	0.4
<b>AAM Frontier Fund</b>	29.0	1.1	36.0	1.3
<b>Maven Capital</b>	2.0	0.0	2.0	0.1
<b>NESPF</b>	3.0	0.1	3.0	0.1

# Financial Performance

## North East Scotland Pension Fund Financial Summary

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions Less benefits and expenses paid					
<b>Net additions</b>	<b>32,584</b>	<b>26,897</b>	<b>35,229</b>	<b>361</b>	<b>1,833</b>
Net investment income Change in Market Value					
<b>Net return on Investment</b>	<b>540,459</b>	<b>199,197</b>	<b>15,879</b>	<b>300,543</b>	<b>261,722</b>
<b>Net increase in Fund</b>	<b>573,043</b>	<b>226,094</b>	<b>51,108</b>	<b>300,904</b>	<b>263,555</b>
<b>Fund Balance as at 31 March (Market Value)</b>	<b>1,991,914</b>	<b>2,218,008</b>	<b>2,269,116</b>	<b>2,570,020</b>	<b>2,833,575</b>

### Fund balance as at 31 March 2014 (£m)



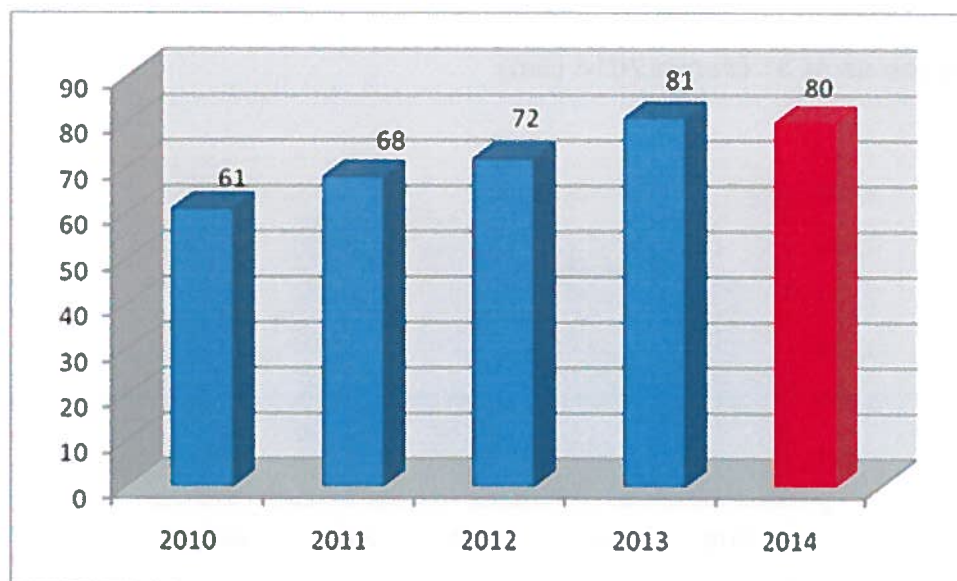
### Membership Statistics

	2009/10	2010/11	2011/12	2012/13	2013/14
Active	24,419	21,268	20,361	20,869	22,880
Pensioners	13,991	14,861	15,768	16,472	17,106
Deferred	12,427	16,125	16,425	16,876	17,267

## Aberdeen City Council Transport Fund Financial Summary

	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000	2013/14 £000
Contributions Less benefits and expenses paid <b>Net additions</b>	(67)	742	(650)	(1,190)	(989)
Net investment income Change in Market Value <b>Net return on Investment</b>	16,718	6,418	5,095	9,583	93
<b>Net increase in Fund</b>	16,651	7,160	4,445	8,393	(896)
<b>Fund Balance as at 31 March (Market Value)</b>	60,736	67,896	72,341	80,734	79,838

### Fund balance as at 31 March 2014 (£m)



### Membership Statistics

Transport Fund	2009/10	2010/11	2011/12	2012/13	2013/14
Active	136	120	105	92	85
Pensioners	356	367	381	393	405
Deferred	174	168	163	166	155

# Corporate Governance and Socially Responsible Investment

Good corporate governance is a vital element to effective corporate management leading to good management, performance and stewardship of shareholders funds. The North East Scotland Pension Fund's commitment to this promotes accountability and reassurance to its own stakeholders.

While Directors bear much of the responsibility to ensure this happens, shareholders also play a critical role in the governance process. As an institutional shareholder we have a responsibility to make full use of our right to Vote at all Annual General Meetings/Special Meetings of company's in which we invest, last year the Fund voted at 214 Meetings.

Voting advice is provided by P.I.R.C (Pensions & Investment Research Consultants Ltd). Additional advice is also received from the Local Authority Pension Fund Forum.

During the year to 31 March 2014 the most contentious Voting issues were

### Remuneration Reports

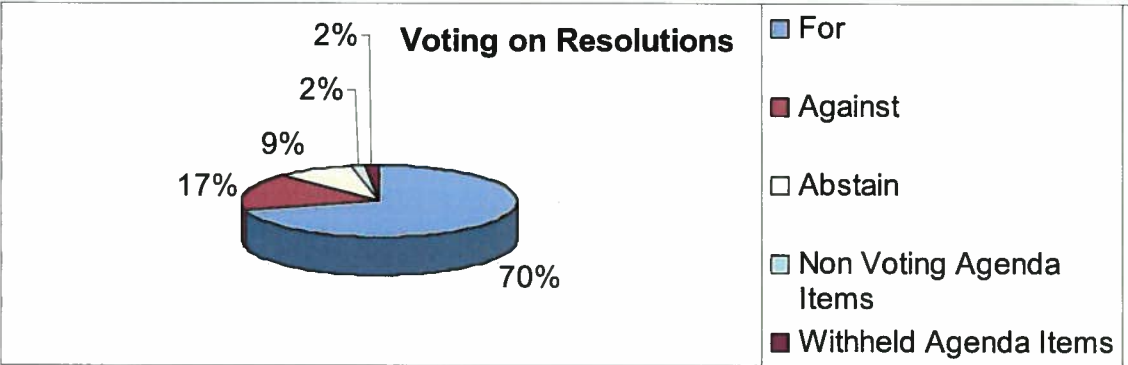
- Potential Awards deemed to be excessive
- Unjustified Bonuses
- Lack of Disclosure so it's impossible to determine if the targets set are sufficiently challenging.

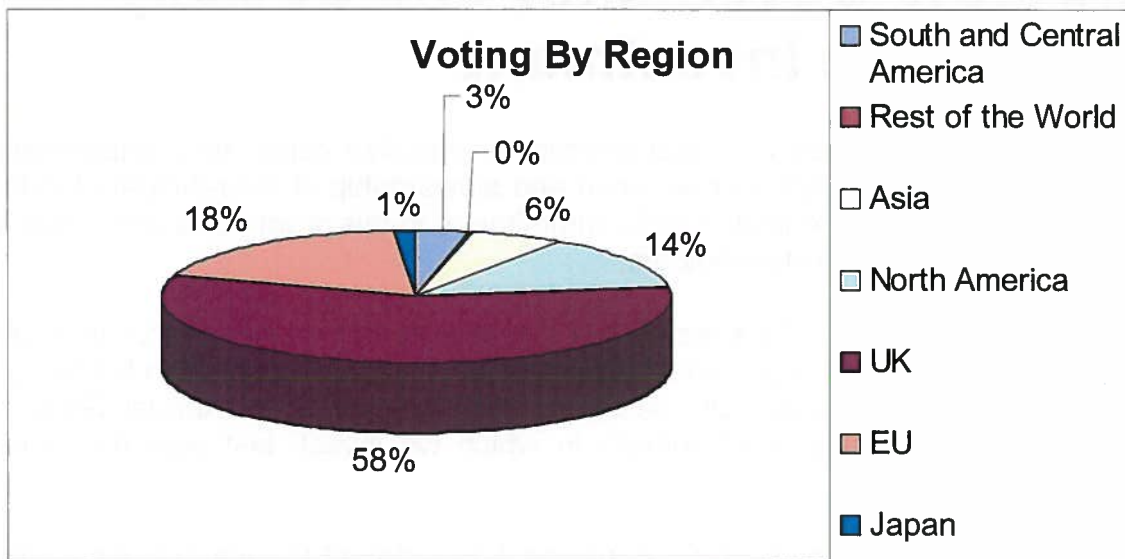
### Election of Directors

- Insufficient Independent representation on the board
- Lack of Board Diversity
- Concerns over aggregated time commitments

### Auditors Appointments

- The level of non-audit fees having the potential to compromise the objectivity of the auditing service provided





### Local Authority Pension Fund Forum

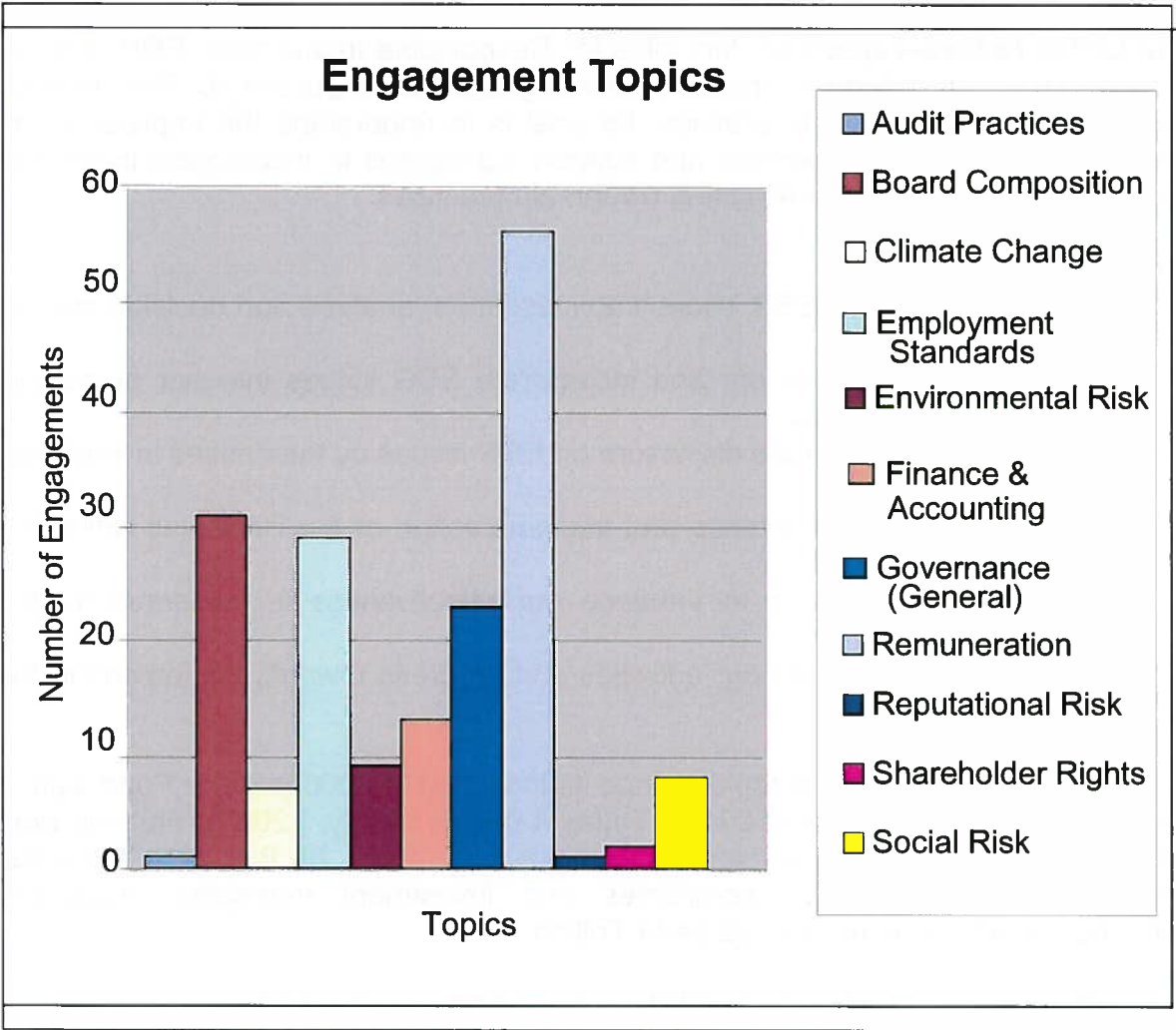
The NESPF is a member of the Local Authority Pension Fund Forum (LAPFF) which is the UK's leading collaborative shareholder engagement group. Formed in 1990, LAPFF brings together 59 local authority pension funds from across the country with combined assets of over £120 billion.

The Forum meets quarterly with agendas compiled by members of the Forum and meetings serviced by PIRC Limited as the appointed research and engagement partner to the Forum.

With stewardship now considered a core part of shareholders' responsibilities, LAPFF's long-standing commitment to responsible and robust engagement makes it one of the most important UK investor groups.

A couple of main areas of Engagement during the year have been:

- **Reliable Accounts** - One of the most significant initiatives LAPFF has been involved in this year is the work on reliable accounts. The Forum has been concerned for some time about the contributory role that IFRS (International Financial Reporting Standards) played in the financial crisis and, latterly, LAPFF have also explored the legal underpinning of the standards. LAPFF are part of a group of investors that sought counsel's opinion on the interaction between IFRS and company law, and continue to believe that there are significant issues of concern.
- **Executive Pay** – continues to be a focus of LAPFF's work with a report being published in the spring 'Expectations for Executive Pay' which set out LAPFF's new policy positions for addressing remuneration issues. Engagement has begun with companies on the proposals incorporated in the report.



**Engagement Highlights**

- 93 Letters written on Environmental, Social and Governance (ESG) issues
- 5 Annual Meetings Attended
- 30% of all engagement had a positive outcome
- 29 meetings with chairman, non-executive directors and specialist staff
- 16 Voting Alerts issued
- 73 companies undertook focused engagement
- 19% resulted in LAPFF establishing an ongoing dialogue
- 20 responses and submissions to regulators made.

## United Nations Principles for Responsible Investment

The United Nations-supported Principles for Responsible Investment (PRI) initiative is an international network of investors working together to put the six Principles for Responsible Investment into practice. Its goal is to understand the implications of sustainability issues for investors and support signatories to incorporate these into their investment decision-making and ownership practices.

The Principles are

1. We will incorporate ESG issues into investment analysis and decision-making processes.
2. We will be active owners and incorporate ESG issues into our ownership policies and practices.
3. We will seek appropriate disclosure on ESG issues by the entities in which we invest
4. We will promote acceptance and implementation of the Principles within the investment industry
5. We will work together to enhance our effectiveness in implementing the Principles
6. We will each report on our activities and progress towards implementing the Principles.

The PRI Initiative has grown rapidly since its inception in 2006 and the Fund signed up to the Principles in August 2010. Today it counts nearly 1,200 institutions from more than 50 countries as signatories, including many of the world's largest pension's funds, insurance companies and investment managers, managing combined assets of more than US \$434 Trillion.

Through our involvement in the UNPRI the Fund has participated in:

### Bangladesh

Signed up to an Investor Statement on Bangladesh, in response to the devastating collapse of Rana Plaza in Bangladesh killing 1,138 garment workers and injuring over 2,000 others. The statement urged manufactures and retailers to sign up to the Bangladesh Safety Accord agreeing to:-

*' to the goal of a safe and sustainable Bangladeshi Ready-Made Garment ("RMG") industry in which no worker needs to fear fires, building collapses, or other accidents that could be prevented with reasonable health and safety measures.'*

This engagement has been backed up with conference calls and letters being sent to encourage companies to sign up to the Accord and support the Rana Plaza Donors Trust Fund for victims and their families and dependents

### Webinar

Understanding and Managing Hydraulic Fracturing Risks, which provided an understanding on the risks faced by energy companies involved in fracking. Key issues identified were emissions to air, water extraction and pollution control, and community involvement,



Sustainable Stock Exchanges

Continued support for this initiative this engagement was looking to improve the quality of disclosure by companies on their environmental, social and corporate governance (ESG) performance and for this to be a listing requirement for stock exchanges.

# Investment & Accounting Report

The Investment and Accounting Team are responsible for all aspects of the financial management of the Pension Fund, covering the following:

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

2013/14 saw no major changes in the Investment strategy within the North East Scotland Pension Fund rather the Fund continued to implement the long term strategy of diversification into alternative assets agreed following the outcome of the 2009 Fund asset liability study.

Throughout the year the Fund continued to fund the commitments to the Scottish Loan Fund, Partners Group Global Real Estate Fund, Partners Group Global Infrastructure Fund and SL Capital while making an additional commitment to HarbourVest.

The Fund also increased its allocation to Direct Property from 8% to 10%, however this still remains within the Funds strategic allocations.

The accounting team continues to provide support across the Fund, providing enhanced reporting on an accurate and timely basis. The team has throughout the year worked very closely with the Global Custodian to ensure timely and accurate accounting for investments with particular focus on accounting for Alternative investments.

# Benefit Administration Report

The benefits team is responsible for the maintenance of member records using data supplied by all employers in the Fund. Accurate data ensures that all retirement, death and ill-health benefits are paid accurately and within agreed timescales. Information on data performance can be found in the Technical and Communication Report.

In 2013/14 new task allocation procedures were introduced to enable benefits staff to better prioritise their workloads. This resulted in an 82% reduction in outstanding tasks over a 9 week period.

We continued to assist employers with auto enrolment with 11 of our largest employers now passed their auto enrolment staging date. This has resulted in an increased interest in the Fund, with record website visits and an increased number of new starts and lower opt outs. For employers yet to reach their staging date, detailed guidance is available online.

## Regulation Changes

LGPS (Miscellaneous Amendments) (Scotland) Regulations 2014.

The amended regulations came into force on 3 March 2014 in respect of the following:

- i) to comply with auto enrolment regulations, members with a contract of employment of less than three months who meet the auto enrolment criteria can be auto enrolled by their employer (this amendment backdated to 1<sup>st</sup> February 2013.)
- ii) Clarification of how accumulated Additional Voluntary Contributions can be used at retirement.

## Reform of LGPS Scotland

Draft regulations for a new LGPS Scotland were issued for consultation in January 2014 with actual regulations due late May 2014 and transitional regulation expected late autumn. The main changes, which are expected to come into effect on 1 April 2015, are outlined below:

- The scheme will change from a final salary scheme to a career average (CARE);
- The accrual rate of the scheme will change from a 60th to a 49<sup>th</sup>;
- Normal Retirement age will fall in line with State Pension Age;
- A 50/50 scheme will be introduced to offer half the pension benefits for half the employee contributions;
- Benefits for pre April 2015 will be protected i.e. will still be calculated on Final Salary and length of membership.

The NESPF as members of the Scottish Pension Liaison Group are actively involved in giving input to the SPPA on the make-up of the new regulations.

### **Transfer of Police and Fire Scheme administration to SPPA.**

Initial meetings with SPPA to discuss transfer of administration duties for the Police and Fire schemes in Scotland by 1 April 2015 have taken place with further meetings scheduled to agree timescales for the transfer of data and testing.

### **Statements**

Year-end processing of LGPS member records, which included data checks for approximately 22,000 members, was completed by 31 August 2013. Annual benefit statements for 36,000 active and deferred members were issued by November 2013.

Annual allowance calculations were run by Altair for all members and resulted in a number of Pension Saving Statements being issued to those close to, or exceeding, the £50,000 annual allowance limit.

### **Customer Service**

The benefits team provide frontline services to our members and are committed to providing this to the highest standard. Additionally they offer a range of presentations including induction and pre-retirement courses and pension surgeries.

# Technical & Communication Report

## Pension Administration Strategy (PAS)

A PAS was developed in accordance with Regulation 60A of the LGPS (Administration) (Scotland) Regulations 2008 and published in July 2013 following consultation with employers.

The strategy specifies levels of service and performance measures for participating employers and the NESPF. Amendments will be made to the PAS going forward to accommodate new working practices which will only be introduced after consultation with employers.

## Employer Performance Measurement

Service standard	Amount achieved	Percentage
New Start notification (electronic) within 4 weeks of employees first pay date	243	92%
Death in service notification within 5 working days	22	71%
Year end queries within 10 working days	291	67%
Early retirement information at least 4 weeks before date of leaving	121	49%

Other performance measures	Amount	Percentage
Year end queries outstanding	0	100%
Contributions paid by 19 <sup>th</sup> of month	636	95%
Registered Pension Liaison Officers	35	63%
Copy of employer discretions received	27	48%
Notification of medical advisor received	26	46%
Annual contribution return received before 30 April 2013	26	46%

## NESPF Performance Measurement

Service standard	Amount achieved	Percentage
Retirement estimate within 10 days	506	100%
Transfer in quotation within 10 days	114	99%
Deferred benefit notification within 10 days	965	95%
Refund notification within 10 days	2422	95%
Transfer out notification within 10 days	86	88%
Retirement notification within 10 days	488	82%
Death in service notification within 5 days	17	77%

<b>Other performance measures</b>	<b>Amount</b>
Employer forum	1
Employer training sessions	11
Employer briefings	4
Employer technical bulletins	4

### **Employer Services**

Employer Services allows small employers to meet PAS requirements for electronic submission of data. Employers can also view data held on the pension administration system for comparison against their own records.

2013/14 saw an increase in file submissions with the quality of data provided remaining high.

<b>Registration</b>	<b>2013/14</b>	<b>2012/13</b>
Number of registered employers	34	10

<b>File submissions</b>	<b>2013/14</b>	<b>2012/13</b>
Number of file submissions	554	104

<b>Data quality</b>	<b>2013/14</b>	<b>2012/13</b>
File processed with no amendments required	82%	87%
File processed with minor amendments	18%	13%
Unable to process file	0	0

### **Record Keeping**

Annual checks were carried out against all scheme data held on the pension administration system as at 31 December 2013 which included:

- Numerical data reporting
- Conditional data tests
- Common data measured against benchmarks set by The Pensions Regulator
- Risk assessment carried out on failed tests
- Action plan created to address failed tests

Results were reported and published on the Pension Fund website.

### **Communications**

Highlights of the year include the Fund's first Pensioners Open Day. Demonstrations of My Pension were given as part of the continued promotion of e-communications while pension officers were on hand to answer any queries attendees had. Following its success the Fund will look to further enhance this event and expand it to include those coming up for retirement and other benefits for pensioners.

The Annual Forum, which was particularly well received, introduced employers to the new Local Government Pension Scheme and gave them a first look at the Fund's

new covenant agreement. In preparation for the new scheme, the communications team are participating in a national group to create and implement a communications strategy to help prepare members and employers for the changes to come.

This year the Fund was recognised at the LCG Investment awards as it was a finalist in the Fund of the Year category. Awards are becoming increasingly competitive but the Fund made 4 successful submissions to the Professional Pension Awards and were shortlisted in the Public Sector Scheme of the Year, Best use of IT & Technology, Best Administration and Large Scheme of the Year categories.

Throughout 2013/14 NESPF issued a survey to all new members of the LGPS. The survey contained 7 questions about the level of service provided by NESPF with a "satisfaction rating" from 1 to 5, where 1 is poor and 5 is excellent.

A total of 3,466 questions were answered with the following scores awarded:

<b>Score</b>	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>
Answers	48	66	608	1610	1134
Percentage	1%	2%	18%	46%	33%

# **Financial Statements**

**FOR THE PERIOD**

**1 APRIL 2013 TO 31 MARCH 2014**

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





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# Explanatory Foreword

## Introduction

On an annual basis the Pension Funds must publish a set of Financial Statements, which comply with recognised Accounting Codes of Practice. The purpose of the Financial Statements is to demonstrate the Pension Funds' stewardship and accountability of the public funds to which it is entrusted.

This foreword provides an explanation of the Pension Funds' Financial Statements, along with a summary of any changes to the Pension Funds over the period to 31 March 2014.

## Fund Accounts

These provide a summary of the income and expenditure that the Pension Funds have generated and consumed in delivering the Local Government Pension Scheme. Included is the income generated from employer and employee contributions and investment income, as well as the cost of providing benefits and administration of the Funds.

## Net Asset Statements

These provide a breakdown of the Funds' assets and liabilities, including investment assets, detailed by asset class together with current assets and liabilities.

## Statement of Responsibilities

This statement set out the respective responsibilities of the Funds and the Head of Finance for the Statement of Accounts.

## Achievements this year include:

The North East Scotland Pension Fund saw a rise in value over the period of £264m, while the Aberdeen City Council Transport Fund fell in value by £1m. Full investment returns can be found in the Annual Report.

## Fund Structure

The North East Scotland Pension Funds are administered by Aberdeen City Council within the Local Government Pension Scheme regulations. There are two funds, the North East Scotland Pension Fund (NESPF) and the Aberdeen City Council Transport Fund (ACC Transport Fund).

The Scheme was established under the Superannuation Fund Act 1972, it is a statutory scheme and is contracted out of the Second State Pension. The scheme is open to all employees of the scheduled bodies, except for those whose employment entitles them to belong to another statutory pension scheme (e.g. Police, Fire and Teachers).

Employees of admitted bodies can join the scheme subject to the admitted bodies' individual admission criteria, which are outwith the control of Aberdeen City Council.

### There are 12 scheduled bodies:

Aberdeen City Council	Aberdeenshire Council	The Moray Council
Scottish Fire and Rescue Service	Scottish Police Authority	Visit Scotland
Scottish Water	Moray College	
North East Scotland College	NESTRANS	
Northern Community Justice Authority	Grampian Valuation Joint Board	

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

A list of the admitted bodies is available from the office of the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH and is also contained within the Annual Pension Funds' Report.

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

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

With effect from 1 April 2009, employee contributions are based on tiered rates and detailed below are the tiered rates for 2013/2014.

<b>Band</b>	<b>Range</b>	<b>Contribution Rate</b>
1	On earnings up to and including £19,800	5.50%
2	On earnings above £19,800 and up to £24,200	7.25%
3	On earnings above £24,200 and up to £33,200	8.50%
4	On earnings above £33,200 and up to £44,200	9.50%
5	On earnings above £44,200	12.00%

### **Membership**

<b>North East Scotland Pension Fund</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
Number of Employers with Active Members	55	57
Number of Employees in the Scheme	20,869	22,880
Number of Pensioners	16,472	17,106
Deferred Pensioners	16,876	17,267

<b>Aberdeen City Council Transport Fund</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
Number of Employers with Active Members	1	1
Number of Employees in the Scheme	92	85
Number of Pensioners	393	405
Deferred Pensioners	166	155

### **Investments**

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

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

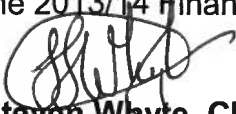
The Funds have been invested in accordance with the investment controls laid down in the Local Government Pension Scheme (Management and Investment of Funds) (Scotland) Regulations 2010, and quoted investments of the Funds have been re-valued to market value at 31 March 2014 with the gain/loss on revaluation being attributed to the Funds.

## **Actuarial Valuation**

Detailed in the notes to the accounts, is the outcome of the 2011 Actuarial Valuation, reflecting the future employer contribution rates required to meet the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund future liabilities.

## **Acknowledgement**

The production of the Financial Statements is very much a team effort involving many staff as well as information supplied from our advisors. I would like to take this opportunity to acknowledge the considerable efforts of all staff in the production of the 2013/14 Financial Statements.



**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

# Accounting Policies

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

The Financial Statements summarise the Funds' transactions for the 2013/2014 financial year and its position at year end as at 31 March 2014.

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

The Funds' Financial Statements are generally prepared on an accruals basis.

## Contribution Income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis.

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

## Transfers to and from other Schemes

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

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

## Investment Income

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

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

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

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

The property portfolio accounts are prepared on an accrual basis.

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

## **Fund Account - Expenses**

### **Benefits Payable**

Pensions and lump sums 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.

### **Administrative Expenses**

All administrative expenses 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 council policy.

### **Investment Management Expenses**

All investment management expenses are accounted for on an accrual basis. Other than some alternative investments where management fees are included within the Net Asset Value (NAV).

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

In addition the Fund has negotiated performance related fees with a number of its investment managers. Performance related fees were £2,641,104 in 2013/14 (2012/13 £1,121,187).

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 2014 determined as follows:

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

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

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

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

Unlisted investments are valued using one of the following methodologies:

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

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

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

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

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

A full copy of the valuer's report including all general assumptions and definitions is available on request from the Head of Finance, Aberdeen City Council, Town House, Broad Street, Aberdeen, AB10 1AH.

## **Derivatives**

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

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

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

## **Cash**

Cash comprises cash in hand and demand deposits.

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

## **Financial Liabilities**

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

## **Actuarial Present Value of Promised Retirement Benefits**

The actuarial present value of promised retirement benefits of each of the Funds are assessed on a quarterly basis by the Scheme Actuary, and in accordance with the requirements of IAS19 and relevant actuarial standards.

As permitted under IAS26, the Funds have opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement, (Note 1) together with the full Statement by the Consulting Actuary as Appendix 1 of the Annual Report.

Orphan liabilities are liabilities in the North East Scotland Pension Fund for which there is no sponsoring employer within the Fund. Ultimately, orphan liabilities must be underwritten by all other employers of the Fund.

Under the termination policy of the Funds, as set out by the Scheme Actuary, a termination assessment will be made on a least risk funding basis, unless the admission body has a guarantor within the Fund or a successor body exists to take over the liabilities. This is to protect the other employers in the Fund as, at termination, the admitted body's liabilities will become "orphan liabilities" within the Fund.

### **Additional Voluntary Contributions**

North East Scotland Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the Pension Fund. The Fund has appointed Prudential as its AVC provider together with Standard Life. AVC's are paid to the AVC provider by the employers and are specifically for providing additional benefits for the individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year, from each service provider. AVCs are not included within the financial statements however they are detailed in Note 25.

### **Critical Judgments in applying Accounting Policies**

#### **Unquoted Private Equity Investments**

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

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

The value of unquoted private equities at 31 March 2014 was £123,090,379 (31 March 2013 £103,621,886).

#### **Actuarial Present Value of Promised Retirement Benefits**

Each fund is required to disclose the estimated actuarial present value of promised retirement benefits as at the end of the financial year. These estimates are prepared by the Fund Actuary. These values are calculated in line with International Accounting Standard 19 (IAS19) assumptions and comply with requirements of IAS26. However, the results are subject to significant variances based on changes to the underlying assumptions.

The figures are only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

### **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 affect, 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.

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Fund Account for the year ended 31 March 2014

<b>Contributions Receivable</b>	<b>Notes</b>	<b>2012/13</b>	<b>2013/14</b>
		£'000	£'000
Employee Contributions	2	24,918	26,007
Employer Contributions	2	77,585	81,679
Transfer Values	3	2,962	2,939
Other Income		56	56
		<b>105,521</b>	<b>110,681</b>
<b>Benefits Payable</b>			
Retirement Pensions	4	80,146	83,532
Retirement Allowances	4	15,983	16,668
Death Gratuities	4	2,575	3,485
Contributions Refunded	5	398	618
Transfer Values	5	4,069	2,933
Fund Administration	6	1,989	1,612
		<b>105,160</b>	<b>108,848</b>
<b>Net additions from Dealings with Members</b>		<b>361</b>	<b>1,833</b>
<b>Return on Investment</b>			
Investment Income	7	45,969	55,240
Change in Market Value of Investments		260,044	217,074
Investment Management Expenses	8	(5,470)	(10,592)
<b>Net Return on Investments</b>		<b>300,543</b>	<b>261,722</b>
<b>Net Increase in the Fund during the year</b>		<b>300,904</b>	<b>263,555</b>
<b>Opening Net Assets of the Fund</b>		<b>2,269,116</b>	<b>2,570,020</b>
<b>Net Assets of the Fund at the end of the year</b>		<b>2,570,020</b>	<b>2,833,575</b>

## NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Net Assets Statement as at 31 March 2014

	Notes	2012/13 £'000	2013/14 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		43,748	57,649
Fixed Interest, Corporate		28,548	15,894
Fixed Interest, Overseas		155,937	154,848
Index Linked		10,932	3,012
Equities UK		607,641	638,325
Equities, Overseas		550,689	610,215
Pooled Vehicle		870,945	982,598
Property, Unit Trust		11	7
Property, Direct		140,365	159,240
Unit Trust, Other		4,638	8531
Derivative Contracts (Including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		0	1
Other, Private Equity		118,472	136,414
Funds held by Investment Managers		28,203	49,053
ACC Loan Fund Deposit	22	11,760	14,390
<b>Investment Assets</b>		<b><u>2,571,889</u></b>	<b><u>2,830,177</u></b>
<b>Investment Liabilities</b>			
Derivative Contracts (including, Futures Options, Forward Foreign Exchange Contracts and Swaps)		(5,822)	(386)
<b>Net Investment Asset</b>		<b><u>2,566,067</u></b>	<b><u>2,829,791</u></b>
<b>Long Term Asset</b>	20	132	99
<b>Current Assets</b>	20	18,973	19,320
<b>Current Liabilities</b>	20	(15,152)	(15,635)
<b>Net Assets of the Fund at the end of the year</b>		<b>2,570,020</b>	<b>2,833,575</b>

  
**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

**The Unaudited Accounts were issued on 16 June 2014 and the Audited  
Accounts were authorised for issue on 30 September 2014.**

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Fund Account for the year ended 31 March 2014

<b>Contributions Receivable</b>	<b>Notes</b>	<b>2012/13</b>	<b>2013/14</b>
		<b>£'000</b>	<b>£'000</b>
Employee Contributions	2	152	144
Employer Contributions	2	1,900	2,032
Other Income		308	309
		<b><u>2,360</u></b>	<b><u>2,485</u></b>
<b>Benefits Payable</b>			
Retirement Pensions	3	2,763	2,821
Retirement Allowances	3	694	567
Death Gratuities	3	0	7
Contributions Refunded	4	2	0
Transfer Values	4	26	22
Fund Administration	5	65	57
		<b><u>3,550</u></b>	<b><u>3,474</u></b>
<b>Net Additions from Dealings with Members</b>		<b><u>(1,190)</u></b>	<b><u>(989)</u></b>
<b>Return on Investment</b>			
Investment Income	6	1,517	1,655
Change in Market Value of Investments		8,050	(1,563)
Investment Management Expenses	7	16	1
<b>Net Return on Investments</b>		<b><u>9,583</u></b>	<b><u>93</u></b>
<b>Net Increase in the Fund during the year</b>		<b><u>8,393</u></b>	<b><u>(896)</u></b>
<b>Opening Net Assets of the Fund</b>		<b><u>72,341</u></b>	<b><u>80,734</u></b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>80,734</u></b>	<b><u>79,838</u></b>

## ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Net Assets Statement as at 31 March 2014

	Notes	2012/13 £'000	2013/14 £'000
<b>Investment Assets</b>			
Fixed Interest, Public Sector		15,871	13,807
Fixed Interest, Overseas		1,330	2,781
Equities UK		20,884	23,283
Equities, Overseas		4,665	6,438
Pooled Vehicle		24,470	20,874
Property, Unit Trust		1	1
Index Linked Securities		7,550	7,163
Funds held by Investment Managers		5,050	4,452
ACC Loan Fund Deposit	19	198	306
<b>Net Investment Assets</b>		<b><u>80,019</u></b>	<b><u>79,105</u></b>
<b>Long Term Asset</b>	17	<b>458</b>	<b>431</b>
<b>Current Assets</b>	17	<b>459</b>	<b>521</b>
<b>Current Liabilities</b>	17	<b>(202)</b>	<b>(219)</b>
<b>Net Current Assets</b>		<b>257</b>	<b>302</b>
<b>Net Assets of the Fund at the end of the year</b>		<b><u>80,734</u></b>	<b><u>79,838</u></b>

  
**Steven Whyte, CPFA**  
**Aberdeen City Council, Head of Finance**  
**Date: 30 September 2014**

**The Unaudited Accounts were issued on 16 June 2014 and the Audited Accounts were authorised for issue on 30 September 2014.**



## NOTES TO THE NORTH EAST SCOTLAND PENSION FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the North East Scotland Pension Fund (NESPF) was provided as at 31 March 2011.

Information from the 2011 Actuarial Valuation is detailed below:

Market Value of Assets at Valuation	£2,218,000,000
Liabilities	£2,512,400,000
Deficit	£ 294,400,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 88%

### Correcting the Shortfall

The funding objective as set out in the Funding Strategy Statement is to achieve and maintain a funding level of 100% of liabilities (**the funding target**). In line with the Funding Strategy Statement, where a shortfall exists at the effective date of the valuation a deficit recovery plan will be put in place which requires additional contributions to correct the shortfall. The maximum deficit recovery period for the Fund has been set as **22 years**.

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £294.4 million could be eliminated by an average contribution addition of 3.7% of Pensionable Pay for 22 years. This would imply an average employer contribution rate of 17.9% of Pensionable Pay (19.3% at the previous valuation).

Post 31 March 2011 there was significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority (following consultation with the actuary and employers) agreed **that average contributions will be kept, as far as possible, at previous rates i.e. 19.3% of Pensionable Pay**. To achieve this in practice the deficit recovery period will be restricted accordingly to lower than the maximum recovery period of 22 years.

In practice, each employer's position is assessed separately, details of which can be found in the 2011 Actuarial Valuation, this sets out the contributions for each employer over the three year period to 31 March 2015.

## **Schedule to the Rates and Adjustments Certificate**

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015. The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### **Assumptions used to Calculate Funding Target**

Pre-retirement	5.90% p.a
Post-retirement	5.90% p.a
Implied Market Price Inflation (RPI)	3.80% p.a
Assumed Long Term Price Inflation (CPI)	3.00% p.a
Salary Increases	4.78% p.a
Pension Increases in Payment	3.00% p.a

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

The full Actuarial Report and the Funding Strategy statement are available from the office of the Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen, AB10 1AH.

### **Actuarial Statement**

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £3,423m (2013 £3,435m). The figure is used for the statutory accounting purposes by North East Scotland Pension Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes IAS26 and has no validity in other circumstances payable to the Fund. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in the Annual Report.

**Note 2: Contributions Receivable**

	2012/13	2013/14
	£'000	£'000
Employees	24,918	26,007
Employers	77,585	81,679
<b>Total</b>	<b>102,503</b>	<b>107,686</b>

	2012/13	2013/14
	£'000	£'000
Scheduled Bodies	92,889	96,095
Admitted Bodies	8,905	8,947
Transferee Admission Bodies	709	2,644
<b>Total</b>	<b>102,503</b>	<b>107,686</b>

**Note 3: Transfers in from other Pension Funds**

	2012/13	2013/14
	£'000	£'000
Individual Transfers	2,962	2,939
<b>Total</b>	<b>2,962</b>	<b>2,939</b>

**Note 4: Benefits Payable**

	2012/13	2013/14
	£'000	£'000
Pensions	80,146	83,532
Commutation and Lump Sum Retirement Benefits	15,983	16,668
Lump Sum Death Benefits	2,575	3,485
<b>Total</b>	<b>98,704</b>	<b>103,685</b>

	2012/13	2013/14
	£'000	£'000
Scheduled Bodies	59,805	95,050
Admitted Bodies	38,846	8,066
Transferee Admission Bodies	53	569
<b>Total</b>	<b>98,704</b>	<b>103,685</b>

**Note 5: Payment to and on Account of Leavers**

	<b>2012/13</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>
Refunds to Members Leaving Service	317	433
Payments for Members Joining State Scheme	81	185
Individual Transfers	4,069	2,933
<b>Total</b>	<b>4,467</b>	<b>3,551</b>

**Note 6: Administrative Expenses**

	<b>2012/13</b>	<b>2013/14</b>
	<b>£'000</b>	<b>£'000</b>
Pension Fund Staffing Costs	899	896
Support Services including IT	848	482
Printing and Publications	17	28
Pension Fund Committee	25	12
External Audit Fees	37	37
Internal Audit fees	10	5
Actuarial Fees	153	152
<b>Total</b>	<b>1,989</b>	<b>1,612</b>

**Note 7: Investment Income**

	2012/13	2013/14
	£'000	£'000
Fixed Interest Securities	8,471	7,952
Equity Dividends	29,530	32,620
Pooled Property Investments	14	0
Property -		
Rental Income	11,118	12,077
Direct Operating Expenses	(1,781)	(1,059)
<b>Net Property Income</b>	<b>9,337</b>	<b>11,018</b>
Interest on Cash Deposit	174	132
Other (including P/L from Currency and Derivatives)	1,020	5,991
<b>Total</b>	<b>48,546</b>	<b>57,713</b>
Tax -		
Withholding Tax – Fixed Interest Securities	(37)	39
Withholding Tax - Equities	(2,538)	(2,512)
Withholding Tax - Pooled	(2)	0
<b>Total Tax</b>	<b>(2,577)</b>	<b>(2,473)</b>
<b>Net Total</b>	<b>45,969</b>	<b>55,240</b>

**Note 8: Investment Expenses**

	2012/13	2013/14
	£'000	£'000
Management Fees	5,338	10,454
Custody Fees	132	138
<b>Total</b>	<b>5,470</b>	<b>10,592</b>

Management Fees for 2013/14 include Private Equity Fees which have previously been included in the Net Asset Value of these assets with in the Net Asset Statement.

## Note 9: Investment Assets

### Reconciliation of Movements in Investments and Derivatives

	Market Value	Purchases	Sales	Change in Market	Market Value
	31 March			Value	31 March
	2013				2014
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	239,165	177,958	(168,219)	(17,501)	231,403
UK Equities	607,641	949,397	(953,323)	34,610	638,325
Overseas Equities	550,689	126,971	(124,602)	57,157	610,215
Pooled Investments	875,594	16,367	(2,799)	101,974	991,136
Property	140,365	17,700	(13,000)	14,175	159,240
Private Equity	118,472	24,315	(19,795)	13,422	136,414
	<b>2,531,926</b>	<b>1,312,708</b>	<b>(1,281,738)</b>	<b>203,837</b>	<b>2,766,733</b>
<b>Derivative contracts</b>					
FX Contracts	(5,822)	11,366	(19,166)	13,237	(385)
	<b>2,526,104</b>	<b>1,324,074</b>	<b>1,300,904</b>	<b>217,074</b>	<b>2,766,348</b>
<b>Other</b>					
Cash	39,963				63,443
<b>Net Investment Assets</b>	<b>2,566,067</b>				<b>2,829,791</b>

	<b>Restated Market Value</b>	<b>Purchases</b>	<b>Sales</b>	<b>Change in</b>	<b>Market Value</b>
	<b>31 March</b>			<b>Market</b>	<b>31 March</b>
	<b>2012</b>			<b>Value</b>	<b>2013</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Fixed Interest	209,847	203,935	(184,647)	10,030	239,165
UK Equities	505,568	184,987	(153,303)	70,389	607,641
Overseas Equities	483,213	64,555	(55,805)	58,726	550,689
Pooled Investments	742,777	25,647	(12,157)	119,327	875,594
Property	138,755	34,144	(22,067)	(10,467)	140,365
Private Equity	105,195	13,162	(16,637)	16,752	118,472
	<b>2,185,355</b>	<b>526,430</b>	<b>(444,616)</b>	<b>264,757</b>	<b>2,531,926</b>
<b>Derivative Contracts</b>					
FX Contracts	827	10,048	(11,984)	(4,713)	(5,822)
	<b>2,186,182</b>	<b>536,478</b>	<b>(456,600)</b>	<b>260,044</b>	<b>2,526,104</b>
<b>Other</b>					
Cash	73,520				39,963
<b>Net Investment Assets</b>	<b>2,259,702</b>				<b>2,566,067</b>

**Note 10: Analysis of Investments (excluding Derivatives Contracts and Cash)**

	2012/13	2013/14
	£'000	£'000
<b>Fixed Interest Securities</b>		
<b>UK</b>		
Public Sector Quoted	43,748	57,649
Corporate Quoted	28,548	15,894
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	119,669	115,886
Corporate Quoted	36,268	38,962
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>228,233</b>	<b>228,391</b>
<b>Subtotal Index Linked Securities</b>	<b>10,932</b>	<b>3,012</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	607,641	638,325
Unquoted	0	0
<b>Overseas</b>		
Quoted	550,689	610,215
Unquoted	0	0
<b>Subtotal Equities</b>	<b>1,158,330</b>	<b>1,248,540</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	0
Unit Trusts	454,892	471,751
Pooled Property Investment	11	7
<b>Overseas</b>		
Fixed Income	7,501	7,237
Unit Trusts	413,190	512,141
<b>Subtotal Pooled Funds</b>	<b>875,594</b>	<b>991,136</b>
Private Equity	118,472	136,414
Property, Direct	140,365	159,240
<b>Grand Total</b>	<b>2,531,926</b>	<b>2,766,733</b>



## Note 11: Analysis of Derivatives

### Futures

Outstanding exchange traded future contracts are as follows:

Type	Expires	Economic Exposure	Market Value	Economic Exposure	Market Value
			31 March 2013		31 March 2014
		£000	£000	£000	£000
<b>Assets</b>					
Overseas Fixed Interest	Less than one year	0	0	(7,408)	40
<b>Liabilities</b>					
UK Fixed Interest	Less than one year	0	0	(13,691)	(51)
<b>Net Futures</b>			<b>0</b>		<b>(11)</b>

## Forward Foreign Currency

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

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

Settlement	Currency Bought	Local Value £'000	Currency Sold	Local Value £'000	Asset Value	Liability Value £'000
Up to 3 Months	ZAR	167	GBP	166	1	
Up to 3 Months	ZAR	29	GBP	29	0	
Up to 3 Months	SEK	81	GBP	81	0	
Up to 3 Months	GBP	301	SEK	301	0	
Up to 3 Months	SEK	128	GBP	128	0	
Up to 3 Months	GBP	391	SEK	391	0	
Up to 3 Months	GBP	4,117	AUD	4,209		92
Up to 3 Months	GBP	3,089	CAD	3,094		5
Up to 3 Months	GBP	60,546	EUR	60,372	174	
Up to 3 Months	GBP	1,252	EUR	1,240	12	
Up to 3 Months	GBP	2,769	EUR	2,771		2
Up to 3 Months	GBP	13,916	YEN	13,990		74
Up to 3 Months	GBP	4,918	YEN	4,838	80	
Up to 3 Months	GBP	5,855	MXN	5,950		95
Up to 3 Months	GBP	1,317	NOK	1,320		3
Up to 3 Months	GBP	10,533	PLN	10,583		50
Up to 3 Months	AUD	2,381	GBP	2,381	0	
Up to 3 Months	USD	3,001	GBP	3,034		33
Up to 3 Months	GBP	2,454	SEK	2,427	27	
Up to 3 Months	GBP	53,096	USD	53,410		314

<b>Net Forward Currency Contracts at 31 March 2014</b>		<b>(374)</b>
<b>Prior Year Comparative</b>		
Open Forward Currency Contracts at 31 March 2013	300	(6,122)
<b>Net Forward Currency Contacts at 31 March 2013</b>		<b>(5,822)</b>

## Note 12: Investments Analysed by Fund Manager

	31 March 2013	%	31 March 2014	%
	£'000		£'000	
<b>Investment Assets</b>				
State Street Global Advisors	834,063	32.5	934,417	33.0
Baillie Gifford	550,590	21.5	631,450	22.3
Blackrock Asset Management	372,778	14.5	390,686	13.8
Baring Asset Managers	242,445	9.5	244,425	8.6
AAM Global Ex UK	250,311	9.8	250,712	8.8
Aberdeen Frontier	29,441	1.1	35,825	1.3
Aberdeen Property Investors	150,171	5.9	161,682	5.7
HarbourVest	62,719	2.4	71,029	2.5
Standard Life	47,800	1.8	47,954	1.7
ACC Loan Fund Deposit	11,760	0.5	14,390	0.5
Global Custodian	1,308	0.0	29,736	1.1
Partners Group	7,583	0.3	12,662	0.4
NESPF	3,258	0.1	2,883	0.1
RREEF	11	0.0	7	0.0
Maven Capital	1,829	0.0	1,933	0.1
	<b>2,566,067</b>	<b>99.9</b>	<b>2,829,791</b>	<b>99.9</b>
<b>Net Long and Short Term Assets</b>				
Bank Account	268	0.0	126	0.0
Long and Short Term Debtors Less Creditors	3,685	0.1	3,658	0.1
<b>Net Assets</b>	<b>2,570,020</b>	<b>100.0</b>	<b>2,833,575</b>	<b>100.0</b>

### Note 13: Stock Lending

	2012/13	Collateral	2013/14	Collateral
	£'000	Percentage	£'000	Percentage
<b>Stock on Loan</b>				
Equities	64,610		150,023	
Fixed Interest	24,082		42,869	
<b>Total Exposure</b>	<b>88,692</b>		<b>192,892</b>	
<b>Total Collateral</b>	<b>97,336</b>	<b>109.75</b>	<b>215,225</b>	<b>111.58</b>

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

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

### Note 14: Property Holdings

	2012/13	2013/14
	£'000	£'000
Opening Balance	138,755	140,365
Additions	34,144	17,700
Disposals	(22,067)	(13,000)
Net Increase in Market Value	(10,467)	14,175
Other Changes in Fair Value	0	0
<b>Closing Balance</b>	<b>140,365</b>	<b>159,240</b>

## Note 15: Financial Instruments

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

Designated as Fair Value through Profit & Loss 31 March 2013 £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value through Profit & Loss 31 March 2014 £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
239,165			Fixed Interest	231,403		
1,158,330			Equities	1,248,540		
875,583			Pooled	991,129		
11			Pooled Property	7		
118,472			Private Equity	136,414		
140,365			Property	159,240		
0			Derivative contracts	1		
	39,963		Cash		63,443	
	0		Other		0	
	19,105		Debtors		19,419	
<b>2,531,926</b>	<b>59,068</b>		<b>Subtotal</b>	<b>2,766,734</b>	<b>82,862</b>	
			<b>Financial Liabilities</b>			
(5,822)			Derivative contracts	(386)		
			Other			
		(15,152)	Creditors			(15,635)
			Borrowings			
<b>(5,822)</b>		<b>(15,152)</b>		<b>(386)</b>		<b>(15,635)</b>
<b>2,526,104</b>	<b>59,068</b>	<b>(15,152)</b>		<b>2,766,348</b>	<b>82,862</b>	<b>(15,635)</b>
		<b>2,570,020</b>	<b>Total</b>			<b>2,833,575</b>

**Note 16: Net Gains and Losses on Financial Instruments**

31 March 2013		31 March 2014
£'000	Financial Assets	£'000
264,757	Fair Value through Profit and Loss	203,844
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
(4,713)	Fair Value through Profit and Loss	13,230
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>260,044</b>	<b>Total</b>	<b>217,074</b>

**Note 17: Fair Value of Financial Instruments and Liabilities**

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2013			31 March 2014	
£'000	£'000	Financial Assets	£'000	£'000
1,925,882	2,531,926	Fair Value through Profit and Loss	2,034,142	2,766,734
59,068	59,068	Loans and Receivables	82,862	82,862
<b>1,984,950</b>	<b>2,590,994</b>	<b>Total Financial Assets</b>	<b>2,117,004</b>	<b>2,849,596</b>
		<b>Financial Liabilities</b>		
(5,822)	(5,822)	Fair Value through Profit and Loss	(386)	(386)
(15,152)	(15,152)	Financial Liabilities at Amortised Cost	(15,635)	(15,635)
<b>(20,974)</b>	<b>(20,974)</b>	<b>Total Financial Liabilities</b>	<b>(16,021)</b>	<b>(16,021)</b>
<b>1,963,976</b>	<b>2,570,020</b>		<b>2,100,983</b>	<b>2,833,575</b>

## **Note 18: Valuation of Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which North East Scotland Pension Fund has invested.

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

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

	Quoted	Using	With Significant	
	Market Price	Observable Inputs	Unobservable Inputs	
Values at 31 March 2014	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,484,403	159,241	123,090	2,766,734
Loans and Receivables	82,862			82,862
<b>Total Financial Assets</b>	<b>2,567,265</b>	<b>159,241</b>	<b>123,090</b>	<b>2,849,596</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	(386)	0	(386)
Financial Liabilities at Amortised Cost	(15,635)	0	0	(15,635)
<b>Total Financial Liabilities</b>	<b>(15,635)</b>	<b>(386)</b>	<b>0</b>	<b>(16,021)</b>
<b>Net Financial Assets</b>	<b>2,551,630</b>	<b>158,855</b>	<b>123,090</b>	<b>2,833,575</b>



	Quoted	Using	With Significant	
	Market Price	Observable Inputs	Unobservable Inputs	
Values at 31 March 2013	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	2,284,943	140,365	106,618	2,531,926
Loans and Receivables	59,068			59,068
<b>Total Financial Assets</b>	<b>2,344,011</b>	<b>140,365</b>	<b>106,618</b>	<b>2,590,994</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss	0	(5,822)	0	(5,822)
Financial Liabilities at Amortised Cost	(15,152)	0	0	(15,152)
<b>Total Financial Liabilities</b>	<b>(15,152)</b>	<b>(5,822)</b>	<b>0</b>	<b>(20,974)</b>
<b>Net Financial Assets</b>	<b>2,328,859</b>	<b>134,543</b>	<b>106,618</b>	<b>2,570,020</b>

#### Note 19: Risk arising from Financial Instruments

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

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

The Fund manages these investment risks as part of its overall pension fund risk management strategy.

Responsibility for the Fund's risk management strategy rests with the Pensions Panel. Risk management policies are established to identify and analyse the risks

faced by the Fund. Policies are reviewed regularly to reflect changes in activity and in market conditions.

### **Market Risk**

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

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

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

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

### **Other Price Risk – Sensitivity Analysis**

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

<b>Asset Type</b>	<b>Potential Market Movements (+/-)</b>
Global Bonds	8.1%
UK Equities	17.0%
Overseas Equities	17.3%
Private Equity	25.4%
Property	15.1%
Cash	1.8%

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

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

<b>Asset Type</b>	<b>Value as at 31 March 2014</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	63,058	1.8	64,193	61,923
<b>Investment Portfolio Assets</b>				
Global Bonds	238,640	8.1	257,970	219,310
UK Equities	1,145,907	17.0	1,340,711	951,103
Overseas Equities	1,086,532	17.3	1,274,502	898,562
Private Equity	136,414	25.4	171,063	101,765
Property	159,240	15.1	183,285	135,195
<b>Total Assets available to Pay Benefits</b>	<b>2,829,791</b>		<b>3,291,724</b>	<b>2,367,858</b>

<b>Asset Type</b>	<b>Value as at 31 March 2013</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	34,141	1.8	34,756	33,526
<b>Investment Portfolio Assets</b>				
Global Bonds	246,666	9.1	269,113	224,219
UK Equities	1,062,544	16.6	1,238,926	886,162
Overseas Equities	963,879	17.0	1,127,738	800,020
Private Equity	118,472	37.0	162,307	74,637
Property	140,365	10.7	155,384	125,346
<b>Total Assets available to Pay Benefits</b>	<b>2,566,067</b>		<b>2,988,224</b>	<b>2,143,910</b>

### 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 2014 and 31 March 2013 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value:

<b>Asset Type</b>	<b>As at 31 March 2013</b>	<b>As at 31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	34,141	63,443
Cash Balances	268	126
Fixed Interest Securities	246,666	238,640
<b>Total</b>	<b>281,075</b>	<b>302,209</b>

### **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 considers that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

<b>Asset Type</b>	<b>Carrying Amount as at 31 March 2014</b>	<b>Change in Year in the Net Assets available to Pay Benefits</b>	
		<b>+ 100 BPS</b>	<b>- 100 BPS</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	63,443	64,078	62,808
Cash Balances	126	127	125
Fixed Interest Securities	238,640	241,026	236,254
<b>Total Change in Assets Available</b>	<b>302,209</b>	<b>305,231</b>	<b>299,187</b>

Asset type	Carrying Amount as at 31 March 2013	Change in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	34,141	34,482	33,800
Cash Balances	268	271	265
Fixed Interest Securities	246,666	249,133	244,199
<b>Total Change in Assets Available</b>	<b>281,075</b>	<b>283,886</b>	<b>278,264</b>

### Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency Exposure – Asset Type	Asset Value as at 31 March 2013	Asset Value as at 31 March 2014
	£'000	£'000
Overseas Quoted Securities	562,395	623,343
Overseas Unquoted Securities	104,379	119,178
Overseas Unit Trusts	420,691	519,378
Overseas Public Sector Bonds (Quoted)	119,669	115,886
Overseas Corporate Bonds (Quoted)	36,268	38,962
<b>Total Overseas Assets</b>	<b>1,243,402</b>	<b>1,416,747</b>

### Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

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

A 10% 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:

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2014</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	623,343	685,677	561,009
Overseas Unquoted Securities	119,178	131,096	107,260
Overseas Unit Trust	519,378	571,316	467,440
Overseas Public Sector Bonds (Quoted)	115,886	127,474	104,298
Overseas Corporate Bonds (Quoted)	38,962	42,858	35,066
<b>Total Change in Assets Available</b>	<b>1,416,747</b>	<b>1,558,421</b>	<b>1,275,073</b>

<b>Currency Exposure – Asset Type</b>	<b>Asset Value as at 31 March 2013</b>	<b>Change to Net Assets</b>	<b>Change to Net Assets</b>
		<b>+10%</b>	<b>-10%</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Overseas Quoted Securities	562,395	618,635	506,156
Overseas Unquoted Securities	104,379	114,817	93,941
Overseas Unit Trust	420,691	462,760	378,622
Overseas Public Sector Bonds (Quoted)	119,669	131,636	107,702
Overseas Corporate Bonds (Quoted)	36,268	39,895	32,641
<b>Total Change in Assets Available</b>	<b>1,243,402</b>	<b>1,367,743</b>	<b>1,119,062</b>

## Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market fund deposits are made through the Funds Global Custodian and have 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 2014 was £63,569,000 (31 March 2013 £40,231,000). This was held with the following institutions as shown below:

Summary	Rating	Balance as at 31 March 2013	Balance as at 31 March 2014
		£'000	£'000
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	16,306	36,351
Deutsche Euro	AAAm	2,038	3,908
BNY Mellon LIQ USD	AAAm	6,609	0
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	11,760	14,390
BNY Mellon	AAAm	(3,167)	7,083
Natwest, (API)	A	6,417	1,711
<b>Total</b>		<b>39,963</b>	<b>63,443</b>
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	268	126
<b>Total</b>		<b>40,231</b>	<b>63,569</b>

## Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2014 the value of illiquid assets was £282,330,379 which represented 9.8% of the total fund assets (31 March 2013 £246,983,168 which represented 9.6% of the total fund assets).



**Note 20: Breakdown of Long & Short Term Assets and Liabilities**

	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>	<b>132</b>	<b>99</b>
<b>Short Term Assets</b>		
Contributions, Employees	2,071	2,150
Contributions, Employers	5,750	5,655
Transfers	0	0
Sundry Debtors	10,884	11,389
	<b>18,705</b>	<b>19,194</b>
Bank	268	126
<b>Total Short Term Assets</b>	<b>18,973</b>	<b>19,320</b>
<b>Total Long &amp; Short Term Assets</b>	<b>19,105</b>	<b>19,419</b>

<b>Analysis of Assets</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>		
Other Entities and Individuals	132	99
Central Government Bodies	115	524
Other Local Authorities	7,271	7,252
Other Entities and Individuals	11,319	11,418
<b>Total Short Term Assets</b>	<b>18,705</b>	<b>19,194</b>
<b>Total Long &amp; Short Term Assets</b>	<b>18,837</b>	<b>19,293</b>

	<b>31 March 2013</b>	<b>31 March 2014</b>
<b>Short Term Liabilities</b>	<b>£'000</b>	<b>£'000</b>
Sundry Creditors	10,376	10,452
Benefits Payable	4,776	5,183
<b>Total</b>	<b>15,152</b>	<b>15,635</b>

<b>Analysis of Liabilities</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	1,419	1,686
Other Local Authorities	1,249	624
Other Entities and Individuals	12,484	13,325
<b>Total</b>	<b>15,152</b>	<b>15,635</b>

#### **Note 21: Fund Manager Transaction Costs**

	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Fee/Tax	824	1,284
Commission	465	551
<b>Total</b>	<b>1,289</b>	<b>1,835</b>

#### **Note 22: Related Party Transactions**

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

The costs of these services for the North East Scotland Pension Fund amounted to £990,664 (2013 - £1,198,936).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £14,390,000 (2013 - £11,760,000) for the North East Scotland Pension Fund.

Interest was received from the Council of £49,466 (2013 - £41,418) for the North East Scotland Pension Fund.

#### **Note 23: Key Management Personnel**

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

		<b>Accrued Pension 2012/2013</b>	<b>Accrued Pension 2013/ 2014</b>
		<b>£'000</b>	<b>£'000</b>
Barry Jenkins	Head of Finance til Aug'13	30	30
Steven Whyte	Head of Finance from Jan'14	Not Applicable	19
Laura Goodchild		0	1

## Governance

As at 31 March 2014, 3 members of the Pension Panel were active members of the North East Scotland Pension Fund.

Each member of the Pension Panel 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.

Members' admitted body interests include Oakbank School Trust.

### Note 24: Contractual Commitments as at 31 March 2014

As at 31 March 2014 the NESPF had contractual commitments in respect of Private Equity and Global Real Estate portfolios;

	<b>Contractual Commitments</b>	<b>Undrawn Commitments</b>
	<b>£'000</b>	<b>£'000</b>
HarbourVest	98,971	43,442
Standard Life	96,663	28,228
Partners Group	29,762	16,900
NESPF	297	297
Maven (SLF)	10,000	7,447
<b>Total</b>	<b>235,693</b>	<b>96,314</b>

### Note 25: Additional Voluntary Contributions (AVC)

Additional voluntary contributions are not included in the Pension Funds Accounts.

The amount of additional voluntary contributions paid by members during the year is shown as income in the tables below. The closing net assets values represent the value of the separately invested additional voluntary contributions. These closing values are subject to revaluation and are not a calculation of the opening value together with the total income and expenditure.

Members of the North East Scotland Pension Fund and the Aberdeen City Council Transport Fund are included in the following tables, Standard Life and the Prudential do not provide this information by Fund.

**Standard Life – Financial Statement for the period 6th April 2013 to 5 April 2014**

	£
<b>Opening Net Asset Value</b>	<b>2,149,616</b>
Total Income	58,101
Total Expenditure	258,708
<b>Closing Net Asset Value</b>	<b>2,132,978</b>

**Prudential – Financial Statement for the period 1 April 2013 to 31 March 2014**

	£
<b>Opening Net Asset Value</b>	<b>18,124,042</b>
Total Income	1,788,148
Total Expenditure	2,366,186
<b>Closing Net Asset Value</b>	<b>22,366,585</b>

**Note 26: Contingent Assets/Liabilities**

The North East Scotland Pension Fund holds two insurance bonds and one cash one, from transferee employing bodies to guard against the possibility of being unable to meet their pension obligations. These bonds are drawn in favour of the pension Fund and payment will only be triggered in the event of employer default.

Fund managers may receive a performance fee where their performance exceeds agreed benchmarks and this is normally measured at the end of a specified period. A performance fee is potentially due to one of the fund's managers in respect of the 12 month period ended 30 September 2014. The amount is uncertain until the performance period is complete and therefore it is difficult to calculate a reasonable estimate at 31 March 2014.

**Orphan liabilities**

Orphan liabilities are managed under the Fund's termination policy, as set out by the Schemes Actuary. The Fund has identified one potential Orphaned liability which has yet to be quantified by the Scheme Actuary and therefore has not been accrued within the accounts but is not considered to be material.

## **Note 27: Impairment Losses**

During 2013/14 the Fund has recognised an impairment loss of £2,872,444 (2012/13 £2,649,444) for possible non recovery of pensioner death overpayments and potential non-payment of cessation values where the employer is not backed by a guarantee.

## **Note 28: Investment Principles**

A Summary of the Statement of Investment Principles is available on the Pension Funds Website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen, AB10 1AH.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Panel and in light of any change to the investment strategy of the Pension Funds.

## **Note 29: Critical Judgements in applying Accounting Policies**

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

The items in the net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

<b>Item</b>	<b>Uncertainties</b>	<b>Effect if Actual Results Differ from Assumption</b>
Actuarial present value of promised retirement benefits.	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on Pension Fund assets.	The methodology used by the scheme actuary is in line with accepted guidelines. Further to the Fund's liability being calculated every three years, an update of the funding position is calculated by the scheme actuary every 3 months. Further information can be found in note 1.
Private Equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the Financial statements are £136 million. There is a risk that this investment may be under or overstated in the accounts.

**Note 30: Events after the Balance Sheet Date**

The Statement of Accounts was authorised for issue by the Head of Finance on 16 June 2014. Events taking place after this date are not reflected in the financial statements or notes.

## NOTES TO THE ABERDEEN CITY COUNCIL TRANSPORT FUND ACCOUNTS

### Note 1: Actuarial Valuation Report

An Actuarial report for the Transport Fund was provided as at 31 March 2011. Information from the 2011 Actuarial valuation is detailed below:

Market Value of Assets at Valuation	£67,900,000
Liabilities	£71,500,000
Deficit	£3,600,000

### Funding Level

The Level of Funding in Terms of the Percentage of Assets available to meet Liabilities was; 95%

### Addressing the Shortfall

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

Adopting the same method and assumptions as used for calculating the funding target, the deficit of £3.6 million could be eliminated by an annual contribution addition of £609,000 for 7 years.

Since 31 March 2011 there has been significant volatility in the investment markets which has led to a worsening of the funding position and an increase in the shortfall. Due to this volatility, the Administering Authority and employer (following consultation with the actuary) have agreed that contributions will be increased over those required at 31 March 2011 (as detailed in the Schedule to the Rates and Adjustments Certificate).

Total Contribution Rate (as percentage of payroll)	2012/13	2013/14	2014/15
	27% plus £1,000,000	30% plus £1,250,000	33% plus £1,500,000

### Schedule to the Rates and Adjustments Certificate

The Schedule to the Rates and Adjustments Certificate for the Fund sets out the contributions for the employer over the three year period to 31 March 2015.

The rate takes into account the funding plan, as laid down in the Funding Strategy Statement, in particular in relation to deficit recovery period, assumed level of investment returns over the deficiency recovery period, and implementation of

changes in employer contributions where these are required. Contribution requirements for the period from 1 April 2015 onwards will be revised as part of the next actuarial valuation as at 31 March 2014 and will be confirmed in the Rates and Adjustments Certificate and Schedule accompanying that valuation report.

### **Assumptions Used to Calculate Funding Target**

Pre-retirement	5.9% p.a
Post-retirement	4.4% p.a
Implied Market Price Inflation (RPI)	3.7%p.a
Assumed Long Term Price Inflation (CPI)	3.2% p.a
Salary Increases	5.2% p.a
Pension Increases in Payment	3.2% p.a

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

The full Actuarial Report and the Funding Strategy Statement for the Fund is available from the office of the Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen, AB10 1AH.

### **Actuarial Statement**

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

The actuarial value of promised retirement benefits at the accounting date, calculated in line with International Accounting Standards 19 (IAS19) assumptions, is estimated to be £71.3m (2013 £73.1m). The figure is used for the statutory accounting purposes by Aberdeen City Council Transport Fund and complies with the requirements of IAS26.

The figure is only prepared for the purposes of IAS26 and has no validity in other circumstances. In particular, it is not relevant for calculations undertaken for funding purposes and setting contributions payable to the Fund.

The full statement by the Consulting Actuary can be found in the Annual Report.



## Note 2: Contributions Receivable

	2012/13	2013/14
	£'000	£'000
Employees	152	144
Employer	1,900	2,032
<b>Total</b>	<b>2,052</b>	<b>2,176</b>

	2012/13	2013/14
	£'000	£'000
Scheduled Body	2,052	2,176
<b>Total</b>	<b>2,052</b>	<b>2,176</b>

## Note 3: Benefits Payable

	2012/13	2013/14
	£'000	£'000
Pensions	2,763	2,821
Commutation and Lump Sum Retirement Benefits	694	567
Lump Sum Death Benefits	0	7
<b>Total</b>	<b>3,457</b>	<b>3,395</b>

	2012/13	2013/14
	£'000	£'000
Scheduled Body	3,457	3,395
<b>Total</b>	<b>3,457</b>	<b>3,395</b>

## Note 4: Payment to and on Account of Leavers

	2012/13	2013/14
	£'000	£'000
Contributions Refunded	2	0
Individual Transfers	26	22
<b>Total</b>	<b>28</b>	<b>22</b>

**Note 5: Administrative Expenses**

	2012/13	2013/14
	£'000	£'000
Pension Fund Staffing Costs	28	24
Support Services including IT	23	17
Printing and Publications	1	1
Pension Fund Committee	1	1
External Audit Fees	1	1
Internal Audit Fees	0	0
Actuarial Fees	11	13
<b>Total</b>	<b>65</b>	<b>57</b>

**Note 6: Investment Income**

	2012/13	2013/14
	£'000	£'000
Fixed Interest Securities	756	796
Equity Dividends	770	880
Interest on Cash Deposit	26	23
Other (including P/L from Currency and Derivatives)	40	39
<b>Total</b>	<b>1,592</b>	<b>1,738</b>
Tax -		
Withholding Tax – Fixed Interest Securities	(1)	1
Withholding Tax – Equities	(68)	0
Withholding Tax – Pooled	(6)	(84)
<b>Total Tax</b>	<b>(75)</b>	<b>(83)</b>
<b>Net Total</b>	<b>1,517</b>	<b>1,655</b>

**Note 7: Investment Expenses**

	2012/13	2013/14
	£'000	£'000
Management Fees	(25)	(12)
Custody Fees	9	11
<b>Total</b>	<b>(16)</b>	<b>(1)</b>

**Note 8: Investment Assets**

**Reconciliation of Movements in Investments and Derivatives**

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2013				31 March 2014
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	24,751	17,105	(16,388)	(1,717)	23,751
UK Equities	20,884	8,189	(6,382)	592	23,283
Overseas Equities	4,665	3,095	(1,569)	247	6,438
Pooled Investments	24,471	1,569	(4,480)	(685)	20,875
	<b>74,771</b>	<b>29,958</b>	<b>(28,819)</b>	<b>(1,563)</b>	<b>74,347</b>
Cash	5,248				4,758
<b>Net Investment Assets</b>	<b>80,019</b>				<b>79,105</b>

	Market Value	Purchases	Sales	Change in Market Value	Market Value
	31 March 2012				31 March 2013
	£'000	£'000	£'000	£'000	£'000
Fixed Interest	20,612	18,952	(15,813)	1,000	24,751
UK Equities	20,363	2,148	(4,616)	2,989	20,884
Overseas Equities	3,766	1,072	(726)	553	4,665
Pooled Investments	21,921	2,934	(3,892)	3,508	24,471
	<b>66,662</b>	<b>25,106</b>	<b>(25,047)</b>	<b>8,050</b>	<b>74,771</b>
Cash	4,951				5,248
<b>Net Investment Assets</b>	<b>71,613</b>				<b>80,019</b>

**Note 9: Analysis of Investments (excluding Derivatives Contracts and Cash)**

	2012/13	2013/14
<b>Fixed Interest Securities</b>	<b>£'000</b>	<b>£'000</b>
<b>UK</b>		
Public Sector Quoted	23,421	20,970
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Overseas</b>		
Public Sector Quoted	1,330	2,781
Corporate Quoted	0	0
Corporate Unquoted	0	0
<b>Subtotal Fixed Interest Securities</b>	<b>24,751</b>	<b>23,751</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	20,884	23,283
Unquoted	0	0
<b>Overseas</b>		
Quoted	4,665	6,438
Unquoted	0	0
<b>Subtotal Equities</b>	<b>25,549</b>	<b>29,721</b>
<b>Pooled Funds – Additional Analysis</b>		
<b>UK</b>		
Fixed Income	0	0
Unit Trusts	346	418
Pooled Property Investments	1	1
<b>Overseas</b>		
Fixed Income	0	0
Unit Trusts	24,124	20,456
<b>Subtotal Pooled Funds</b>	<b>24,471</b>	<b>20,875</b>
Private Equity	0	0
Property	0	0
<b>Grand Total</b>	<b>74,771</b>	<b>74,347</b>

### Note 10: Investments Analysed by Fund Manager

<b>Investment Assets</b>	<b>31 March 2013 £'000</b>	<b>%</b>	<b>31 March 2014 £'000</b>	<b>%</b>
Aberdeen Asset Managers	79,821	99.8	78,799	99.6
ACC Loan Fund Deposit	198	0.2	306	0.4
	<b>80,019</b>	<b>100.0</b>	<b>79,105</b>	<b>100.0</b>

### Note 11: Stock Lending

	<b>2012/13 £'000</b>	<b>Collateral Percentage</b>	<b>2013/14 £'000</b>	<b>Collateral Percentage</b>
<b>Stock on Loan</b>				
Equities	121		2,110	
Fixed Interest	748		1,604	
<b>Total Exposure</b>	<b>869</b>		<b>3,714</b>	
<b>Total Collateral</b>	<b>841</b>	<b>96.78</b>	<b>4,114</b>	<b>110.77</b>

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

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

## Note 12: Financial Instruments

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

31 March 2013				31 March 2014		
Designated as Fair Value Through Profit & Loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000		Designated as Fair Value Through Profit & loss £'000	Loans and Receivables £'000	Financial Liabilities at Amortised Cost £'000
			<b>Financial Assets</b>			
24,751			Fixed Interest	23,751		
25,549			Equities	29,721		
24,470			Pooled	20,874		
1			Pooled Property	1		
	5,248		Cash		4,758	
	917		Debtors		952	
<b>74,771</b>	<b>6,165</b>	<b>0</b>		<b>74,347</b>	<b>5,710</b>	<b>0</b>
			<b>Financial Liabilities</b>			
		(202)	Creditors			(219)
<b>74,771</b>	<b>6,165</b>	<b>(202)</b>		<b>74,347</b>	<b>5,710</b>	<b>(219)</b>
		<b>80,734</b>				<b>79,838</b>

### Note 13: Net Gains and Losses on Financial Instruments

31 March 2013		31 March 2014
£'000	Financial Assets	£'000
8,050*	Fair Value through Profit and Loss	(1,563)
0	Loans and Receivables	0
0	Financial Assets Measured at Amortised Cost	0
	<b>Financial Liabilities</b>	
0	Fair Value through Profit and Loss	0
0	Loans and Receivables	0
0	Financial Liabilities Measured at Amortised Cost	0
<b>8,050*</b>	<b>Total</b>	<b>(1,563)</b>

\* The incorrect figure quoted in 2012/2013 published accounts was £8,049k.

### Note 14: Fair Value of Financial Instruments and Liabilities

Carrying Value	Fair Value		Carrying Value	Fair Value
31 March 2013			31 March 2014	
£'000	£'000		£'000	£'000
		<b>Financial Assets</b>		
55,490	74,771	Fair Value through Profit and Loss	59,755	74,347
6,165	6,165	Loans and Receivables	5,710	5,710
<b>61,655</b>	<b>80,936</b>	<b>Total Financial Assets</b>	<b>65,465</b>	<b>80,057</b>
		<b>Financial Liabilities</b>		
		Fair Value through Profit and Loss		
(202)	(202)	Financial Liabilities at Amortised Cost	(219)	(219)
<b>(202)</b>	<b>(202)</b>	<b>Total Financial Liabilities</b>	<b>(219)</b>	<b>(219)</b>
<b>61,453</b>	<b>80,734</b>		<b>65,246</b>	<b>79,838</b>

## **Note 15: Valuation of Financial Instruments carried at Fair Value**

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

### **Level 1**

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

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

### **Level 2**

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

### **Level 3**

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

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

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which the Aberdeen City Council Transport Fund has invested.

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

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



	<b>Quoted</b>	<b>Using</b>	<b>With</b>	
	<b>Market Price</b>	<b>Observable</b>	<b>Significant</b>	
<b>Values at 31 March 2014</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Unobservable</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>Inputs</b>	<b>£'000</b>
			<b>Level 3</b>	
			<b>£'000</b>	<b>£'000</b>
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	74,347	0	0	<b>74,347</b>
Loans and Receivables	5,710	0	0	<b>5,710</b>
<b>Total Financial Assets</b>	<b>80,057</b>	<b>0</b>	<b>0</b>	<b>80,057</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss				
Financial Liabilities at Amortised Cost	(219)	0	0	(219)
<b>Total Financial Liabilities</b>	<b>(219)</b>	<b>0</b>	<b>0</b>	<b>(219)</b>
<b>Net Financial Assets</b>	<b>79,838</b>	<b>0</b>	<b>0</b>	<b>79,838</b>

	Quoted	Using	With	
	Market Price	Observable	Significant	
Values at 31 March 2013	Level 1	Level 2	Level 3	Total
	£'000	£'000	£'000	£'000
<b>Financial Assets</b>				
Financial Assets at Fair Value through Profit and Loss	74,771	0	0	74,771
Loans and Receivables	6,165	0	0	6,165
<b>Total Financial Assets</b>	<b>80,936</b>	<b>0</b>	<b>0</b>	<b>80,936</b>
<b>Financial Liabilities</b>				
Financial Liabilities at Fair Value through Profit and Loss		0	0	
Financial Liabilities at Amortised Cost	(202)	0	0	(202)
<b>Total Financial Liabilities</b>	<b>(202)</b>	<b>0</b>	<b>0</b>	<b>(202)</b>
<b>Net Financial Assets</b>	<b>80,734</b>	<b>0</b>	<b>0</b>	<b>80,734</b>

#### **Note 16: Risk arising from Financial Instruments**

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

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

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

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

## Market Risk

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

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

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

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

## Other Price Risk – Sensitivity Analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's scheme actuary the Fund has determined that the following movements in market price risk are reasonably possible for the 2013/14 reporting period.

Asset Type	Potential Market Movements (+/-)
Global Bonds	8.1%
UK Equities	17.0%
Overseas Equities	17.3%
Cash	1.8%

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

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows (the prior year comparator is shown below):

<b>Asset Type</b>	<b>Value as at 31 March 2014</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	4,758	1.8%	4,844	4,672
<b>Investment Portfolio Assets</b>				
Global Bonds	23,751	8.1%	25,675	21,827
UK Equities	23,702	17.0%	27,731	19,673
Overseas Equities	26,894	17.3%	31,547	22,241
<b>Total Assets available to Pay Benefits</b>	<b>79,105</b>		<b>89,797</b>	<b>68,413</b>

<b>Asset Type</b>	<b>Value as at 31 March 2013</b>	<b>Percentage Change</b>	<b>Value on Increase</b>	<b>Value on Decrease</b>
	<b>£'000</b>	<b>%</b>	<b>£'000</b>	<b>£'000</b>
Cash and Cash Equivalents	5,248	1.8%	5,342	5,154
<b>Investment Portfolio Assets</b>				
Global Bonds	24,751	9.1%	27,003	22,499
UK Equities	21,231	16.6%	24,755	17,707
Overseas Equities	28,789	17.0%	33,683	23,895
<b>Total Assets available to Pay Benefits</b>	<b>80,019</b>		<b>90,783</b>	<b>69,255</b>

### **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 2014 and 31 March 2013 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 2013	As at 31 March 2014
	£'000	£'000
Cash and Cash Equivalents	5,248	4,758
Cash Balances	2	1
Fixed Interest Securities	24,751	23,751
<b>Total</b>	<b>30,001</b>	<b>28,510</b>

### 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 scheme actuary has advised that long term average rates are expected to move less than 100 basis points from one year to the next and experience suggests that such movements are likely.

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

Asset Type	Carrying Amount as at 31 March 2014	Change in Year in the Net Assets Available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	4,758	4,806	4,710
Cash Balances	1	1	1
Fixed Interest Securities	23,751	23,988	23,514
<b>Total Change in Assets Available</b>	<b>28,510</b>	<b>28,795</b>	<b>28,225</b>

Asset Type	Carrying Amount as at 31 March 2013	Changes in Year in the Net Assets available to Pay Benefits	
		+ 100 BPS	- 100 BPS
		£'000	£'000
Cash and Cash Equivalents	5,248	5,300	5,196
Cash Balances	2	2	2
Fixed Interest Securities	24,751	24,999	24,503
<b>Total Change in Assets Available</b>	<b>30,001</b>	<b>30,301</b>	<b>29,701</b>

### Currency Risk

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

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

The following table summarises the Fund's currency exposure as at 31 March 2014 and as at the previous period end:

Currency Exposure – Asset Type	Asset value as at 31 March 2013	Asset value as at 31 March 2014
	£'000	£'000
Overseas Quoted Securities	4,665	6,438
Overseas Unit Trusts	24,124	20,456
Overseas Public Sector Bonds (Quoted)	1,330	2,781
<b>Total Overseas Assets</b>	<b>30,119</b>	<b>29,675</b>

## Currency Risk – Sensitivity Analysis

Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be 10%.

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

A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets to pay benefits as follows:

Currency Exposure – Asset Type	Asset Value as at 31 March 2014	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	6,438	7,082	5,794
Overseas Unit Trust	20,456	22,502	18,410
Overseas Public Sector Bonds (Quoted)	2,781	3,059	2,503
<b>Total Change in Assets Available</b>	<b>29,675</b>	<b>32,643</b>	<b>26,707</b>

Currency Exposure – Asset Type	Asset Value as at 31 March 2013	Change to Net Assets	Change to Net Assets
		+10%	-10%
	£'000	£'000	£'000
Overseas Quoted Securities	4,665	5,132	4,198
Overseas Unit Trust	24,124	26,536	21,712
Overseas Public Sector Bonds (Quoted)	1,330	1,463	1,197
<b>Total Change in Assets Available</b>	<b>30,119</b>	<b>33,131</b>	<b>27,107</b>

## Credit Risk

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

Deposits are not made with banks and financial institutions unless they are rated independently and meet the Fund's credit criteria. The Local Government Pension Investment regulations have limits as to the maximum percentage of the deposits placed with any one class of financial institution. Money market Fund deposits are made through the Funds Global Custodian and were 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 2014 was £4,759,000 (31 March 2013 £5,250,000). This was held with the following institutions:

<b>Summary</b>	<b>Rating</b>	<b>Balance as at 31 March 2013</b>	<b>Balance as at 31 March 2014</b>
		<b>£'000</b>	<b>£'000</b>
<b>Money Market Funds</b>			
Deutsche Managed GBP	AAAm	4,931	4,481
Deutsche Euro	AAAm	18	1
<b>Bank Deposit Accounts</b>			
ACC Loans Fund Deposit	N/A	198	306
BNY Mellon	AAAm	101	(30)
<b>Bank Current Accounts</b>			
Clydesdale Bank	BBB+	2	1
<b>Total</b>		<b>5,250</b>	<b>4,759</b>



## Liquidity Risk

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

The Fund defines liquid assets as assets that can be converted to cash within three months. Illiquid assets are those assets which will take longer than three months to convert in to cash. As at 31 March 2014 the value of illiquid assets was £0 which represented 0% of the total fund assets (31 March 2013 £0 which represented 0% of the total fund assets).

**Note 17: Breakdown of Long & Short Term Assets and Liabilities**

	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
<b>Long Term Assets</b>	<b>458</b>	<b>431</b>
Contributions, Employees	4	4
Contributions, Employers	20	23
Sundry Debtors	433	493
<b>Sub Total</b>	<b>457</b>	<b>520</b>
Bank	2	1
<b>Total Short Term Assets</b>	<b>459</b>	<b>521</b>
<b>Grand Total</b>	<b>917</b>	<b>952</b>

<b>Analysis of Long &amp; Short Term Assets</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Central Government Bodies	458	431
Other Entities and Individuals	0	0
<b>Total Long Term Assets</b>	<b>458</b>	<b>431</b>
Central Government Bodies	27	27
Other Local Authorities	0	13
Other Entities and Individuals	430	480
<b>Total Short Term Assets</b>	<b>457</b>	<b>520</b>
<b>Grand Total</b>	<b>915</b>	<b>951</b>

	<b>31 March 2013</b>	<b>31 March 2014</b>
<b>Short Term Liabilities</b>	<b>£'000</b>	<b>£'000</b>
Sundry Creditors	70	63
Benefits Payable	132	156
<b>Total</b>	<b>202</b>	<b>219</b>

<b>Analysis of Liabilities</b>	<b>31 March 2013</b>	<b>31 March 2014</b>
	<b>£'000</b>	<b>£'000</b>
Other Local Authorities	0	13
Other Entities and Individuals	202	206
<b>Total</b>	<b>202</b>	<b>219</b>

**Note 18: Fund Manager Transaction Costs**

	31 March 2013	31 March 2014
	£'000	£'000
Fee/Tax	13	36
Commission	7	9
<b>Total</b>	<b>20</b>	<b>45</b>

**Note 19: Related Party Transactions**

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

The cost of these services for the Aberdeen City Council Transport Fund was £30,639 (2013 - £37,080).

Prior to the remittance of excess cash to the Investment Fund Managers, surplus cash is invested as a temporary loan with the Council. At the year end this amounted to £306,000 (2013 - £198,000) for the Aberdeen City Council Transport Fund.

Interest was received from the Council of £1,714 (2013 - £1,538) for the Aberdeen City Council Transport Fund.

**Note 20: Key Management Personnel**

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

**Note 21: Investment Principles**

A Summary of the Statement of Investment Principles is available on the Pension Funds Website [www.nespf.org.uk](http://www.nespf.org.uk). A full version of the Statement of Investment Principles is available on request from Head of Finance, Aberdeen City Council, The Town House, Broad Street, Aberdeen, AB10 1AH.

The Statement of Investment Principles is reviewed on an annual basis by the Pensions Panel and in the light of any change to the investment strategy of the Pension Funds.

## Note 22: Critical Judgments in applying Accounting Policies

Assumptions made about the future and other major sources of estimation uncertainty. The items in the net asset statement at 31 March 2014 for which there is a significant risk of material adjustment in the forthcoming financial year are shown below:

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

# Independent Auditor's Report

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

I certify that I have audited the financial statements of North East Scotland Pension Funds for the year ended 31 March 2014 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the fund accounts, the net assets statements and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 (the 2013/14 Code).

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 125 of the Code of Audit Practice approved by the Accounts Commission for Scotland, I do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

### **Respective responsibilities of the Head of Finance and auditor**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland) as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the funds' circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Head of Finance; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the annual report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view in accordance with applicable law and the 2013/14 Code of the financial transactions of the funds during the year ended 31 March 2014, and of the amount and disposition at that date of their assets and liabilities;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2013/14 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973 and the Local Government in Scotland Act 2003

## **Opinion on other prescribed matter**

In my opinion the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

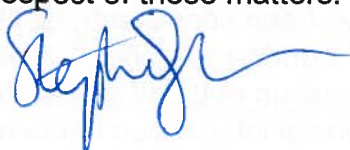
## **Matters on which I am required to report by exception**

I am required 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; or
- the Governance Compliance Statement does not comply with guidance from the Scottish Ministers or the Statement on the System of Internal Financial Control does not comply with the 2013/14 Code.

I have nothing to report in respect of these matters.

**Stephen Boyle CPFA**  
**Assistant Director**  
**Audit Scotland**  
**4th Floor South Suite**  
**The Athenaeum Building**  
**8 Nelson Mandela Place**  
**Glasgow G2 1BT**



**30 September 2014**



